

**REPORT BY: THE STRATEGIC DIRECTOR FOR CORPORATE
RESOURCES AND SERVICES**

Report written by: Chris Ward

**CONSOLIDATED DEBT POSITION & CREDIT MANAGEMENT STRATEGY –
MATERIAL SOURCES OF INCOME 2007/08**

1. Purpose

- 1.1 To respond the Governance & Audit Committee's request at its meeting of 23rd November 2007 in relation to the Draft Final Audit Opinion Report of the Audit Commission to "produce a report for a future meeting of the committee on the overall debt position of the Council particularly concentrating on the debt consolidation process and highlighting areas where performance needed to improve"

2. Recommendations

- 2.1 It is recommended that the contents of the report to the Executive (attached) on this subject matter be noted and accepted as a full response to the Committees request of the 23rd November 2007.

3. Background

- 3.1 The Credit Management Policy was approved by the Executive in April 2007. The policy sets out the main objectives of both Income Collection and Debt Recovery and the high level guiding principles of operation. It does not set out the detailed strategy for improvement or how that improvement will be achieved. This was always intended to be covered by a Credit Management Strategy.

- 3.2 The Credit Management Strategy was approved by the Executive on the 25th March 2008 and is reproduced as part of this report. The report itself covers the following:

- The nature of the material sources of income due to the City Council
- Review of past collection and recovery performance
- Forecast collection and recovery performance for 2007/08 versus target
- Performance comparison with comparator Authorities
- Strategy employed in achieving the current level of performance
- Incremental cost of the strategy employed in comparison to the incremental improvement in performance (i.e. cost effectiveness)
- Planned strategy for further improvement in 2008/09 and beyond

4. Quality Impact Assessment

4.1 This report has undergone an effective equality impact assessment.

5. Comments of the City Solicitor

5.1 The City Solicitor has confirmed that it is within the Executives powers to approve the recommendations set out above.

Roger Ching.
Strategic Director for Corporate Resources and Services

Background List of documents –

Section 100D of the Local Government Act 1972

The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –

<i>Title of document</i>	<i>Location</i>
Material Sources of Income	Office of Accountancy Manager

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the Executive on 25 March 2008

Signed: -----

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6. Purpose

6.1 The purpose of this report is to:

- Highlight the inter-relationship between the Credit Management Policy & the Credit Management Strategy
- Set out the overall debt position of the City Council as at the 31st March 2007 and overall performance on debt collection for the 3 previous years
- Explain the nature of the different types of income that the City Council receives and how the approach to the collection of that income necessarily differs.
- Illustrate the performance of the Council in the collection of its most significant sources of income during the year
- Highlight, in particular, where this performance has been “stretched” or significantly improved.
- Describe some of the key initiatives that have been pursued in the current year and others which are planned for the future as part of the overall Credit Management Strategy to improve income collection and recover debt
- Set out some of the costs associated with putting the initiatives in place and the incremental impact that these initiatives have had on the overall Credit Management Strategy to improve income collection and recover debt

7. Recommendations

7.1 It is recommended that:

- 1) The report be noted and in particular, the like for like improvement in the City Council’s in year collection performance of £2.6m and the consequent additional interest earned on this sum of £78,000.
- 2) The strategies contained within this report for the collection of income and recovery of debt be endorsed

- 3) That the full year effect of the General Fund cash flow benefits (i.e. additional interest earned) of £150,000 be transferred from the Asset Management Revenue Account to Financial Services in order to fund the ongoing and forthcoming additional costs of the Income Collection and Debt Recovery Strategies outlined in this report.
- 4) In the event that the remaining costs associated with the Income Collection and Debt Recovery Strategies cannot be contained within cash limits during 2008/09, a Spend to Save bid be prepared recommending that funding be released from the MTRS Reserve to fund these initiatives.

8. Background

- 8.1 The overall amount of debt owed to the City Council is consolidated once a year as part of the close of accounts. The reason for this is that debt is defined as **any** sum owed to the Council and this can take many forms. Below are some of the most recognisable categories of debt alongside other categories which may not be deemed to be debt to a layperson. Those categories are:

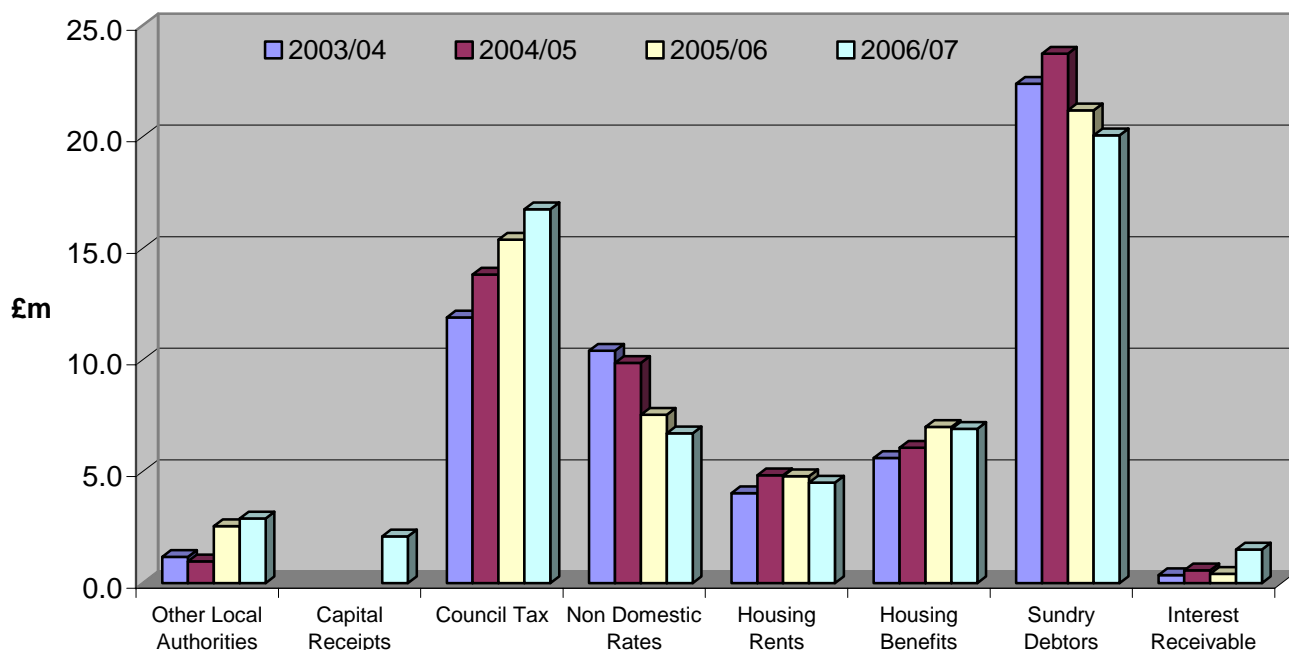
Recognisable Debt:

- Council Tax
- Business Rates
- Housing Benefit Overpayments
- Housing Rents
- Sundry Debt including:
 - Property Rents
 - Port Dues
 - Charges to clients for providing Social Care

Less Obvious Debt:

- Government Grants due but not yet received
 - Payments made in advance (i.e. prepayments)
 - Capital Receipts due but not yet paid
 - Contributions due from developers but not yet received
 - Insurance claims made but not yet received
 - Interest owed from investments due but not yet received
- 8.2 The categories above have different risk profiles; some have little or no risk attached to them and require virtually no collection activity (e.g. Government Grants due) and others require significant effort to ensure that the maximum amount that can be collected is collected (e.g. Council Tax).
- 8.3 The following analysis is an extract from the Balance Sheet of the City Council for the period ending 31st March 2007 and provides comparative analysis over the last 4 years for the main categories of debt set out above. This analysis is of total debt incorporating the “Less Obvious Debt” described above.

Analysis of Short Term Debt - 2003/04 to 2006/07



- 8.4 Excluding amounts owed from Government, the City Council was owed £61.5m as at 31st March 2007 an increase of £2.6m or 4.4% from the previous year. Of this total debt, £26.0m is the amount that is estimated to be uncollectable and is the accumulated amount that has been set aside in the event that it is ultimately written off. The sum of £26.0m has been calculated with reference to the category and age of debt and has been audited by the Audit commission. As such the provision of £26.0m is deemed to present fairly the extent of the outstanding debt that is likely to be uncollectable.
- 8.5 Much of this £2.6m increase can be explained by increases in sums owed to the Council which are generally not at risk and which are considered to be outside of general debt recovery activities. For example, £2.1m related to an increase in capital receipts owed (this was simply a timing difference between the completion date and receipt of funds) and a £1.1m increase in interest due on investments that had yet to be received.
- 8.6 Generally therefore, the overall picture for “at risk” debt has been an improving one over recent years, with particular progress on Non Domestic Rates and Sundry Debt. In addition to this both Housing Rents and Housing Benefits have started to improve in the last 1 to 2 years. The exception, at first glance, appears to be the debt recovery performance on Council Tax which is described below.
- 8.7 The sums owed by Council Taxpayers increased by £1.4m in the year from 2005/06 to 2006/07, an increase of 8.9%. This however, is a distorted view of the actual performance in respect of Council Tax collection. In the year, only £59,000 of Council Tax Debt was written off. A normal rate of “write off” based on the Council’s ultimate collection rate 98.3% would be approximately £1m per year. This means that, had this sum been written off in the year, the increase in Council Tax Debt would have been £0.4m. Furthermore, this increase of £0.4m is broken down as follows:

- Reductions arising from the recovery of previous years debt of £2.6m and net adjustments to bills of £1.1m
- Addition arising from non collection of current (2006/7) debt of £4.1m
This reflects an in year collection rate of 93.04%

8.8 Whilst the trend analysis provided in the chart above provides a reasonable analysis of the overall direction of travel for the City Council in managing its income and debt, the explanations above also illustrate the complexities of trying to measure the Income Collection and Debt Recovery performance of the Council from a raw Balance Sheet analysis. A further complicating factor is that the Balance Sheet analysis provides a “snapshot” of the debt position at 1 day in the financial year and will include debt that is owed but still remains within payment terms as well as debt which is overdue.

8.9 The analysis of income collection and debt recovery performance that follows throughout the rest of this report has been prepared in a different format and, in particular, concentrates on those areas of significant income sources and where genuine income collection and debt recovery activities are needed to minimise the risk of non collection.

9. Material Sources of Income – Performance, Targets & Key Strategies

9.1 The most fundamental aspect of any improvement strategy is to have a clearly defined and well communicated policy which sets out the guiding principles, parameters, key strategic objectives and a plan for achieving those objectives. The Executive approved the Credit Management Policy in April 2007. Amongst other things, the approval of this policy empowered officers to perform the Credit Management function in line with best business practice principles and supported the use of the full range of legal enforcement powers available to the City Council.

9.2 The “Golden Rule” in Credit Management is “the older the debt, the harder it is to recover”. The aim therefore, is to collect as much income as early as possible in order to prevent it from becoming old and avoid the more expensive recovery actions associated with escalation and enforcement of payment.

9.3 The key strategies and targets outlined in the remainder of this report underpin and are aligned with the current approved Credit Management Policy. They are aimed at maximising income collection and “collecting as much as possible as quickly as possible”. These key strategies are designed to achieve significant improvement in both the collection of current (or in year income) as the primary objective and recovery of older debt as the secondary objective. The targets set, take account of performance which has been achieved and the impact that these strategies are expected to have in delivering challenging improvement.

9.4 **It is important to recognise that when considering the Council’s Performance in Credit Management, it is not the overall level of debt which is of primary consideration; rather it is the amount of that overall debt that is collected.** For example, it would be seen as very advantageous to the Council to have high levels of debt if a high proportion of that debt was collected. For this

reason the analysis of performance which follows concentrates more on collection and non-collection rates than it does on the overall levels of debt.

9.5 The material sources of income upon which the City Council focuses its activity and against which it sets its strategy are set out below

- Council Tax
- Business Rates
- Housing Benefit Overpayments
- Housing Rents
- Sundry Debt, broken down into the following categories:
 - Children Families & Learning
 - Corporate Resources
 - Economy Culture & Community Safety
 - Environment & Transport
 - Housing Health & Social Care
 - Port
 - Property Rents
 - Schools

5. Council Tax Performance

5.1 The nature of Council Tax is that it is an annual and continuing charge. Annual bills raised amount to almost £70m per annum. It is a statutory tax that has to be paid each year so it is important that arrears do not build up as that serves only to make the debt harder to pay for the resident and consequently harder to collect for the Council. Unlike other types of debts, the City Council does not have the ability to withdraw the services for which the charge is made to avoid arrears increasing.

5.2 Headline measurement of Council Tax performance is best considered in 2 discrete ways as follows:

- Collection of current year billing i.e. the in year collection rate
- Collection of all previous years billing which remains outstanding

5.3 In terms of priority, the in year collection rate must take precedence over recovery action relating to prior years in order to avoid increasing levels of older, harder to collect debt.

5.4 During the year, a target was set to increase the collection of Council Tax as follows:

- Increase the in year collection rate from 93.0% to 94.0%
- Recover 40% of prior years net debt amounting to £3.35m (see below for explanation)

- 5.5 The targets were set in such a way as to improve the overall collection of Council Tax but with a focus on in year collection. Any target has to recognise the current position and performance. This target was an extremely challenging target given that in-year collection between 2006/07 had improved by 0.5 percentage points equating to just under £0.3m. This target required the £0.3m to be maintained plus the collection of at least a further £0.6m.
- 5.6 In terms of the amounts relating to previous years collected / adjusted (i.e. older debt), to achieve the target, this required £0.26m to be collected over and above the £3.09m collected the previous year. This sum of £0.26m was derived by reviewing the overall debt position at the end of 2006/07 and determining how much was deemed collectable. A challenging target of collecting 40% of the outstanding collectable debt in that year was then applied which determined the additional £0.26m sum.
- 5.7 Over the past 3 years, the performance of the City Council in relation to in year collection and the collection of previous years arrears is as follows:

Table 1 – Council Tax In year Collection (Current Debt)

Financial Year	2005/06	2006/07	2007/08*
PCC In Year Collection Rate	92.5%	93.0%	94.0%
Target for 2007/08			94.0%
Unitary Median	96.6%	96.8%	N/A

Table 2 – Previous Years Council Tax Arrears (Older Debt from prior years)

Financial Year	2005/06 £m	2006/07 £m	2007/08* £m
Arrears Collected / Adjusted	3.56	3.09	3.56
Target for 2007/08			3.35

* 2007/08 is a forecast of the year end position

NB. It should be noted that the £3.56m in 2005/06 is unusually high as it related to the “catch up” year after the system changeover the year before when there was a 3 month system down time.

- 5.8 The forecast position in respect of the in year collection rate for 2007/08 is a significant improvement over 2006/07. It is expected to increase by a full 1% which represents £0.6m in monetary terms.
- 5.9 In comparison with other Unitary Authorities, this is some way behind the median. There is some doubt over the reliability of the Unitary Median in that some authorities choose to apply any income collected in the year to the current years debt which therefore counts against the in year collection. Portsmouth does not and any income received is secured against older debt first. If Portsmouth City Council were to include all sums collected in year as “in year collection” then performance for 2007/08 would be over 100%.

- 5.10 Of most importance therefore in determining the strength of performance is the rate of improvement and Portsmouth City Council's rate of improvement is significantly better than the Unitary Median.
- 5.11 The collection of arrears is also a significant improvement of approximately £0.5m over the previous year representing a 15.2% improvement.
- 5.12 At this stage therefore, both targets are expected to be achieved. Furthermore, this level of performance represents a rate of improvement that is much greater than the previous year.
- 5.13 This expected level of performance was achieved by pursuing the strategy set out below.

Key Targets & Strategy for 2007/08

Improve in year collection to 94.0% and increase the amount of "old debt" collected by the following:

- Improve the cycle time from receipt of billing correspondence / queries from over 30 days to under 10 days in order to remove barriers to payment and speed up recovery processes
- Reduce the time period between 1st reminder to court summons from 30 days to 22 days
- Increase the frequency of cases taken to court summons stage from monthly to fortnightly
- Business process review of the recovery and enforcement stages to re-engineer processes and team structures around the 2 discrete activities for current debt and old debt. The current debt team organised to include the most experienced staff
- Monthly review (from previous quarterly review) of defaults on payment arrangements and subsequent escalation through enforcement
- Amending Bailiff terms and conditions such that 30% of their contractual hours are undertaken outside of 8am to 6pm (i.e. when debtors are more likely to be at home)
- Enhance the deterrent to non payment through new / improved enforcement actions including:
 - Car seizures
 - Partnership working with the Police & Magistrates Courts to increase arrests (e.g. "Dawn Raids")
 - Increase use of external bailiff companies when internal capacity is exhausted such that no debt remains waiting for a Bailiff action for longer than 21 days
 - Increased use of bankruptcy proceedings for debtors with assets

- Publicising the deterrent through high profile media campaigns and partnership working with the Local Newspapers, Radio and Television
- Targeting the timing of media campaigns at times when payments traditionally reduce and such that they are frequent enough but not too frequent to lose their impact
- Promotion of Direct Debits as a means of payment

Further Additions to the existing Strategy planned for 2008/09

- Further improve the cycle time from receipt of billing correspondence / queries from 10 days to 7.5 days in order to remove barriers to payment and speed up collection times
- Set up of a temporary team of 5 experienced credit control staff to lead and focus on the collection of previous years' arrears (team to work on Council Tax and Business Rate Recovery)
- Targeting and making personal telephone contact with first time defaulters
- Implementation of a market leading personal tracing facility
- Further automation of recovery processes to speed up the overall debt recovery cycle
- Improve performance management arrangements for the internal Bailiff Service through target setting and enhanced monitoring
- Improving the quality and reliability of debtor information in order to remove obstacles to the speed of recovery
- Further promotion of Direct Debits as a means of payment

Cost Effectiveness of Strategy Employed

5.14 The costs associated with the overall Credit Management Strategy above in 2007/08 amounted to approximately £100,000 including the employment of 4 additional staff. This cost was met from within the existing cash limit but was always deemed "at risk" in the sense that it would be met in the first instance from cashflow savings and in the second instance by holding vacancies elsewhere within Financial Services. These actions are expected to generate an additional £1m of Council Tax income in the year which may either not have been collected at all or would have been collected in later years. In cash flow terms alone (i.e. additional interest), this equates to an additional £30,000 of interest income in a part year and £60,000 in a full year. The incremental cost of the strategy adopted above is therefore, seen as good value for money.

3. Non Domestic Business Rates

- 6.1 Non Domestic Business Rates, like Council Tax are a continuing charge with annual billing in excess of £60m per annum. Unlike Council Tax however, Business Rates are generally easier to collect because, in the main, businesses would not be in business if they were not profit making and therefore able to satisfy their creditors. There remain however, some businesses that operate on the borderline of profitability or make their best endeavours to avoid paying their rates for as long as possible. As a consequence and due to the significant amounts of money involved, the income collection and debt recovery of Business Rates is managed and measured closely.
- 6.2 The main difference between Business Rate Collection and all other forms of income collection is that the success or otherwise of recovery has no financial implications for the Council. This is because any monies collected are paid direct to Government and any sums written off are funded by Government. Business rate collection however, remains important since reduced collection and therefore sums paid to Government would inevitably lead to reductions in the overall funding that Government provides to Local Authorities. For this reason, Business Rate collection is also a Best Value Performance Indicator and therefore counts towards the Use of Resources CPA score.
- 6.3 As with Council Tax, headline measurement of Business Rates is best considered in 2 discrete ways as follows:
- Collection of current year billing i.e. the in year collection rate
 - Collection of all previous years billing which remains outstanding
- 6.4 Again, the in year collection rate takes precedence over recovery action relating to prior years in order to avoid increasing levels of older and harder to collect debt.
- 6.5 During the year the targets set for the collection of Business Rates was as follows:
- Increase in year collection from 98.7% to 99.0%
 - Reduce previous years debt by £673,000 representing 40% of outstanding collectable debt (see below for explanation)

The combination of the above 2 targets ensured that there was improvement in the performance of both the in year collection and prior years debt recovery but with greater emphasis on in year collection. The sum of £673,000 was derived by reviewing the overall debt position at the end of 2006/07 and determining how much was deemed collectable. As with Council Tax, a challenging target of collecting 40% of the outstanding collectable debt in that year was then applied.

- 6.6 Over the past 3 years, the performance of the City Council in relation to in year collection and the collection of previous years arrears is as follows:

Table 3 – Business Rates In year Collection (Current Debt)

Financial Year	2005/06	2006/07	2007/08*
In Year Collection Rate	97.7%	98.7%	99.0%
Target for 2007/08			99.0%
Unitary Median	98.4%	98.9%	N/A

Table 4 – Previous Years Business Rates Arrears (Older Debt from prior years)

Financial Year	2005/06 £m	2006/07 £m	2007/08* £m
Arrears Collected / Adjusted	1.513	0.981	0.662
Target for 2007/08			0.673

*** 2007/08 is a forecast of the year end position**

NB. It should be noted that the £1.513m in 2005/06 is unusually high as it related to the “catch up” year after the system changeover the year before when there was a 3 month system down time

- 6.7 At this stage, both Business Rate performance indicators look to be broadly on target.
- 6.8 Performance for in year collection was already high at 98.7% in 2006/07 and therefore the performance target for 2007/08 and the strategy for delivering it was one mainly of consolidation as opposed to improvement.
- 6.9 As with Council Tax, there is some scepticism over the reliability of the in year collection statistics of the Unitary Median. As with Council Tax in year collection would likely be around 100% if all income collected was applied to the current year’s debt. Nevertheless, Portsmouth’s performance is broadly in line with the median but more importantly it is improving at a much faster rate. The extent of this speed of improvement is expected to be demonstrated in 2007/08 with an expected collection rate of around 99.0%, a much quicker rate of increase than the Unitary Median.
- 6.10 As above, performance in relation to the collection of previous arrears was one of consolidation as opposed to improvement

6.11 The level of performance was achieved by pursuing the strategy set out below.

Key Targets & Strategy for 2007/08

Improve in year collection to 99.0% and recover £673,000 or 40% of the collectable debt outstanding by the following:

- Consolidate the improved cycle time from receipt of billing correspondence / queries to under 10 days in order to remove barriers to payment and speed up recovery processes
- Increase use of external bailiff companies when internal capacity is exhausted such that no debt remains waiting for a Bailiff action for longer than 21 days

Further Additions to the existing Strategy planned for 2008/09

- Set up of a temporary team of 5 experienced credit control staff to lead and focus on the collection of previous years arrears (team to work on Council Tax and Business Rate Recovery)
- Further automation of recovery processes to speed up the overall debt recovery cycle

Cost Effectiveness of Strategy Employed

6.12 There were no specific additional costs associated with the strategy adopted above although some synergies were gained from the additional resources applied to Council Tax. The improved performance is seen as good value for money.

7. Housing Benefit Overpayments

7.1 Housing Benefit overpayments arise due to changes in claimants' circumstances, fraud or processing errors and their value often depends on how long it has taken to detect the problem. Recovery of an overpayment debt is typically difficult because benefit claimants come from the poorest sections of our community. Often, benefit claimants move in and out of employment and change address more frequently those that are not entitled to claim. When claimants are in receipt of benefit, recovery rates are restricted by regulation. When they are no longer in receipt of benefit, individual financial circumstances and the priority of other debt often result in low value instalment plans being agreed.

7.2 As with Council Tax, measurement of the "raw" Housing Benefit Debt outstanding is not a good measure, on it's own, of real performance. In overall terms the value of Housing Benefit overpayment debt increased in the years 2003/04 to 2005/06 but it fell in 2006/07 by £0.1m and it is forecast to reduce by £0.5m during 2007/08. The rises in 2004/05 and 2005/06 largely reflect the practice of not writing off debt.

7.3 A better indication of the performance in collecting Housing Benefit Overpayments is to consider the following package of measures:

- Housing Benefit Overpayments Recovered (i.e. current and previous years) as a percentage of the total Housing Benefit Overpayments made in the year – this is a measure of the rate at which the overall debt is raising or falling (i.e. to what extent is debt raised greater than debt collected)
- Housing Benefit Overpayments Recovered (i.e. current and previous years) as a percentage of the total Housing Benefit Overpayments made in the year plus debt outstanding at the start of the year – this is a measure of the proportion of the total debt outstanding that is collected in the year
- Housing Benefit Overpayments written off as a percentage of the total Housing Benefit Overpayments made in the year plus debt outstanding at the start of the year – this is a measure of the ultimate non collection of Housing Benefit overpayments

7.4 Over the past 3 years, the performance of the City Council in relation to in year collection and the collection of previous years arrears is as follows:

Table 5 – Debt recovered as proportion of Debt Raised in Year

Financial Year	2005/06	2006/07	2007/08*
Recovery as % of total Overpayments made in the year	76.97%	85.48%	97.95%
Target for 2007/08			90.19%
Unitary Median	71.0%	70.4%	N/A

Table 6 – Debt Recovered as proportion of total Debt Raised

Financial Year	2005/06	2006/07	2007/08*
Recovery as % of total Overpayments made in the year plus debt outstanding at the start of the year	30.83%	33.00%	24.60%
Target for 2007/08			23.30%
Unitary Median	32.2%	31.3%	N/A

Table 7 – Debt Written Off as proportion of total Debt Raised

Financial Year	2005/06	2006/07	2007/08*
Debt written off as % of total Overpayments made in the year plus debt outstanding at the start of the year	1.71%	4.10%	9.10%
Target for 2007/08			5.07%

* 2007/08 is a forecast of the year end position

- 7.5 The indicators contained within Table 5 are the most important indicator of recovery performance in the year and measure of the overall quantum of recovery. Performance has improved significantly across all years to the extent that the amount being recovered now is almost equivalent to the new debt raised. In particular, performance in the current year has improved by over 12 percentage points. This illustrates a sharp slowdown in the rate at which debt is accumulating with performance of 97.95%* being far in excess of the target of 90.19%.
- 7.6 In comparison with the Unitary Median (table 5), Portsmouth City Council's performance is significantly ahead of others and is expected to improve further in 2007/08.
- 7.7 Whilst the amount recovered as a proportion of the overall debt has reduced from 33.0% to 24.6% between 2006/07 and 2007/08, the forecast position for 2007/08 is still some way above target. Taking the performance of tables 5 and 6 together, this indicates the preferred position in that more current debt is being collected, which over the medium term avoids debt becoming older and harder to collect.
- 7.8 The amounts forecast to be written off in 2007/08 will exceed the target by 4 percentage points. This is as the result of an accelerated programme to review aged and inactive debt that identified a high level of debt that is not recoverable.
- 7.9 Furthermore, the write off rate itself needs to be viewed in the context of how much has been written off in previous years. If less than a "normal" rate of write off has been taken in one year, then there will inevitably be a "catch up" year. Over the 3 year period, the average write of rate amounts to 4.97% indicating a very good overall recovery rate.
- 7.10 This expected level of performance was achieved by pursuing the strategy set out below.

Key strategies for 2007/08

- Introduction of Housing Benefit processing controls to limit the size of overpayments associated with processing delays.
- Targeted review campaign to identify potential changes not already notified to the service.
- Development of detailed process quality monitoring.
- Continued investment in additional Debt Recovery staff initially recruited in 2006/07 to:
 - Eliminate a backlog of aged and inactive debt.
 - Introduction of process improvements and defaulter controls.
 - Strengthen process to enable DWP to recover debt for PCC.
 - Complete analysis and write-off of pre 2003 mixed former tenant and HB debt.

Further Additions to the existing Strategy planned for 2008/09

- Increase investment in HB process quality improvement.
- Maintain controls to contain Local Authority error overpayments.
- Maintain claim review processes.
- Review debt recovery rates for all categories of HB claimants.
- Review priority debt policy for Local Authority Housing tenants.
- Introduce Direct Debit repayment option.
- Formalise option to levy charge on properties.

Cost Effectiveness of Strategy Employed

7.11 The incremental cost of putting these strategies in place amounted to approx. £75,000 and included the appointment of 2.5 additional staff. If the 2006/07 level of performance of 85.48% had been achieved in 2007/08, this would translate into an in year recovery of £2.201m. At the forecast performance level of 97.95%, £2.522m will be recovered. This therefore represents a like for like increase in recovery of £321,000 compared with the cost of improvement of £75,000. In addition to this, the cash flow benefits arising from increased investment interest amount to approximately £10,000. The incremental cost of the strategy adopted above therefore, is seen as good value for money.

7. Housing Rents

8.1 The value of Housing Rents is very significant at sums in excess of £50m per annum. In some respects, the nature of Housing Rents is similar to that of Council Tax in that it is a continuing charge and therefore it is of primary importance to avoid tenants getting into arrears. Furthermore the nature of the clients occupying Council Houses is such that they are the most financially vulnerable sector of our community.

8.2 In overall terms, the total level of debt outstanding on Housing Rents has fallen over the last 3 years from £4.8m to £4.5m. This, on its own however, is not a good indication of recovery performance and will be affected by factors such as the extent of write offs, changes in circumstances etc. To gain a greater indication of real recovery performance, Council Rents is managed and monitored under 2 main categories with the associated primary performance measures as follows:

Current Rent Tenants

8.3 Performance for recovery of current tenant housing rent is measured using the following basket of primary indicators:

- Arrears as a percentage of Gross Annual Debit – i.e. this is an overall measure of the success or otherwise of the collection activity identifying the level of arrears as a proportion of the annual rent due (i.e. Annual Debit)
- Percentage of Accounts in Arrears over 7 weeks – i.e. a measure which indicates how widespread any arrears problem may be which eliminates short term arrears and focuses on the real underlying extent of arrears

8.4 The picture of collection and recovery activity in relation to Current Rent Tenants is positive with significant year on year improvements in both of the above indicators as illustrated below.

Table 8 – Arrears as proportion of Annual Rent level

Financial Year	2005/06	2006/07	2007/08*
Arrears as a percentage of Gross Annual Debit	3.31%	2.68%	2.44%

Table 9 – Underlying extent of Rent Arrears

Financial Year	2005/06	2006/07	2007/08*
Percentage of Accounts in Arrears over 7 weeks	21.0%	18.0%	15.4%

* 2007/08 is to 9th March 2008

7.5 Whilst there is no national measure of Arrears, there are national measures of Council Rent Collected in year. This, with some minor adjustments, is the inverse measure of arrears. Against this measure of in year rent collection, Portsmouth's performance in 2006/07 was greater than the Unitary Median at 98.0% compared with 97.8%.

7.6 This expected level of performance was achieved by pursuing current practices. The future strategy for improvement is described below.

Further Additions to the existing Strategy planned for 2008/09

8.6 An intervention using the Vanguard Systems Thinking Method is currently underway on the rental income system. The intervention started on the 14 January 2008 and will last approximately eighteen weeks.

8.7 The intervention is examining the end to end system from the point at which a prospective tenant is offered council accommodation to the point at which a tenant vacates a property and any arrears become former tenancy arrears.

8.8 Any new way of working that is introduced will be designed to meet a defined customer purpose based on a true understanding of the demands customers place on our rental income system. The outcomes of the intervention are likely to lead to a new way of working i.e. new work processes and a revised set of measures which will populate strategies referring to the collection of rental income for the local authority housing stock.

Cost Effectiveness of Strategy Employed

8.9 Current practice is seen as good value however, the systems thinking intervention is aimed at further improvement. To put the current practice into context, if the 2006/07 level of arrears performance of 2.68% had been achieved in 2007/08, this would translate into non collection of £1.431m. At the forecast performance level of 2.44%, £1.303m will not be recovered in the year. This therefore represents a like for like increase in recovery of £128,000. In addition to this, the cash flow benefits arising from increases investment interest amount to approximately £4,000. The current strategy adopted therefore, is seen as good value for money.

Former Rent Tenants

8.10 The value of Former Tenant Rents is of far less significance than Current Rents but still remains a fairly substantial sum that requires collection. Former Tenants arrears amount to approximately £0.1m to £0.2m per annum.

8.11 Once an individual with arrears is no longer a Council House tenant, then the nature of the debt changes significantly. The individual no longer has a continuing charge to meet and their debt becomes more akin to a sundry debt where a service has been provided and the sum is payable. Due to its relative significance, less emphasis is placed on the recovery of Former Tenants debt but nevertheless the debt is managed closely and measured as follows:

Table 10 – Total Arrears Collected in Year

Financial Year	2005/06	2006/07	2007/08*
Total Arrears Collected	128,000	143,000	164,000

Table 11 – Arrears Collected as a Proportion of Total Debt

Financial Year	2005/06	2006/07	2007/08*
Arrears Collected as percentage of outstanding arrears at start of the year plus arrears added in the year	4.2%	4.7%	5.7%
Target for 2007/08			5.5%

* 2007/08 is to 2nd March 2008

8.12 Recovery performance on Former Tenants arrears is also improving in terms of both the absolute sums collected in the year as well as the proportion of the total debt. The target set for 2007/08 of 5.5% was set with reference to both the previous years performance and the age of the debt (and therefore likelihood of recovery). The target was set at a level which was greater than the rate of improvement in the previous year (i.e. improvement from 2005/06 to 2006/07 was 0.5%, target set was an increase of 0.8%) and considered to be a challenging target.

8.13 In addition to improving performance generally, the target set at 5.5% for the percentage of arrears collected is expected to be exceeded.

8.14 The strategy for further improvement is currently underway and is likely to involve employing an additional member of staff if it is estimated that the increased recovery will exceed the increase in cost.

9. Sundry Debt

9.1 Sundry Debt tends to be debt of a miscellaneous nature. For Portsmouth City Council Sundry Debt has been categorised for measurement purposes as follows:

- Children Families & Learning
- Corporate Resources
- Economy Culture & Community Safety
- Environment & Transport
- Housing Health & Social Care
- Port
- Property Rents
- Schools

9.2 Whilst Sundry Debt is of a miscellaneous nature, it has key common characteristics that make its measurement and management very similar. The Sundry Debt collection and recovery activity is best suited to an approach of devolved billing management (i.e. invoicing / query resolution) and centralised collection and recovery (i.e. reminder letters, telephone collections, tracing and legal enforcement). In contrast to Council Tax and Business Rates, Sundry Debt is not a statutory charge and therefore is enforced through the Civil Courts as opposed to the Magistrates Courts.

9.3 The headline indicators used for the measurement of Sundry Debt are focused on the proportion of debt collected as opposed to the total outstanding level of debts. As previously mentioned, collection rates are far more reliable measures of performance than total debt levels, which can be skewed by both the levels of debt written off and the level of debt outstanding which is not yet due as it still remains within payment terms.

9.4 The headline indicators for measuring Sundry Debt Performance are:

- Percentage of Total Debt over 91 days past due – generally the better measure of collection performance since write offs are unlikely within this period
- Percentage of Debt over than 361 days past due – whilst recovery is still possible beyond this point, recovery becomes significantly less likely.

9.5 In overall terms the income collection and recovery performance of Sundry Debt over the last 3 years has improved significantly as illustrated below.

Table 12 – Overall Sundry Debt Collection & Recovery Performance

Financial Year	2005/06	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	53.0%	36.7%	30.3%

* 2007/08 is to End Feb 2008

Table 13 – Overall Sundry Debt Collection & Recovery Performance

Financial Year	2005/06	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	28.1%	27.4%	18.1%

* 2007/08 is to End Feb 2008

9.6 No overall Sundry Debt Target is set, as to do so accurately would require an accurate weighting to be applied across all of the different categories of debt (i.e. based on the relative size of the overall debt in each category). Whilst it is possible to estimate such a weighting, it would only be an accurate and therefore reliable measure if the relativities between categories stayed broadly constant. The miscellaneous nature of Sundry Debt makes this problematic so targets are set for the categories individually.

9.7 Each category of Sundry Debt has its own uniquely determined target. Targets for each category are not set uniformly because the propensity for each category to exhibit queries and disputes is different. For example, debts in relation to property rents can be outstanding for long periods of time whilst rent increases triggered by rent reviews are settled. At the other end of the spectrum, an invoice for Port Dues would ordinarily be expected to be settled quickly. The targets that have been set for each category, have been determined by reference to current performance and the extent to which the strategy employed was likely to improve collection rates. The strategy in itself however was challenging and by definition therefore, so are the targets.

9.8 What remains important, is that the collection and recovery of these debts is measured and managed at a sufficient level of detail that it can be effective and that the overall direction of travel for Sundry Debt, both at the detailed level and the overall level, is positive. Based on the end of February 2008 position, early

collection (i.e. within 91 days of being due) has improved by more than 20 percentage points over the 3 year period. Similarly, the collection and recovery of debt which is over 361 days past due has also improved by approximately 10 percentage points over the period.

9.9 The analysis that follows is a breakdown of Sundry Debt into its component parts. Detailed performance measurement at category level has only been in place since late 2006/07 and therefore comparative performance and targets are shown for 2007/08 only.

Children Families & Learning

9.10 Income collection and debt recovery relating to Children, Families & Learning relates mainly to the following:

- Recoupment (i.e. charging other Local Authorities for placing their pupils with Special Educational Needs into Portsmouth Schools, or with foster carers, and the associated management fees)
- Contributions to learning programmes and projects from government and professional bodies
- Recharges of staffing costs and fees for professional staff

Table 14 – Children, Families & Learning Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	13.9%	11.4%
Target 2007/08		10.0%

*** 2007/08 is to End Feb 2008**

Table 15 – Children, Families & Learning Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	12.0%	8.7%
Target 2007/08		10.0%

*** 2007/08 is to End Feb 2008**

Corporate Resources

9.11 Income collection and debt recovery relating to Corporate Resources relates mainly to the following:

- Recovery of external contributions to capital schemes
- Contributions to ad hoc projects (such as the single non emergency project)
- Licensing Charges
- Recovery of salary overpayments
- Charges for payroll services to non PCC organisations
- Recoupment of retrospective rebates from preferred suppliers

Table 16 – Corporate Resources Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	24.1%	37.8%
Target 2007/08		35.0%

* 2007/08 is to End Feb 2008

NB. Target set is higher than 2006/07 actual due to an unusually high debt in excess of £0.5m in 2006/07 which flattered performance. The debt was subsequently paid but without this debt performance would have been in the region of 45.0%.

Table 17 – Corporate Resources Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	17.1%	10.9%
Target 2007/08		12.0%

* 2007/08 is to End Feb 2008

Economy, Culture & Community Safety

9.12 Income collection and debt recovery relating to Economy, Culture & Community Safety relates mainly to the following:

- Enterprise / Business Centre Rents
- Recharges and income in respect of leisure facility management costs (e.g. Mountbatten Centre)
- PCMI for sales of manufactured goods and recharges for the supply of staff under the 'Workstep' scheme.
- Charges to non PCC organisations relating to arts, libraries, museums, tourism, conferences and events, cemetery fees and sports pitch fees.

Table 18 – Economy, Culture & Community Safety Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	13.5%	8.4%
Target 2007/08		10.0%

* 2007/08 is to End Feb 2008

Table 19 – Economy, Culture & Community Safety Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	5.6%	7.5%
Target 2007/08		7.5%

* 2007/08 is to End Feb 2008

Environment & Transport

9.13 Income collection and debt recovery relating to Environment & Transport relates mainly to the following:

- Building control fees
- Car Parking season tickets
- Waste management and pest control
- Highways management
- Departure charges to public transport operators for the Hard Interchange

Table 20 – Environment & Transport Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	15.3%	14.7%
Target 2007/08		12.5%

* 2007/08 is to End Feb 2008

Table 21 – Environment & Transport Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	14.3%	14.5%
Target 2007/08		12.5%

* 2007/08 is to End Feb 2008

Health & Social Care

9.14 Income collection and debt recovery relating to Health & Social Care relates mainly to the following:

- Charging for Social Care Provision, both residential and non-residential
- Recoupment of social care costs from other local authorities for adults and mental health care clients in the care of PCC
- Contributions towards projects from other government organisations

Table 22 – Health & Social Care Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	63.8%	28.5%
Target 2007/08		50.0%

* 2007/08 is to End Feb 2008

Table 23 – Health & Social Care Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	48.4%	22.6%
Target 2007/08		40.0%

* 2007/08 is to End Feb 2008

NB. Actual Performance Target to end February is much higher than is anticipated at the year end and is affected by a large debt of £4.3m due from the Primary Care Trust. The debt however, is anticipated to be paid within the due date and will therefore fall out of the calculation of the indicator by year end. Performance at year end is expected to be at or around the target.

Port

9.15 Income collection and debt recovery relating to the Port relates mainly to the following:

- Unit Dues from ferry operators
- Pilotage and Tonnage Charges
- Commercial rents and parking charges

Table 24 – Port Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	6.6%	39.6%
Target 2007/08		10.0%

* 2007/08 is to End Feb 2008

Table 25 – Port Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	3.1%	4.1%
Target 2007/08		4.0%

* 2007/08 is to End Feb 2008

NB. The reason for the significant deviation from target and apparent deterioration in performance relating to the Debt over 91 Days past due is largely due to a damage claim against Brittany Ferries of over £500,000. Damage claims, by their nature, take longer to resolve due to the involvement of insurance companies. The underlying performance (without this damage claim) is in the order of 13%.

Property Rents

9.16 Income collection and debt recovery relating to Property Rents relates mainly to the following:

- Commercial property rents for property leased from PCC, including Commercial, Housing Estates and Leisure Service properties
- Rental of mobile sites (such as refreshment vans)

Table 26 – Property Rents Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	51.4%	45.4%
Target 2007/08		45.0%

* 2007/08 is to End Feb 2008

Table 27 – Property Rents Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	37.6%	32.7%
Target 2007/08		30.0%

* 2007/08 is to End Feb 2008

Schools

9.17 Income collection and debt recovery relating to the Schools relates mainly to the following:

- Hire of Halls and facilities
- Nursery Fees
- School Dinner Monies and school trips

Table 28 – Schools Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 91 days past due	15.3%	18.1%
No Target for Schools (managed largely by schools)		

* 2007/08 is to End Feb 2008

Table 29 – Schools Sundry Debt Collection & Recovery Performance

Financial Year	2006/07	2007/08*
Percentage of Total Debt over 361 days past due	6.2%	10.4%
No Target for Schools (managed largely by schools)		

* 2007/08 is to End Feb 2008

9.18 The overall position on Sundry debt has seen a significant improvement in both the speed at which debt is collected and the overall collection rates. Almost all of the categories of Sundry Debt are at or above target. Those that are significantly below target, for example the Port, can be explained by exceptions and the underlying rate of collection is broadly on target.

9.19 This expected level of performance was achieved by pursuing the strategy set out below.

Key strategies for 2007/08

- Raised profile of Credit Management and enhanced “buy in” to collection and recovery activities
- Appointment of a Key Account Credit Control Manager – i.e. Credit Manager for high value corporate debts and difficult and complex debt
- Implement new recovery escalation process including the use of debt recovery agencies for debt over 90 days past due
- Introduction of a more robust Performance Management Framework for collection activities including:
 - Improved management information
 - Enhanced co-ordination between devolved Finance Teams and Central Income & Recovery Team
 - Collection and Recovery targets for each finance team
- Increasing the central sundry debt team by 1 FTE to focus proactive collections activities
- Addition of 2 FTE credit control staff in Health & Social Care devolved finance team
- Roll out of direct debits for:
 - Community Alarms
 - Commercial Rents
 - Residential Care Fees
 - Enterprise Centres
 - Multiple Parking Fines (i.e. payment arrangements)

- Improved quality of debtor account information
- Improve use and functionality of Oracle Accounts Receivable system to better manage collections

Further Additions to the existing Strategy planned for 2008/09

- Addition of 2 new Credit Controllers with a focus on proactive collection activity
- Set up an in house, on line small claims function
- Implementation of a market leading personal tracing facility
- Review and cleanse all debt over 1 year old and escalate as appropriate into the following:
 - Pass to Debt Recovery Agency (non complex cases)
 - In house trace / recovery action
 - Pass to Legal Services (complex cases)
 - Write Off
- Enhance performance management arrangements to include performance measures relating to the number of disputes and queries so as to remove obstacles to collection
- Generally remove credit terms and move to a position of "Payment due on the receipt of invoice"
- Further roll out of Direct Debits for Non Residential Care clients
- Embed a write off routine for uncollectable debts
- Charging of contractual interest for late payment of commercial rents

Cost Effectiveness of Strategy Employed

9.20 The incremental cost of putting these strategies in place across all of the Sundry Debt activities amounted to approx. £75,000 during the year and has included the appointment of 3 additional staff. The 2006/07 level of performance for percentage of total debt 361 days past due was 27.4% compared to the current position of 18.1%. This represents an improvement of 9.3 percentage points which in cash terms means that, on a like for like basis, an additional £1.35m has been collected compared to an additional cost of £75,000. In addition to this, the cash flow benefits arising from increased investment interest amount to approximately £40,000. The incremental cost of the strategy adopted above therefore, is seen as good value for money.

10. Medium Term Strategy – 2008/09 & Beyond

10.1 Thus far, the strategies contained in this report have concentrated on the backward review of 2007/08 and the forward review of 2008/09. Still to be finalised are the detailed performance targets for 2008/09 for each type of debt. These will be informed by the year end results for 2007/08 plus a measured view of the impact of the forthcoming strategy.

10.2 Whilst these the strategies for the short term are being implemented, the longer term strategy for the whole Credit Management function includes the following:

- General re-focus of energy from Debt Recovery and enforcement towards proactive income collection
- Sourcing and implementation of a truly Corporate and intelligent Credit Management Information system which enables the following to better facilitate the management of credit:
 - Overall consolidated performance management information
 - Shared intelligence / information on individual debtors across the organisation
 - External customer portal so that they can view all of their debts with the City Council
- Enhancement and expansion of the Bailiff Service including the following:
 - Technological efficiencies through the use of hand held computers
 - Expand the use of bailiffs to cover other services such as Parking Fines to derive economies of scale and further income to then fund the use of Bailiffs across other areas such as Sundry Debts
 - Develop the service as a potential regional hub for sale to other Local Authorities
- Develop and implement a risk assessment process prior to providing services for customers (i.e. for services of a non statutory nature) as a means of minimising the risk that a debt will have to be written off
- Actively contribute towards the provision of debt advice, particularly those individuals with multiple debts in order to help them to manage through their problems and ultimately pay their debts owed

11. Conclusion

- 11.1 Collection of Income and recovery of debt is best measured by the proportion of income / debt collected. Measurement of total levels of outstanding debt and comparisons with previous years, by itself, is at best only a guide to performance but at worst can be very misleading. For example, an increase in debt from £100m to £200m at first glance could indicate a deterioration in performance. However, if all or most of this income was collected then that would be a desirable position for the Council with the result of the City Council gaining an additional £100m in income to be spent on service provision.
- 11.2 Collection and recovery performance over the last 3 years has been improving almost uniformly across all areas. Performance during 2007/08 has now improved to the extent that the collection results for every type of debt from Council Tax, through to Housing Rents and Sundry Debt are all expected to improve. In most cases these improvements have been significant and have led to real increases in cash collected. On a like for like basis, the increases in year collection alone (i.e. excluding collection of previous years arrears) amount to an additional £2.6m with associated cash flow benefits of £78,000, of which £3,000 will accrue to the Housing Revenue Account. The full year effect on the General Fund of this additional interest amounts to £150,000 per annum and it is proposed that this is used to fund the mainstreaming of the Income Collection and Debt Recovery strategies already put in place during 2007/08 plus the new strategies for 2008/09.
- 11.3 Portsmouth City Council generally compares well with other Unitary Authorities. There is some scepticism over the reliability of the comparators for Council Tax and Business Rates, which depending on how you apply income collected during the year could place Portsmouth City Council at in year collection rates above 100%. This would be far in excess of the Unitary Median. **Of most significance however, is the rate of improvement from one year to the next, these measurements are far more likely to represent like for like comparisons and on the whole, Portsmouth's performance is improving at a faster rate than the Unitary Median.**
- 11.4 Comparing the combined cost of the strategies put in place at approximately £250,000 during the year to the in year improvement in collection of £2.6m plus the full year cash flow benefits in excess £150,000, the outcomes represent real improvements in value for money. In terms of payback on investment, £150,000 in interest on increased speed of collection has been achieved which will therefore require just £100,000 (or 3.8%) of the £2.6m improvement to be real additional collection that would not otherwise have been achieved without this action. Furthermore, this payback takes no account of improvements in the recovery of prior years debt, some of which otherwise may have been written off.
- 11.5 The future Credit Management Strategy is planned to become more focussed towards collection activities in order to avoid debt becoming old and therefore both harder and more costly to collect. Underpinning this general strategy are plans to enhance the performance management arrangements, again with its focus on collections activity. Finally, as a last resort, the promise and application of effective enforcement arrangements are now in place with further improvements planned.

12. Quality Impact Assessment

12.1 This report has undergone an effective equality impact assessment.

13. Comments of the City Solicitor

13.1 The City Solicitor has confirmed that it is within the Executives powers to approve the recommendations set out above.

Roger Ching.
Strategic Director for Corporate Resources and Services

Background List of documents –

Section 100D of the Local Government Act 1972

The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –

<i>Title of document</i>	<i>Location</i>
Material Sources of Income	Office of Accountancy Manager

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the Executive on 25 March 2008

Signed: -----