

audit 2000/2001

Collection of Income

City of Salford

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DISTRICT AUDIT

Authority	Collection Arrears Salford
Date	March 2002

Introduction

We have reported in recent management letters that the level of debt outstanding was a significant risk for the Council. In January 2001 the Council reported to members that the performance of income collection generally across Directorates in relation to debt collection had not been fully effective. There was a need to strengthen the management of debt recovery to reduce the amount of debt the Council carried. By 1 April 2001 council tax arrears were at £16 million and sundry debtors at £7 million.

The efficient and effective collection of income promotes accountability and helps councils to deliver the level and quality of services people want. Competent and proficient management of income collection is essential if the Council is to demonstrate sound financial administration and obtain the cash-flow advantages of early collection.

Background

We agreed that we would review the Council's performance in collecting income for

- council tax, and
- sundry debtors.

Council tax was introduced in April 1993, replacing the community charge. Council tax is levied upon chargeable dwellings. Liability for paying council tax rests in the first instance, with the occupier of the property. Where the property is not occupied or an occupier cannot be identified then liability rests with the property owner. The amount of council tax billed for 2001/2002 is over £50 million.

The Council's sundry debtors system bills and collects all income outside the Council's other main income streams of council tax, business rates, housing rents and housing benefit overpayments. It encompasses the processes of raising sundry debtors (including trade waste, city leisure, commercial rents and housing), recovering money owed to the Council and managing bad debt. In 2000/2001 sundry debtors billed 28,261 invoices totalling £55m.

The Council should be aiming for upper quartile levels of collection as part of its commitment to the Best Value regime. Compared to other Mets, Salford has the second highest level of council tax arrears as a percentage of council tax collectable, whilst sundry debtor arrears is the third highest. Conversely the Council's provision for bad debt is low in comparison to other authorities.

During 2001 the Council has taken a number of measures aimed at improving the collection of its council tax and sundry debtors income. These include:

- restructuring of the recovery teams,
- introducing internet payment facility,
- a significant expansion of borough wide payment points.

The Council has acknowledged that a much more rigorous policy towards the billing, payment and recovery of income is required to ensure that the highest levels of income are collected.

We have worked with officers during the year to review the current arrangements in place, bearing in mind the significant changes that have been taking place, within both the Council Tax and Sundry Debtors Sections. Internal Audit has also carried out a systems appraisal of the adequacy of controls over key processes of the new SAP debtors system and the winding down of the old Radius system.

Scope and objectives

We have reviewed the Council's sundry debtors and council tax collection performance by focussing on:

- policy and standards
- performance monitoring
- collection rates
- billing and payment
- recovery.

Audit approach

The audit is based on;

- a review of Council's accounting treatment and recording of arrears
- a review of the Council's documentation and procedures
- a review of the actual operation of the systems in place
- interviews with key officers and Members.

Our major conclusions are as follows.

Main conclusions

During the last twelve months the Council has introduced some changes to its income collection procedures, in response to growing officer and Member concerns about the level of arrears and below average collection rates. A number of significant actions have been taken to reduce arrears and increase collection rates, including a major restructuring of some of the Council's financial services. However these developments have generally taken place as departmental initiatives rather than as part of an overall corporate strategy on income collection. To significantly improve the collection of income overall there needs to be a comprehensive corporate income collection policy across the board, including;

- how to collect income,
- methods of recovery, and
- bad debt provision.

Without a clear corporate lead, the initiatives taken so far will not be effective in meeting the new demanding standards placed on the Council.

Billing and payment

The Council has restructured both the Council Tax and Debtors Sections, including the introduction of a new sundry debtors system. This has resulted in a more streamlined billing system, but there remain a number of issues which need to be addressed to ensure that maximum benefit is obtained. In particular, the Council needs to;

- explore options for reducing the number of small value invoices, including a much greater emphasis on prepayments and aggregated invoices
- provide a greater variety of payment options to the public
- ensure sufficient information is recorded on the system to facilitate recovery where necessary.

Recovery and enforcement

The Council should have systems in place to pursue debt promptly, efficiently and effectively. Our review highlighted that in recent years, council tax and sundry debtor recovery procedures have not been rigorous in their design and application. The new sundry debtors system and revised council tax recovery and enforcement procedures are just beginning to have a positive impact on collection rates. The administration of old debt is however currently hindering the effective performance of the new measures taken by the Council.

As part of the restructure the Council has incorporated the in-house bailiff team into the new recovery sections. There has however been no use of external bailiffs or third party agencies for a number of years, which has significantly reduced the Council's recovery and enforcement options. The Council Tax Recovery Team has recently made use of a tracing agency with some success.

The Council also has a high level of outstanding transactions with some of its own schools and other local educational bodies. The situation with the schools is unsatisfactory as schools are refusing to pay bills on the basis of non-production of accounts for work completed.

Large debts passed to the Legal Department are generally pursued, although there is scope for improving progress reports for managers and members and protocols between departments.

Bad debt provision and write offs

The Council has not had an active policy for write-offs. This in part, has added to the Council's comparatively high arrears figures for council tax and sundry debtors. Many accounts lie dormant on the system, having had no activity for many years and no subsequent attempt to recover the debt. The Council has started to review debts going back to the implementation of the council tax. A similar exercise has been conducted for debt on the old debtors system. A comprehensive write-off of old debt will be required as well as the implementation of proper procedures for future write-offs.

The improvement of the Council's performance and writing-off of old debt will also require a re-appraisal of the bad debt provision, which does not currently reflect the level of arrears.

Writing off significant amounts of debt could however have a serious impact on the Council's financial health, which we refer to in more detail in our separate report on the Council's current financial position.

The way forward

The Council needs to continue with action taken this year to improve the collection of debt, but this should be part of an overall corporate approach to the collection of income. We have listed our key recommendations below. The action plan in the next section sets out the report's recommendations together with the Authority's response.

Recommendations

- R1 The Council should develop a comprehensive corporate income collection policy covering:
- Billing
 - Collection
 - Recovery and enforcement
 - Write-offs.
- R3 Procedure notes covering the operation of the new sundry debtors system should be prepared.
- R11 Ensure that staff are aware of the need to retain additional information following the recommendations of the Woolf report.
- R13 The Council should consider the cost and effectiveness of alternative income collection methods for their services.
- R14(i) Identify those activities for which it would be beneficial to collect income at the point of delivery to reduce the incidence of high volume, low value debtor accounts.
- R14(ii) Explore the options for aggregating invoices together.
- R20 Introduce and monitor staff work plans to ensure that the newly adopted recovery procedures are strictly enforced.
- R21 Ensure that new arrears receive priority over the old Radius debtors for recovery purposes.
- R23 Consider extending the use of external debt recovery agents.
- R24 Calculate the annual provision for doubtful debts based on a realistic assessment of the likelihood of recovery for each debt.
- R25 Review outstanding accounts against the agreed write off policy.

Recommendation		Council Tax (CT)/ Debtors (D)		Response	Officer responsible	Implementation Date
Income collection policy and standards						
R1	<p>The Council should develop a comprehensive corporate policy for income collection which covers:</p> <ul style="list-style-type: none"> • billing • collection • recovery and enforcement • write-offs. 	All		Agreed.	All	1 June, 2002
R2	Members should receive periodic reports showing the volume, value and age of the Council's outstanding debts, together with movements and a concise written commentary.	CT/D		<p>Agreed and implemented, details of council tax arrears/current year collections are now reported on a monthly basis to Lead Member and on a quarterly basis to Scrutiny Ctte. More detailed breakdown of arrears provided within Reports to Lead Member in respect of write off matters (July 2001).</p> <p>Agreed and implemented – monthly reports to Lead Member and quarterly reports on key indicator to Q&P Scrutiny and Cabinet.</p>	All	Implemented
					Karen Masheder	Implemented

Recommendation		Council Tax (CT)/ Debtors (D)	Response	Officer responsible	Implementation Date
Billing and payment					
R3(I)	Internal audit should review the effectiveness of the restructure within the next six months.	CT	Agreed.	Don Simpson	1 April, 2002
R3(II)	Procedure notes covering all aspects of the operation of the new sundry debtors system should be prepared and issued to staff.	D	Agreed and already commenced.	Tony Hennessy	30th November 2002
R4	Revise the council tax exception reports to include only relevant cases.	CT	Agreed.	Martin Vickers	1 June, 2002
R5	Ensure that exception reports are fully and speedily actioned.	CT	Agreed and implemented.	Martin Vickers	Implemented
R6	Periodic (weekly, monthly or quarterly) monitoring reports should be produced for directorates so that they have a clear understanding of their debtor account workloads, values outstanding and exceptional items.	D	Agreed and already commenced. Monthly reports produced for Social Services, Commercial Rents and Trade Waste and meetings held. Regular reports to be produced for other Directorates.	Tony Hennessy/ Colin Ford	Full implementation by 1 June 2002
R7	The cost of recovery should be evaluated following the restructure the Council Tax Section and the Financial Services Group.	CT/D	Agreed. Agreed.	Martin Vickers Karen Masheder	1 June, 2002 1 June, 2002
R8	The performance target for the time taken to raise 100% of accounts should be tightened.	D	Agreed - to be tightened to 95% within 3 working days and 100% within 5 working days.	Karen Masheder	1 April, 2002
R9	Ensure that the information on the face of the debtor accounts is complete and supported by evidence.	D	Agreed - information to appear on the face of debtor accounts is supplied by Directorates. This is checked as far as possible by the Debtor Team in the FSG and referred back to Directorates for amendment if necessary. Debtor invoices are checked for quality prior to despatch. Directorates to be requested to keep evidence of validity of all invoices which will be sampled periodically by FSG Debtor Team.	Debtor staff	Implemented

Recommendation	Council Tax (CT)/ Debtors (D)	Response	Officer responsible	Implementation Date
R10 The date of supply should be included in the debtors system.	D	Agreed – this is included as part of the invoice text where supplied but it will be impressed upon Directorates that this information must be supplied in all cases.	Debtor staff	31 March 2002
R11 Ensure that staff are aware of the need to retain additional information following the recommendations of the Woolf report.	CT/ D	Agreed. Agreed – FSG Debtor Team to periodically request presentation of such additional information to ensure it exists.	Martin Vickers Karen Masheder/Tony Hennessy	1 June, 2002
R12 Liaise with other authorities with higher numbers of direct debit payers to determine ways of increasing take up.	CT	Agreed and implemented, 10% increase in DD payers 2001/2002 to 35,000 payers.	Martin Vickers	Implemented
R13 The Council should consider the cost and effectiveness of alternative income collection methods for their services.	All	Agreed and implemented, external debt collection agencies utilised during 2001/2002 together with use of Greater Manchester tracing system giving access to all Council Tax databases within the greater Manchester area. Salford currently participating in GM joint procurement bid for debt collection services which will be finalised in July, 2002. Agreed – two external debt collection agencies to commence pilot during March 2002. User Group to discuss alternative methods of collection eg 'cash up front'.	Martin Vickers Karen Masheder/Tony Hennessy	Implemented

Recommendation		Council Tax (CT)/ Debtors (D)	Response	Officer responsible	Implementation Date
R14(i)	Identify those activities for which it would be beneficial to collect income at the point of delivery to reduce the incidence of high volume, low value debtors accounts.	D	Agreed – a User Group to be set up to discuss such issues.	Karen Mashedor/ Tony Hennessy	1 April, 2002
R14(ii)	Explore the options for aggregating invoices together.	D	Agreed – a User Group to be set up to discuss such issues. However, aggregation across Directorates may cause problems in the case of disputes and for reporting purposes.	Tony Hennessy/ Colin Ford	30 June 2002
R15	Internal Audit's recommendations on the new SAP system should be implemented.	D	Agreed – but management response still being produced.	Karen Mashedor/ Tony Hennessy	
Recovery and enforcement					
R16	The relationship between the newly created FSG Debtor Team and other areas of the Council should be clarified.	D	Agreed – User group will assist in such clarification and stronger links will be forged with the Legal Section.	Karen Mashedor/ Tony Hennessy	30 June 2002
R17	The Legal Section should set up a masterfile, containing details of the action taken and relevant correspondence, for each debt.	D	Agreed – Masterfile to be set up as suggested. SAP access & training to be provided to legal to scrutinise cases.	Lorraine Norris	30 June 2002
R18	The period between an account being raised and it being classed as overdue needs to be monitored closely to determine its overall effectiveness.	CT/ D	Agreed and implemented. Clear recovery timetable set and maintained throughout 2001/02 in accordance with statutory timescales.	Martin Vickers	Implemented

Recommendation	Council Tax (CT)/ Debtors (D)	Response	Officer responsible	Implementation Date
R19	CT/D	Consider contacting debtors by telephone to pursue outstanding accounts.	Tony Hennessy/ Colin Ford	Implemented
R20	CT/ D	Introduce and monitor staff work plans to ensure that the newly adopted recovery procedures are strictly enforced.	Martin Vickers	Implemented
R21	D	Ensure that new arrears receive priority over the old Radius debtors for recovery purposes.	Tony Hennessy/ Colin Ford	
R22	D	Revise the procedures for administering and accounting for school income to prevent problems with arrears arising in the future.	Karen Masheder/ Bob McIntyre/all Directorates	
R23	CT/ D	Consider extending the use of external debt recovery agents.	Martin Vickers Karen Masheder/ Tony Hennessy	Implemented

Recommendation		Council Tax (CT)/ Debtors (D)	Response	Officer responsible	Implementation Date
Bad debt provision and write-offs					
R24	Calculate the annual provision for doubtful debts based on a realistic assessment of the likelihood of recovery for each debt.	CT/ D	The annual provision for doubtful debtors has been calculated in accordance with CIPFA guidance in the past, although it has been acknowledged that it has been falling as a proportion of debt outstanding. A provision of £300,000 was made to bolster the provision in 2000/2001 and £500,000 has been allowed in the 2002/2003 revenue budget. Any underspend at outturn for 2001/2002 will also be put into the provision. These initiatives should enable a healthier bad debt provision to be established.	John Spink	
R25	Review outstanding accounts against the agreed write off policy.	CT/ D	Agreed and implemented. It is anticipated that approximately £7M council tax to be written off in 2001/2002. Agreed and implemented- undertaken monthly.	Martin Vickers Tony Hennessy/ Colin Ford	Implemented Implemented
R26	Set fair but challenging performance targets to emphasise the importance of quickly pursuing debts.	CT/ D	Agreed and implemented. Targets 2001/2002 take into account past performance and the performance of other Authorities nationally. 2002/2003 performance targets are to be reviewed in light of experiences of other authorities participating within the Verification Framework Benefits scheme. Agreed - 2002/2003 targets have been further tightened in the hope that 2001/2002 underperformance can be rectified and improvements made.	Martin Vickers	Implemented
R27	Consider creating a bad debt provision through a monthly charge to service departments based on their historic collection rates and current turnover.	D	Prefer to charge Directorates for actual write offs, which will be implemented for 2002/2003.	Karen Masheder / Tony Hennessy	1 April 2002

Recommendation		Council Tax (CT)/ Debtors (D)	Response	Officer responsible	Implementation Date
R28	Recharge the full cost of recovery action to budget holders whose clients fail to pay promptly.	D	Agreed the cost of future Debt Recovery Agencies commission will be charged to Directorates. Currently the cost of recovery action is reflected in SLA's.	Karen Masheder / Tony Hennessy	1 st April 2002

Detailed issues checklist

Issue	Good practice	Findings	Recommendations
<p>Income collection policy and standards</p> <p>Has the Council set policies and standards for the collection of income?</p> <p>Have they identified responsibilities and reporting lines?</p>	<p>Policies and standards should be set by members and ideally set into a single document, whether it is at a corporate level or within individual directorate business plans.</p> <p>Members should also agree the performance measures to be used to monitor achievement and receive regular reports on these.</p> <p>(See below)</p>	<p>Council tax and Sundry debtors</p> <p>During the last 12 months the Council has increasingly recognised the need to improve income collection and has been active across a range of initiatives to improve the Council's overall performance. These include;</p> <ul style="list-style-type: none">• a new dedicated call answering centre• a new debtors system• new cash collection arrangements through post offices, increasing access to 42 outlets.• restructure of Council Tax and Debt Recovery Teams. <p>There has also been a working group involving Members on how to maximise the Council's income.</p> <p>There is however a lack of an overall comprehensive corporate policy on the collection of income in terms of specifying:</p> <ul style="list-style-type: none">• whether or not income should be paid for at the point of service• accuracy of records• billing procedures• collection methods• recovery and enforcement procedures• accounting issues (write-offs).	<p>R1 The Council should develop a comprehensive corporate income collection policy covering:</p> <ul style="list-style-type: none">• billing• collection• recovery and enforcement• write-offs.

Issue	Good practice	Findings	Recommendations
Income collection policy and standards Has the Council set policies and standards for the collection of income? Have they identified responsibilities and reporting lines? (<i>continued</i>)		<p>The Council needs to systematically review these areas to ensure that it is applying good effective and efficient policy and practice to optimise collection rates.</p> <p>Members need to know that the policy and standards in place are being achieved. This involves the receipt of monthly monitoring reports. Currently reports are produced but they tend to be on an exception basis and do not necessarily give the full picture. The Council therefore needs to ensure that the framework is clear to members and is supported by concise monitoring reports.</p>	<p>R2 Members should receive a periodic report showing the volume, value and age of the Council's sundry debtors, together with movements and a concise written commentary.</p>

Issue	Good practice	Findings	Recommendations
Billing and payment Are all parties to the process clear about their roles and responsibilities?	<p>Procedures for raising accounts should clearly allocate responsibilities, to promote accountability and avoid gaps or duplication in the process</p> <p>The allocation of responsibilities should include measures to prevent and deter fraud</p> <p>For example</p> <p>Duties to raise accounts should be segregated from other work, such as collection of income and decisions to write off debt</p> <p>Accounts should be checked;</p> <p>The process should be adequately supervised.</p>	<p>Council Tax</p> <p>The recent restructure of the Council Tax Section is currently bedding down and the management team believe that improvements in performance are already taking place.</p> <p>Sundry debtors</p> <p>The restructure of debtors and the rationalisation of the Financial Services Group (FSG) and the Debt Recovery Team has given the sundry debtors function more focus.</p> <p>Individual service departments raise accounts, with each section having a dedicated liaison person from the FSG.</p> <p>There is however a requirement for clear written procedures to be in place for allocating responsibilities for raising of accounts.</p> <p>Broad guidelines have been issued, which Directorates broadly follow, but there are no detailed up to date procedures. Segregation of duties has been reviewed by Internal Audit and improvements recommended.</p> <p>The FSG is currently trying to persuade Directorates to make use of the Intranet-microsoft outlook email facility which ensures that all requests for accounts are done by computer and therefore recorded on the system. This is part of a broader policy of developing a support service for billing departments.</p> <p>The system could also be rationalised. The Council sends out multiple invoices at the same time to individual large organisations, rather than a single invoice, categorising individual accounts, for example other utility companies and other local authorities.</p>	<p>R3(i) Internal audit should review the effectiveness of the restructure within the next six months.</p> <p>R3(ii) Procedure notes covering all aspects of the operation of the new sundry debtors system should be prepared and issued to staff.</p>

Issue	Good practice	Findings	Recommendations
Billing and payment Are monitoring arrangements satisfactory?	<p>Regular monitoring reports should present appropriate detail about workloads, value of debt and exceptional items (high values attached to individual debtors), to</p> <ul style="list-style-type: none"> Operational managers/budget holders Senior management/Members Reports to Members should address any specific policy matters e.g. new income collection policies or special initiatives to improve debt collection. 	<p>Council tax</p> <p>The Revenues Division has introduced a more proactive monitoring regime, which includes;</p> <ul style="list-style-type: none"> workload levels council tax collections and rates a performance highlights paper on a monthly basis. <p>Exception reports do however include many accounts which are no longer active. This makes the reports very lengthy, which in practice makes the process of monitoring new cases very difficult. Monitoring of genuine exceptions has therefore been ineffective. The Section needs to ensure that regular exception reports are both relevant and actioned.</p> <p>Sundry debtors</p> <p>The new SAP system has a comprehensive management information facility.</p> <p>FSG produce reports to service departments which include age debt analyses. There are also meetings with directorates. There is however scope for more regular formal meetings and the opportunity to bring more accountability to officers for raising debt.</p> <p>This would be particularly relevant to:</p> <ul style="list-style-type: none"> Social services Commercial rents Housing repairs Libraries. 	<p>R4. Revise the council tax exception reports to ensure that they include only relevant cases.</p> <p>R5. Ensure that exception reports are fully and speedily actioned.</p> <p>R6. Periodic (weekly, monthly or quarterly) monitoring reports should be produced for directorates so that they have a clear understanding of their debtor account workloads, values outstanding and exceptional items.</p>

Issue	Good practice	Findings	Recommendations
<p>Billing and payment</p> <p>Is the function of raising accounts adequately resourced?</p>	<p>Workloads should be comparable between each service department, with due allowance for different degrees of complexity.</p> <p>Staffing and caseloads should be periodically reviewed.</p> <p>Sections should plan not to suffer backlogs.</p>	<p>Council tax</p> <p>The Revenues Division has recently carried out a review of how it deploys its council tax resources. As a result the Council Tax Section has been restructured and managers need to monitor closely the effectiveness of the new arrangements.</p> <p>Sundry debtors</p> <p>Sundry debtors have also been restructured in the last 12 months as part of the Council's plan to improve performance.</p> <p>The new team of 10.5 FTEs, established in January 2001, has been working on improving aspects of the collection process. This involves both using the new SAP system and winding down the old Radius system. The task of reviewing the outstanding debt on the old system has proved to be resource intensive and this has had a detrimental impact on the recovery procedures required to make the new SAP system a success.</p> <p>Current performance reports indicate that raising of accounts in service departments is meeting current targets of;</p> <ul style="list-style-type: none"> • 95% of invoices in 7 days • 100% in 14 days. <p>There is however scope to make these targets more challenging.</p>	<p>R7. The cost of recovery should be evaluated following the restructure of the Council Tax Section and the Financial Services Group.</p> <p>R8. The elapsed time target for raising 100% of accounts should be tightened.</p>

Issue	Good practice	Findings	Recommendations
Billing and payment Does the account contain sufficient information ?	<p>As a minimum, the face of the account should clearly state:</p> <ul style="list-style-type: none"> the details of the goods and services to which the account relates the date on which the goods and services were supplied a contact to whom any queries about the account should be directed in the first instance how and when payment can be made the action that will be taken by the Council in the event of non payment. <p>The Council should have taken action in response to the Woolf Report, which increases the quality threshold of evidence required to support a debtors claim in the event of legal action. This will require greater consistency in the quality of information on debtor accounts as well as clear evidence trails in supporting documentation.</p>	<p>Council tax The Revenues Division has reviewed council tax demands to ensure that they comply with good practice.</p> <p>Sundry debtors A standard format is used by the Council, which includes most of the minimum requirements although the date on which the goods and services were supplied is not standard.</p> <p>FSG are keen to ensure that all details, including the date of supply are consistently input into the system when debtor accounts are raised. Currently the Council cannot ensure the consistency of the information held as there is no universal control.</p> <p>Action taken by the Council in the event of non payment is referred to on the reminder letter.</p> <p>Internal audit has noted that the minimum information is only guaranteed when the invoice is requested by email, rather than manually.</p> <p>Officers are also unaware of the implications of the Woolf report, which increases the risk on non-collection of debts because it calls for greater details of debts to be recorded to support any legal action.</p>	<p>R9. Ensure that the information on the face of the debtor accounts is complete and supported by evidence.</p> <p>R10. The date of supply should be included in the debtors system.</p> <p>R11. Ensure that staff are aware of the need to retain additional information following the recommendations of the Woolf report.</p>

Issue	Good practice	Findings	Recommendations
Billing and payment Are alternative payment collection methods used effectively?	<p>Other payment methods should be encouraged, to remove the need for debtor accounts where appropriate, that is where alternative methods are acceptable and they reduce the cost of collection or risk of non- payment eg.</p> <ul style="list-style-type: none"> • Cash/cards – especially for high volume, low value transactions • Electronic transfers • Periodic billing with automated electronic payments – applicable to repetitive business to business transactions – eg trade refuse • Third party collection agents. <p>Alternative methods should be monitored to ensure that any transaction costs and risks borne by the Council are appropriate, compared with cost and risk using debtor accounts.</p>	<p>Council tax</p> <p>About a third of payers (35,000) are on direct debit. This figure has increased by 11% from the start of the year to August, which exceeds the target the Section had set for itself.</p> <p>The Council has also been actively increasing the number of outlets at which payments can be made in recent months. There is also now the facility to pay council tax on the internet. The Council should continue to pursue its policy of encouraging payment by Direct Debit.</p> <p>Sundry debtors</p> <p>Alternative methods of collection are not as effectively used as they could be by the various Directorates. The Council's main method of collection of sundry income is by raising sundry accounts after a service has been provided.</p> <p>The FSG has carried out a brief analysis of the cost of raising invoices. However departments are not generally aware of the cost of raising a sundry account and do not monitor the costs of collecting sundry income. These costs include both administrative costs of raising the account and further costs associated with the risk of non-collection. Both of these costs are likely to increase as a result of the Woolf report.</p> <p>There are some examples of where some sections have been proactive in collecting income immediately. Examples of cash up front include:</p> <ul style="list-style-type: none"> • Allotments • Re education • Pest control • Bulk refuse • Recreation centres. 	<p>R12. Liaise with other authorities with higher numbers of direct debit payers to determine ways of increasing take up.</p> <p>R13. The Council should consider the cost and effectiveness of alternative income collection methods for their services.</p>

Issue	Good practice	Findings	Recommendations
<p>Billing and payment Are alternative payment collection methods used effectively ? <i>(continued)</i></p>		<p>Leisure Services can require fees to be paid in advance by cash or credit/debit card for block bookings of sports facilities. However we are not aware of any general corporate provision to accept credit/debit cards. There appears to be scope for Social Services and other areas to introduce payment on delivery.</p> <p>The Council also raises a significant number of invoices of a low value, under £25. In the first three months of 2001/2002 Internal Audit noted that debts with a value of below £25 totalled £33,784, which they estimate covers over 2000 invoices. Our review of the new SAP system showed that 8% of the value of invoices raised were under £20 and that 9% of the numbers of invoices outstanding were under £20, but accounting for less than 1% of the value (Appendix 2).</p> <p>20% of the number of outstanding invoices are under £50 and 35% under £100.</p> <p>As the old Radius system could not produce this level of detail for the older accounts, we were unable to do a similar analysis for these debts.</p> <p>Some debts the Council raises must be demanded to maintain legal rights to property, such as ground rents, which can be of peppercom value. However there are options for raising these on a lump sum basis.</p>	<p>R14(i). Identify those activities for which it would be beneficial to collect income at the point of delivery to reduce the incidence of high volume, low value debtor accounts.</p> <p>R14(ii) Explore the options for aggregating invoices together.</p>

Issue	Good practice	Findings	Recommendations
<p>Billing and payment</p> <p>Is the SAP computer system being appropriately managed, so that it delivers benefits in terms of lower administration costs and better management information ?</p>	<p>Representatives of each of the user departments should be involved in an appraisal and evaluation of the new system.</p> <p>There should be a regular meeting of the user group to assess performance of the system and the overall effect on income collection.</p>	<p>Sundry debtors</p> <p>The E-merge Project Team was set up to facilitate the successful implementation of the new SAP sundry debtors system. The Team included key stakeholders within the Council. Some of the benefits of the new system were to include:</p> <ul style="list-style-type: none"> • better management and performance information • a more streamlined billing and recovery system. • a more efficient use of staff resources. • centralisation of staff. <p>Officers have noted that the system is delivering some of the planned benefits. Managers should however ensure that the new system meets the specification.</p> <p>Internal Audit has recently carried out a detailed review of the new SAP system and have noted a number of issues, including:</p> <ul style="list-style-type: none"> • failure to use direct debiting facility • limited use of microsoft outlook email facility for setting up customer records • incomplete inputting of invoice data • incorrect treatment of credit notes • no process for write-offs • not able to cope with adhoc arrangements. <p>The Council has invested a considerable amount of effort and resources on this system. These issues should be addressed to ensure that the system attains its optimal performance.</p>	<p>R15. Internal Audit's recommendations on the new SAP system should be implemented.</p>

Recovery and enforcement	Good practice	Findings	Recommendations
Is recovery effective in overall terms?	<p>Overdue accounts should be paid off promptly following intervention.</p> <p>Only a small percentage of accounts should be significantly overdue.</p>	<p>Council tax</p> <p>Published comparative performance information with other Mets indicates that recovery and enforcement procedures are not as effective as other Councils. Salford is in the lower quartile of performers compared to the Met authorities.</p> <p>We mentioned earlier that the Council Tax section has recently restructured its recovery and enforcement procedures in response to the Council's need to improve its collection rates. The new arrangements includes a more rigorous approach to recovery and enforcement. (see below)</p> <p>Collection rates were reported to have increased by 0.5% as at 3 August 2001 year on year, having been below last year's levels for the first quarter of 2001/02.</p> <p>Sundry debtors</p> <p>The level of arrears for sundry debtors suggests that the Council's recovery and enforcement function has not been as effective as it could have been in recent years. The introduction of a new debtors system, together with the establishment of a more focussed Debt Recovery Team and more assertive policies should lead to an improvement in performance.</p>	

Issue	Good practice	Findings	Recommendations
<p>Recovery and enforcement</p> <p>Are all the parties to the recovery process (in service departments, income and Legal services) clear about their roles and responsibilities?</p>	<p>Procedures should clearly allocate responsibilities to minimise the potential for gaps or duplication in the recovery process.</p> <p>Duties in the recovery process should be segregated, with adequate checking and supervision of the process.</p>	<p>Sundry debtors</p> <p>The new system is bedding down and there is still a need to ensure that all sections are clear about their role in the recovery process vis a vis the newly created Debtors Recovery Team.</p> <p>The Recovery Team has introduced a process of regular meetings with Social Services and Development Services to look at problem accounts and to discuss arrangements for action required. This should be spread to all income raising departments.</p> <p>There is also a need to improve the link between the Recovery Team and the Legal Section, with more emphasis on reporting progress on individual cases and determination of the further action required. The Legal Section has stated that cases are often delayed due to a lack of information from the billing department, which reduces the chance of recovery.</p> <p>Our review of several longstanding debts referred to the Legal Section, ranging from £20k to £70k, revealed that the case history was difficult to follow. This was due to records being a combination computer held files and papers on file. Chasing of debt was unstructured in places. However, overall cases were actively pursued. A central masterfile detailing all actions and correspondence would allow cases to be more proactively managed.</p>	<p>R16 The relationship between the newly created Debtors Recovery Team and other areas of the Council should be clarified.</p> <p>R17. The Legal Section should set up a masterfile, containing details of the action taken and relevant correspondence, for each debt.</p>

Issue	Good practice	Findings	Recommendations
<p>Recovery and enforcement</p> <p>Are appropriate recovery methods in place?</p>	<p>A clear recovery policy should be published to guide officers and to deter non payment.</p> <p>Procedures should clearly outline the criteria that trigger each step that should be taken eg.</p> <ul style="list-style-type: none"> • Reminder letters • Visits • Court action • Agreement terms • Use of third party collectors • Write off. <p>These procedures are soundly based on accepted good practice, experience and logical analysis eg.</p> <ul style="list-style-type: none"> • In-house team to collect the bulk of items that are easy to collect • Third party collection agents for other items • Policies are reviewed in the light of trends in collection rates at each stage. 	<p>Council tax</p> <p>Council tax recovery procedures have recently been reviewed as it was clear they were not rigorous enough in places. The review has examined each stage of the recovery process and tightened up the controls.</p> <p>Our sample of arrears cases noted that the case history was reasonably well documented on the diary and recovery history screen. However once the reminder letters had run their course, the pursuit of the debt became a much more random process. A number of the debts had been outstanding for a number of years with no evidence of ongoing action.</p> <p>Reminder letters have now been changed. Previously it was possible to receive up to 10 reminders before action. This resulted in a long elapsed time and made the process cumbersome.</p> <p>From April there are only two reminders each year with the Council introducing a 'three strikes' policy. Reminders are however only issued on a batch system, as opposed to responding immediately to a missed payment. Officers acknowledged this delay but felt that a batch system was more manageable.</p>	<p>R18. The period between an account being raised and it being classed as overdue needs to be monitored closely to determine its overall effectiveness.</p>

Issue	Good practice	Findings	Recommendations
Recovery and enforcement Are appropriate recovery methods in place? <i>(continued)</i>		<p>As well as improving and strengthening the reminder letter procedures the Section is reviewing its policy on court action in line with other Greater Manchester authorities. The Section are now increasingly asking for council tax payers employment details, so they can go directly to the employer for payment. Initial results indicate that this is having a positive impact on collection.</p> <p>One recovery option that the Council does not use extensively at the moment is contacting debtors by telephone to pursue the outstanding account once it becomes overdue.</p> <p>Summons arrangements have also been changed from July, with an increasing focus on obtaining employer details. In addition there is greater emphasis on trying to move towards a 4 week turnover from the account appearing on the exception report, together with an analysis of why recovery action is being held up on some cases.</p> <p>One example of delay is the use of the correspondence indicator noted against the case which can hold up recovery. This is now removed after 4 weeks and action is planned to be taken.</p> <p>It is essential that now the new procedures have been introduced they are strictly adhered to. Work plans are being produced for staff to ensure that this is the case.</p>	<p>R19 Consider contacting debtors by telephone to pursue outstanding accounts.</p> <p>R20. Introduce and monitor staff work plans to ensure that the newly adopted recovery procedures are strictly enforced.</p>

Issue	Good practice	Findings	Recommendations
Recovery and enforcement Are appropriate recovery methods in place? <i>(continued)</i>		<p>Sundry Debtors</p> <p>The new SAP debtors system has an automated recovery process based on non receipt of payments. The process is fairly straightforward as follows.</p> <ul style="list-style-type: none">1 initial reminder2 final notice3 FSG intervention. <p>If the situation remains unsatisfactory after this process the officers have the choice to refer the case to the Legal Department. In practice only debts over £200 are referred for legal action.</p> <p>Both Internal Audit's review and our study have noted that recovery procedures for the new system are not being maintained. If arrears are not paid after the reminder letters, debts are not being chased. This is due to time committed to the large number of accounts in arrears on the old Radius system. At the end of August very few debts had been passed to the Legal Section.</p> <p>It is imperative that Council does not compromise the benefits of the new system, by over concentrating resources on old system debt. The longer new arrears are left unchased the more difficult they become to collect.</p>	<p>R21. Ensure that new arrears receive priority over the old Radius debtors for recovery purposes.</p>

Issue	Good practice	Findings	Recommendations
Recovery and enforcement Are appropriate recovery methods in place? <i>(continued)</i>		<p>During the review we also found examples of significant amounts of arrears outstanding with the Council's schools (£730k at 31/3/2001) as well as local education institutions (£72k).</p> <p>A sample of three schools highlighted long standing debts of over £60k. The Council needs to assess how it administers these internal transactions and be more efficient in the way it accounts to the schools for the service provided. It is essential that there is a prompt transfer of funds.</p>	<p>R22. Revise the procedures for administering and accounting for school income to prevent problems with arrears arising in the future.</p>
Are third party agents used effectively?	There should be clear criteria for employing agents.	<p>Council tax</p> <p>The Council has been reluctant in recent years to use third party agents and external bailiffs as an additional option for collecting income. Such referrals should only be used when agreements, attachments and deductions have proved unworkable or the debtor has a history of non-payment.</p> <p>The Council has until recently, used an in-house bailiff team to pursue outstanding debt, with a limited amount of success. However non consideration of all the options available has undermined the flexibility and ability of the Council to recover outstanding monies.</p> <p>The Council has started to make limited use of a tracing agency on a no result - no fee basis, with initial results of 4000 hand delivered demands showing some success.</p>	<p>R23. Consider extending the use of external debt recovery agents.</p>

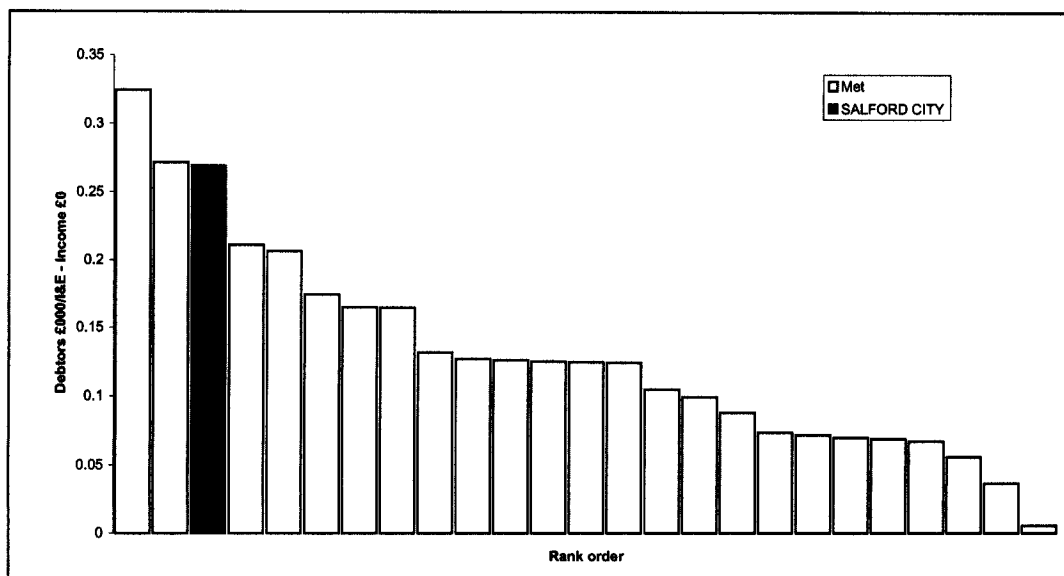
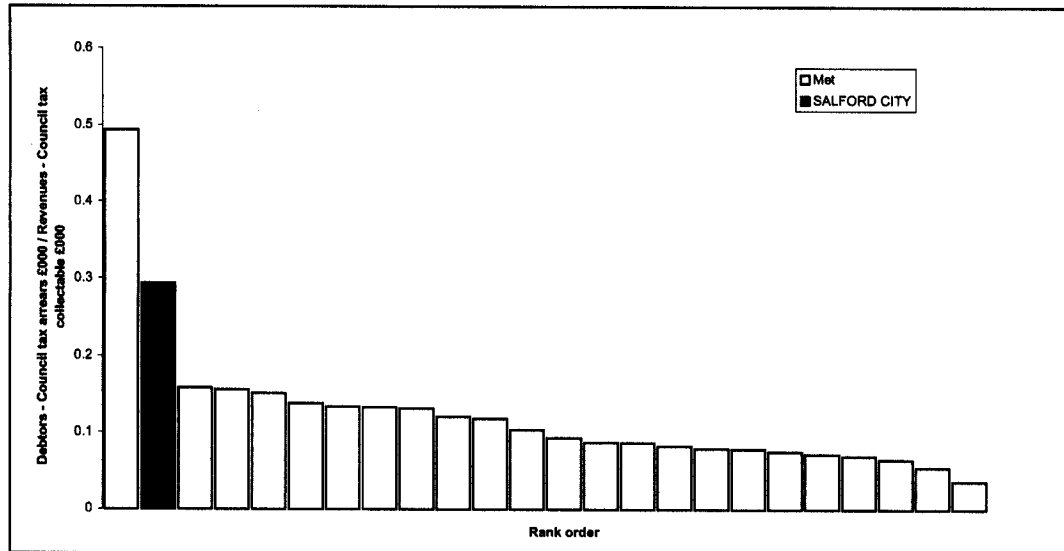
Issue	Good practice	Findings	Recommendations
Bad debt provision and write-offs. Does the Council make proper provision for non-collectable debts ?	Council's should ensure that provision accords with good practice or accepted standard eg CIPFA guidance, in particular making sure that provision is prudent compared with actual amounts written off.	<p>Council tax</p> <p>The Council's provision for council tax bad debt is significantly below the amount of arrears currently outstanding. At the 31/03/2001 the arrears figure stood at £16m with a bad debt provision of £6.5m. This level of bad debt provision is probably unrealistic given the time that has elapsed since many of these accounts were last pursued.</p> <p>The Council itself has recognised that the bad debts provision is understated by approximately £2.7m and has planned to declare a collection fund deficit of £550k a year for the next 5 years to address the situation. However we estimate that unless collection rates improve these measures will not be sufficient to balance the collection fund because additional bad debts are likely to accrue over the 5 years.</p>	R24. Calculate the annual provision for doubtful debts based on a realistic assessment of the likelihood of recovery for each debt.

Issue	Good practice	Findings	Recommendations
Bad debt provision and write-offs. Does the Council make proper provision for non-collectable debts ? <i>(Continued)</i>		<p>Sundry Debtors</p> <p>The situation here is also a similar to council tax in that many old sundry debts have not been written off, but have not been actively pursued for a long period of time. Debts on the old Radius system which are now over 12 months old total £8m. These too are going to prove difficult to recover and again the Council will have to make a more informed assessment of the bad debt provision. During our audit of the 1999/2000 final accounts we estimated that the bad debts provision was understated by at least £400k.</p> <p>The Council also needs to be aware that debts of a certain age cannot be chased (Statute barred) and the courts recently, have not looked favourably on debts that have not been actively pursued for over six months. Both these circumstances will have an impact on the Council's ability to recover debt.</p>	

Issue	Good practice	Findings	Recommendations
<p>Bad debt provision and write offs.</p> <p>Are there clear procedures for writing off bad debts?</p>	<p>There should be a clear policy and procedures covering:</p> <ul style="list-style-type: none"> • circumstances when write off is appropriate • use of agreements rather than write off for debtors who are unable to settle an account in full • level of officer/Member approval required • mechanics of the process • named officers to approve/recommend approval to Members • action if payment is offered after write-off • action to protect the Council from loss of Value Added Tax element of aged accounts that are written off. 	<p>Council tax</p> <p>The problem of poor collection rates is compounded by the Council's failure to have a consistent policy of writing off debt since council tax was introduced in 1993.</p> <p>Members agreed a write off policy in March 1999 but this has only recently been applied. Earlier in this report we recommended that this should be reviewed against current good practice. The Council has recently started to write off debt.</p> <p>Sundry debtors</p> <p>The situation here is similar to council tax. The procedures for writing off debt have not been well documented or properly administered. As recovery and enforcement has not been consistently and rigorously applied, long standing debt has not been fully appraised. There has therefore been no systematic writing off of debt. This has been exacerbated by the closure of the old Radius system.</p> <p>The intention is now to have quarterly write-offs from the new SAP system. This will involve authorisation from the Appropriate Director, Deputy Lead Member and Lead Member.</p> <p>This process needs documenting.</p> <p>A sample of large debts we tested (over £20k) indicated that in a few cases the Legal Section believe the Council has little chance of recovery. Writing off the debt should be considered once all options have been evaluated. The Council can always reinstate written-off debts in their accounts if circumstances change and recovery becomes a viable, cost effective option.</p>	<p>R25 Review outstanding accounts against the agreed write off policy.</p>
<p>Procedures understood and followed by all departments involved in the process:</p> <ul style="list-style-type: none"> • income • legal services • department which raised the account. 			

Issue	Good practice	Findings	Recommendations
<p>Bad debt provision and write offs.</p> <p>Does the accounting system provide incentives to pursue debt, rather than allow it to become written off 'by default'?</p>	<p>Ideally debtor income should not be credited to departmental budgets until payment is received. Any income that is recorded should be removed pending payment when an account is overdue.</p> <p>The department which raised the account should bear the administrative costs of non-collection.</p> <p>The system for recharging the costs of income and Legal services should provide incentives for those sections to collect debts which have been properly referred.</p>	<p>Council tax</p> <p>The Revenues Division are responsible for raising and collecting the tax. The incentive remains within the Section to collect income. The Section could however consider making best value targets more high profile.</p> <p>Sundry debtors</p> <p>The debt has historically passed to the Debtors Section, with little incentive on the billing department to consider the implications of non payment. Arrears have been accounted for corporately and have not affected individual budgets and as a consequence billing behaviour.</p> <p>Income generating budgets do not directly bear the costs of administering the pursuit of debtors for payment. The cost of legal services and litigation are recharged at departmental level.</p> <p>There are no apparent corporate incentives for departments, or the Legal Section to act quickly. Quicker action would possibly increase the likelihood of payment.</p>	<p>R26. Set fair but challenging performance targets to emphasise the importance of quickly pursuing debt.</p> <p>R27. Consider creating a bad debt provision through a monthly charge on service departments based on their historic collection rates and current turnover.</p> <p>R28. Recharge full cost of recovery action to budget holders whose clients fail to pay promptly.</p>

Comparative arrears with other Authorities



Debt analysis

Age analysis of Council Tax at April 2001

Year	Amount outstanding (After write offs) £
1993/1994	889,885.19
1994/1995	1,029,971.56
1995/1996	1,208,896.65
1996/1997	1,569,473.77
1997/1998	1,929,429.21
1998/1999	2,235,280.99
1999/2000	2,574,925.39
2000/2001	4,531,128.37
Total	15,968,991.13

Age analysis of sundry debt outstanding at April 2001

AGE OF DEBT (Days)	0-29 £	30-59 £	60-89 £	90-119 £	120 £	TOTAL £
Department						
Education & Leisure	64,367	3,738	2,866	18,950	889,671	979,592
Chief Executive	424,320	228,995	36,875	88,384	145,400	923,974
Development Services	3,376,071	185,628	52,807	237,428	2,306,138	6,158,072
Community & Social Services	30,363	4,361	11,498	159,090	1,271,064	1,476,376
Corporate Services	2,445,069	338,478	762,351	33,393	174,347	3,753,638
Environmental Services	27,141	31,687	42,677	985	408,617	511,107
Housing Services	48,244	3,982	1,700	1,260	330,494	385,680
DLO/DSO	0	0	-177	0	219,472	219,295
Salford College	0	0	0		71,999	71,999
Other	2,681	9,838	2,344	95	19,477	34,435
Total	6,418,256	806,707	912,941	539,585	5,836,679	14,514,168

New SAP sundry debtors system debts outstanding in amount categories at April 2001

Category	No of debts outstanding	Amount of debt outstanding
£0 - £19.99	448	£4,423.17
£20 - £49.99	570	£20,121.91
£50 - £99.99	787	£55,656.23
£100 +	3355	£9,621,354.75
Total	5160	£9,701,556.06

New SAP sundry debtors system invoices raised in amount categories at April 2001

Category	No of debts outstanding	Amount of debt outstanding
£0 - £19.99	1226	£11,487.21
£20 - £49.99	593	£53,243.74
£50 - £99.99	2192	£154,955.12
£100 +	10881	£41,754,280.00
Total	14892	£41,973,966.07