HMCTS Aged Debt Pilot
Final Report

Background

1. For several years it has been Her Majesty's Courts and Tribunals Service (HMCTS) aspiration to move to a more effective and efficient compliance led service rather than a more costly and less efficient enforcement regime. There is a recognised need to improve the efficiency of the service, reduce current operating costs and increase the number and value of financial impositions collected. There are a number of existing and significant barriers to delivering sustainable improvement and operational efficiency within the current service including a dependency on paper files, non-standardised manual systems and processes, outdated and unconnected IT systems and widely dispersed activity centres.

Organisational Overview

2. Financial impositions account for a significant amount of the criminal courts' business with both Crown Courts and magistrates' courts able to dispose of cases by way of a fine.
   - In 2010/11 nearly 900,000 offenders were sentenced to a fine in the criminal courts
   - The total value of these impositions was nearly £413m
   - These impositions actually consist of a number of financial elements which are awarded at the point of sentence:
     - The fine itself
     - Compensation awarded to the victim
     - The Victims' Surcharge
     - Prosecution Costs
   - Fixed Penalty Notices and Penalty Notices for Disorder issued by the Police which, if remain unpaid after a statutory period, are converted into a fine to be managed and collected by HMCTS
   - Of all criminal court case some 65% are disposed of by way of a financial penalty
   - The average magistrates court fine was £175 and Crown Court fine was £3,000

3. HMCTS staff costs in 2011/12 were approximately £54m[1] to enforce criminal fines, administer Fixed Penalty Notices (FPNs) and Penalty Notices for Disorder (PNDs) and manage Confiscation Orders. HMCTS currently employs approximately 340 Civilian Enforcement Officers (CEOs) and 1500 enforcement administrative staff (1840 headcount/1680 FTE). This workforce is geographically located in ~180 within HMCTS regions across England and Wales.

4. In addition to our in house CEO capability to execute warrants, to support the collection and enforcement of outstanding financial impositions, HMCTS also has four Approved Enforcement Agents (AEAs) contracts with private sector bailiffs who execute distress and arrest warrants geographically across England and Wales. HMCTS currently issues approximately 100,000 arrest warrants (20% managed by AEAs and 80% managed by in house CEOs) and 600,000 distress warrants to our contracted bailiff companies per annum.

Current Performance

5. The existing key performance indicator for fine enforcement is the Payment Rate. In 2010-11 HMCTS achieved a payment rate of 93%. As a measure the payment rate is complicated and opaque[2]. It effectively credits the organisation with sums that are either judicially rescinded or cancelled and does not differentiate between amounts paid that were imposed in the same financial year, and those imposed in a previous year. Removing the amounts cancelled by the administration gives a better but still imperfect picture of the success rate.

6. In 2010-11 HMCTS achieved a payment rate without administrative cancellations of 80%. In monetary terms during 2010-11 approximately £303m[3] of fines and related awards were imposed and during that year approximately £282m was collected, an effective shortfall of approximately £70m. As of December 2011 there was approximately £602m in outstanding

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[1] Costs are the direct staff, office and court costs relating to the enforcement of financial penalties imposed by the courts. Central overheads and Bailiffs costs, reimbursed by the offender, are not included
[2] The Payment Rate is calculated by dividing the amount paid by the amount imposed minus the amounts judicially rescinded and administratively cancelled.
[3] Amount is the approximately £413m impositions, referred to in paragraph 2, less any cancelled or remitted financial penalties during 2010-11

fines and related awards and this constitutes the combined debt over a number of decades which has neither been fully collected nor cancelled.

Current processes - The fines collection scheme

7. The Courts Act 2003 fines collection scheme introduced a range of measures aimed at significantly improving the payment rate and restoring the reputation of fines as a credible alternative to imprisonment or community penalties for specified offences. The scheme was designed to encourage payment, with strong incentives for defaulters to stay in contact with the court during the 'lifetime' of a fine; making it easier for the court to trace them, and deal with them should they default. However, the scheme was also intended to be severe on those who have the means to pay but will not pay, or who attempt to play the system.

8. The fines collection scheme aims to ensure that the court is provided with the information it needs in order to set the fine at the right level. This is supported by the use of a means information form, which every defendant is asked to complete prior to attending court. If no means information is supplied prior to the court hearing, it is expected that in court the required information, including information needed for possible enforcement action, will be collected either by the Magistrates or Legal Advisors.

9. Magistrates' courts are able to refer sentenced cases to a Fines Officer (or officers with delegated authorities – Designated Fines Officers) who are responsible for managing the collection and enforcement of fines on behalf of the court. Enforcement action includes variations of payment terms, attachments to earnings or benefits or the use of other sanctions available to court, including the new measures introduced as part of the Courts Act 2003.

10. A financial imposition is included in the fines collection scheme following a 'collection order' being made by Magistrates. All financial impositions where possible should be subject to a collection order, including fines, compensation, costs and victims' surcharge etc unless there is good reason for the financial penalty not to be included.

11. The Fines Officer was a new role introduced as part of the Courts Act with an expectation that the role would:

- be responsible for sentenced cases, and for managing the collection and enforcement of fines;

- be able to vary payment orders and impose sanctions of increasing severity on those who refuse to co-operate, without further reference to the court; and

- provide a front-end impetus to enforcement.

12. The Fines Officer is an administrative/operational member of staff and therefore cannot make judicial decisions. However, under the Fines Collection Scheme, they (and their teams if they have delegated powers) have the authority to deal with the collection of fines administratively without the need to return cases to court. As the Fines Officer is not a member of the judiciary any decision made by them, or one of their team, can be appealed against by the defaulter. There is a strict appeals process that clearly defines the actions that need to be taken upon receipt of an appeal.

Courts Act sanctions

13. A sanction is an enforcement action that can be taken against a fine defaulter. Magistrates have previously had 'sanctions' available to them, such as distress and arrest warrants. However, the Courts Act 2003 introduced new sanctions which were intended to add to the current powers that enforcement teams had, thereby better managing defaulters and reducing the number of cases which require expensive 'doorstep' enforcement action.

14. The purpose of the Courts Act sanctions is to give the court greater powers to target those individuals who will not pay their fine, not those who clearly cannot pay. The system is designed to encourage payment, with strong incentives for offenders to stay in touch with the court during the 'lifetime' of the fine, making it easier for the court to trace them, deal with them should they default and to allow a dialogue throughout the process. The scheme is intended to be severe on those who have the means to pay and will not, or who attempt to play the system.

15. Available sanctions in the collection scheme include:
- *Attachment to Earnings Orders (AEOs) and Deductions from Benefits (DBs)* - AEOs and DBs allow the court to take a regular amount directly

from a defaulter's income via their employer or directly from the DWP via their benefit before they receive it. The Courts Act allows Fines Officers to automatically apply AEOs and DBs at the point of default without having to refer back to court or request permission from the defaulter, allowing them to secure more consistent and regular payments.

- *Registration* - The name of an offender is placed on the Register of Fines, which is held and maintained by RTL Limited, and has the ability to adversely affect the offender's ability to obtain credit. It is a discretionary sanction considered by Fines Officers as a further enforcement action. Defaulters have a set time period within which they can pay the fine in full and have their details completely removed from the register.

- *Clamping Order* - Vehicle clamping is a discretionary sanction that can be applied by Fines Officers upon continued default. A vehicle which is clamped can remain so for up to 24 hours before being placed in storage for one month, during which time the court can decide whether to sell the vehicle. At any point, the vehicle can be released upon full payment of the fine. A clamping order is executed and managed in partnership with the regional Approved Enforcement Agent contractor.

16. Sanctions can be applied by a Fines Officer, and any members of the administration/enforcement team with the designated powers, when an account is in default. Some sanctions also require a judicial decision and must be referred back to court, such as the imposition of an increase or the decision to sell a vehicle that has been clamped.

17. The collection scheme aims to provide targeted enforcement to defaulters. When an account has been defaulted on, the Fines Officer (or team) will review the cases to decide which sanction is the most appropriate. For example, if it is apparent that the defaulter has a vehicle, then a logical next step will be to use the clamping sanction. When using any sanctions, it should be remembered that the intention is that the threat of action will lead the defaulter to pay their fine. However, persistent defaulters will need that threat to become action to get payment.

18. If a particular sanction is used, but payment is not forthcoming the Fines Officer, or a member of their team with delegated powers, will be able to choose the next appropriate sanction. This may result in a defaulter being the

subject of multiple sanctions before their fine is paid. Ultimately if sanctions fail then a distress warrant may be issued, whereby goods may be seized and sold to pay the fine, or an arrest warrant may be issued and the defaulter returned to court where it is possible that a custodial sentence may be imposed and the defaulter imprisoned.
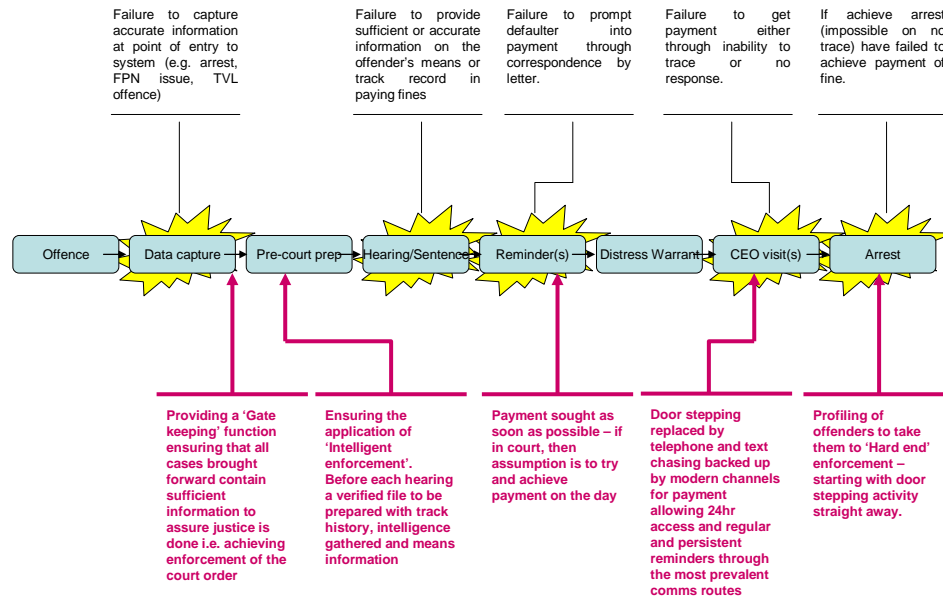
Criminal Compliance and Enforcement Services Blueprint

19. HMCTS had a strategy to address the existing inadequacies in the current enforcement of financial impositions. This is set out in the strategic document 'HMCS Criminal Compliance and Enforcement Services – A Blueprint for 2008 to 2012', our strategy to reform compliance and enforcement with court fines.

20. The blueprint set out HMCTS' desired situation for compliance and enforcement by ultimately breaking compliance down into three phases: 'voluntary', 'supported' and 'enforced' compliance. It recognises that different offenders need to be taken down different routes to achieve overall compliance.

21. The current approach therefore is to keep 'enforced' compliance, which includes the execution of warrants on the 'doorstep' and therefore has the highest unit cost, for the irreducibly small number of cases that actually require it, whilst getting the largest possible number of offenders through the 'voluntary' compliance channel (which has the lowest unit cost). Many offenders in the criminal courts lead chaotic lifestyles and will require the option of 'supported' compliance in order to allow them to comply fully with orders of the court. It is only the most persistent and prolific defaulters that should require 'enforced' compliance action.

The Blueprint Action (e.g. Fines)

Failure to capture accurate information at point of entry to system (e.g. arrest, FPN issue, TVL offence)

Failure to provide sufficient or accurate information on the offender's means or track record in paying fines

Failure to prompt defaulter into payment through correspondence by letter.

Failure to get payment either through inability to trace or no response.

If achieve arrest (impossible on no trace) have failed to achieve payment of fine.

Offence → Data capture → Pre-court prep → Hearing/Sentence → Reminder(s) → Distress Warrant → CEO visit(s) → Arrest

Providing a 'Gate keeping' function ensuring that all cases brought forward contain sufficient information to assure justice is done i.e. achieving enforcement of the court order

Ensuring the application of 'Intelligent enforcement'. Before each hearing a verified file to be prepared with track history, intelligence gathered and means information

Payment sought as soon as possible – if in court, then assumption is to try and achieve payment on the day

Door stepping replaced by telephone and text chasing backed up by modern channels for payment allowing 24hr access and regular and persistent reminders through the most prevalent comms routes

Profiling of offenders to take them to 'Hard end' enforcement – starting with door stepping activity straight away.

The Case for Change

22. HMCTS has, over the last few years, made considerable progress to implement and embed the principles set out in the blueprint; however, the organisation has now reached a point where its existing structure, processes and supporting infrastructure are impeding further increases in performance whilst balancing the need to make increased financial savings.

23. Our success has been and is hampered by a number of fundamental service restrictions:

- A workforce located over multiple operating sites, estimated to be in excess of 180 sites, which significantly reduce the ability to make savings from economies of scale and integration of services.

- A systemic reliance on paper files and manual processes that restrict innovation, automation and proactive working practices

- The magistrates' courts are supported by an IT system called Libra. The fine accounting element to this, referred to as 'Green on Black' (GoB), poses significant challenges to the blueprint implementation because it

was originally designed using in excess of 42 separate database structures. It has no overarching architecture to allow users to look across HMCTS areas without logging in and out of each individual independent database and it does not allow for the use of a single national master account for offenders, which significantly affects the benefits accruing from the regional centralisation of compliance and enforcement activities. Libra 'GoB' is becoming inherently unstable and remains the most problematic element of the entire overarching Libra application. This is due to the increasing number of accounts it is required to support and the aged software architecture it uses, which is now over 25 years old. The ICT roadmap for HMCTS/MoJ has already identified that Libra 'GoB' is unlikely to be able to be supported within the next two years and will require a replacement at an estimated cost that would be between £5m and £15m[4] over a ten year period for a comparable system that mirrors current functionality.
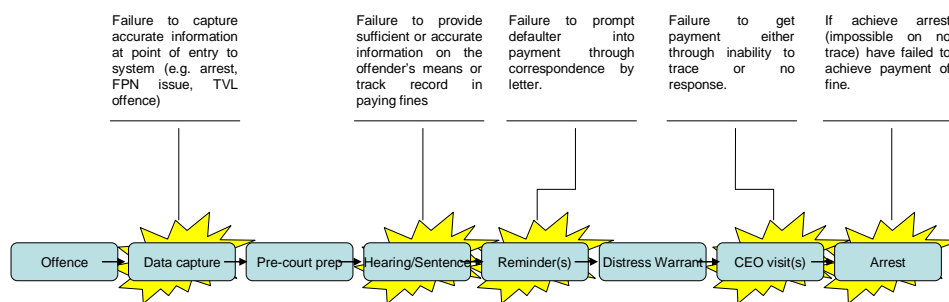
- An inability to easily produce comprehensive management information to either evidence success or target systematic weaknesses. The absence of such data has already been highlighted as unacceptable by independent bodies, such as the Public Accounts Committee (PAC) and the National Audit Office.

- HMCTS Management Information is limited by current systems and reduces the opportunity for customer segmentation and analysis

- High volumes of accounts being managed nationally combined with manual processes and the restrictions of the IT infrastructure make it impossible to introduce the intended compliance agenda.

- Limited investment. Historically Her Majesty's Courts Service (HMCS), and subsequently HMCTS, has been required to make significant efficiency savings year on year. Investment in IT (Libra) has been prioritised to support the core business functions and has not focused on

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[4] £5m development costs (System Architecture, Interfaces, Data Migration) and up to £1m per annum over ten years for maintaining the system (Change Control, Running Costs). These costs are estimates.

enforcement, which as a business function, is furthest from the core business of the organisation.

- Manual processes associated with validating defendant data at the point of prosecution allow cases for defendants with spurious names to appear on HMCTS databases which are only discovered once enforcement action is triggered for non payment wasting valuable resource.

- The trigger for HMCTS compliance and enforcement activity is generated through failure points, as demonstrated in the diagram below, which add delays to fines collection, increase operational costs and prevents pro-activity.

Failure Points (e.g. Fines)

| Failure to capture accurate information at point of entry to system (e.g. arrest, FPN issue, TVL offence) | Failure to provide sufficient or accurate information on the offender's means or track record in paying fines | Failure to prompt defaulter into payment through correspondence by letter. | Failure to get payment either through inability to trace or no response. | If achieve arrest (impossible on no trace) have failed to achieve payment of fine. |

Offence → Data capture → Pre-court prep → Hearing/Sentence → Reminder(s) → Distress Warrant → CEO visit(s) → Arrest

24. All of the service restrictions above have meant that the total outstanding debt owed to HMCTS in relation to criminal fines has risen rather then decreased. HMCTS has received criticism from bodies such as Public Accounts Committee (PAC), National Audit office (NAO) and Justice Select Committee (JSC) over the amount of outstanding debt and perceived the lack of action that has taken place to reduce the levels to provide the public with confidence that fines as a punishment is effective, they are being paid, Justice is being served.

25. Current policy enables financial penalties to be written off by HMCTS if the debt is over 12 months old and certain criterion is met. Whilst this reduces the amount outstanding it is heavily criticised as it is seen as Justice not being served. It also reduces the amount of money being collected and returned to the Exchequer. Due to this many outstanding fines are not written off and remain on the balance sheet of HMCTS meaning the debt becomes aged.

26. There is a commitment by Government to reducing the amount of outstanding Government debt that is owed. The Cabinet Office has set up a Fraud, Error and Debt Taskforce and work is underway with the taskforce and Other Government Departments to understand what impacts on debt, share best practice and enable further data sharing to occur to help collect what is owed.

27. As at December 2010 the total outstanding debt of all criminal financial penalties was approximately £608m. The amount of those penalties over 12 months old and classed as aged debt stood at approximately £420m and consisted of approximately 1.2m individual accounts. A script was run against the system to understand further this debt on 18th July 2011 and it was found that approximately £250m of the £420m was not on a payment plan and was therefore in scope for this pilot.

28. In order to obtain a better understanding of the nature of our aged debt, and its likely recoverability, HMCTS engaged with three external commercial providers to enable us to better understand the collectability of this debt and how a combination of new systems, techniques and innovation could increase our capability to trace and collect monies from defaulters.

Pilot

29. The pilot was undertaken at no cost to HMCTS, with all fines revenue, costs and victims surcharge collected being returned to HM Treasury and other creditors. There were three companies involved in the pilot who were each allocated a set of ~7000 accounts, ranging from a minimum of one year in age and with outstanding impositions over £10 in value. This is in line with current HMCTS write off policy. These had not been actively worked by

HMCTS for over 12 weeks. HMCTS also managed a baseline of ~7000 accounts[5] as a control group. The ~28,000 accounts were randomly selected to ensure a representative cross section of our aged debt profile.

30. Following completion of the three month pilot in January 2012 all three of the companies provided detailed evaluation reports and initial analysis of the results and techniques used. This report gives an overview of the pilot results. Validation of the three sets of results received from the companies allows for discussions for future options with this work.

Methodology of Processes and Techniques

31. The three providers taking part in the pilot, Company A, Company B and Company C, employed differing techniques and approaches to trace and recover the debt.

32. As an existing approved enforcement agent, currently internally contracted to HMCTS to execute distress and arrest warrants, Company C were able to use credit agency data to trace defaulters and directly collect outstanding impositions on the 'doorstep', if required, using court issued warrants. Company C had the ability to collect money directly from defaulters, whereas the two other providers could not and had the additional advantage of having existing knowledge of the business and pre-existing processes and systems to support the pilot. This enabled Company C to be operational and start working the pilot accounts more quickly enabling a longer period of time in the three month pilot period in which to make collections. It should also be noted that the cost of recovery for Company C is charged back to the defaulter as a fee payable directly to the company which financially motivates Company C to collect full payments in order to collect additional schedule of charges.

33. By comparison Company A and Company B did not have the power of a court warrant with which to collect debt and instead their contact with defaulters

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[5] HMCTS were allocated 7,000 accounts to see the extent to which aged debt is enforced under the do nothing scenario. The HMCTS allocation served as a control group against which to benchmark the performance of the pilot participants.

was limited to telephone and written communication methods and more of an administration process rather than enforcement. Both of these companies were unable to take first party payments and instead had to rely on 'promises to pay'. This required directing individuals to pay using the DirectGov website, the HMCTS payment line, by contacting their local court or by taking the details required for either a deduction from benefit or attachment of earnings order to be considered and set up by the court. A significant potential for attrition is therefore recognised between payments collected by Company A and Company B, and what they could have collected given fully comparable enforcement powers.

34. Typically the barriers faced by all three providers were inaccurate, incomplete and corrupted data resulting from the information collected and provided by the various prosecuting agencies or from information being incorrectly keyed into Libra (HMCTS IT system) over the years. As an example of these issues one of the providers reported that:

- Only 7.3% of all accounts received from HMCTS would have been contactable immediately without some form of data validation and tracing activity taking place.
- Only 3.3% of all accounts received had all of the nine key data fields completed and required for accurate tracing activity (title, forename, surname, address, postcode, phone number, email, NI number, and date of birth).
- 31.3% of all accounts received were missing a date of birth.
- Only 5% of accounts received included a phone number with no guarantee the number is associated with the defaulter.

35. Both Company A and Company B deployed broadly similar industry strategies to the collection and tracing of the debt using intelligence led methodologies to cleanse, validate, trace and enrich the data. Different techniques were deployed around the analysis of information and the methods used to elicit payments. These results are summarised in Table 7 below.

36. The benefit of this approach is that it is highly automated and efficient and therefore relatively low cost to operate. Only when the data has been through several iterations of this process and the number of accounts significantly

reduced, is a more intensive manual intervention process required. Due to restrictions on the length of the pilot and the time and cost implications of setting up the supporting systems, neither Company A nor Company B were able to utilise automated diallers, SMS messaging or email processes to chase debt and it is likely these would have provided increased additional benefits to the overall success rate.

Generic High Level Overview of Methodology
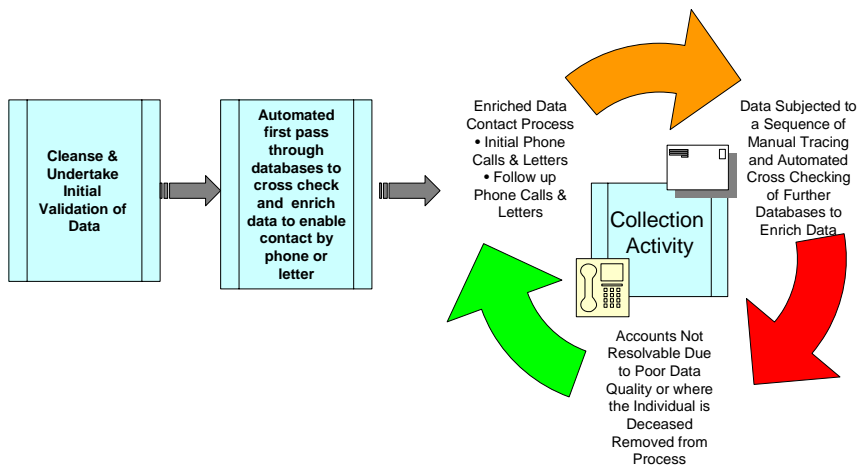
Pilot Collection Results

37. The collection results following the conclusion of the pilot are shown in Tables 1-4 below.

Table 1: Summary of the value of accounts paid *excluding accounts written off, transferred or consolidated

Firm	Partial payments	Full Payments	Total Payments	Account value	Proportion paid
Company A	£12,334	£30,680	**£43,013**	£1,424,672	3.0%
Company B	£9,262	£29,479	**£38,741**	£1,487,736	2.6%
Company C	£9,100	£230,795	**£239,895**	£1,798,685	13.3%
HMCTS	£24,687	£100,095	**£124,782**	£1,243,881	10.0%
Grand Total	£55,383	£391,048	**£446,431**	£5,954,974	7.5%

Table 2: Summary of the value of accounts paid *including accounts written off, transferred or consolidated

Firm	Partial payments	Full Payments	Total Payments	Dropped Accounts	Account value	Proportion paid
Company A	£12,334	£30,680	**£43,013**	£206,815	£1,631,487	2.6%
Company B	£9,262	£29,479	**£38,741**	£92,668	£1,580,404	2.5%
Company C	£9,100	£230,795	**£239,895**	£60,321	£1,859,006	12.9%
HMCTS	£24,687	£100,095	**£124,782**	£371,055	£1,614,936	7.7%
Grand Total	£55,383	£391,048	**£446,431**	£730,859	£6,685,833	6.7%

38. Whilst HMCTS performs well in terms of money collected it should be noted that a single account was paid during the pilot period for £60,000. This increased HMCTS performance from £64,782 to £124,782. Without this account the proportion paid would have been around 4%.

39. We can also see the impact of having a court issued warrant to enforce the debt in Company C performance which highlights that the threat of removal of goods and further charges is associated with more accounts being paid in full rather than part payments. Of the £239,895 collected by Company C only 3.8% was part payments whilst 96.2% were payments in full. This is also strong motivation for the company to pursue full payment rather than part payment to ensure they can then recover their fees.

Table 3: Summary of the number of accounts paid *excluding accounts written off, transferred or consolidated

Firm	Partial payment	Full Payment	Total Paid	Total Accounts*	Proportion paid
Company A	146	241	**387**	6,177	6.3%
Company B	147	242	**389**	6,525	6.0%
Company C	100	1,144	**1,244**	6,722	18.5%
HMCTS	347	244	**591**	5,148	11.5%
Grand Total	740	1,871	**2,611**	24,572	10.6%

Table 4: Summary of the number of accounts paid *including accounts written off, transferred or consolidated

Firm	Partial payment	Full Payment	Total Paid	Dropped Accounts	Total Accounts*	Proportion paid
Company A	146	241	**387**	671	6,848	5.7%
Company B	147	242	**389**	355	6,880	5.7%
Company C	100	1,144	**1,244**	247	6,969	17.9%
HMCTS	347	244	**591**	1,663	6,811	8.7%
Grand Total	740	1,871	**2,611**	2,936	27,508	9.5%

40. We can see from Tables 3 and 4 above that the number of accounts paid in full is comparable between Company A, B and HMCTS although HMCTS collected part payments on around 200 more accounts. One of the arguments presented by the companies was that they only had a small time period in which to get operational. The terms of the pilot contract also prevented them setting up from their own money collection systems which meant that they had to direct defaulters to pay using HMCTS payment methods. This was highlighted by the companies who claimed that potential payments were lost as people had to redial another number to make payment and are less likely to do this once they have hung up the phone.

41. Table 4 also shows how the processes and working practise of HMCTS is aligned to writing off accounts that are deemed to be hard to trace and collect. Arguments put forward by the companies during the pilot suggest that debt, no matter how old, can be collected due to the life cycle of people reappearing on credit reference agencies. Setting up processes to continually check and trace defaulters using these methods has the potential to lead to greater collection results over time. HMCTS currently does not have the resource or cost effective access to these systems and this leads to the current working methods that encourages debt to be cancelled at the point it can no longer be traced.

42. The companies claim to only cancel debt when it is fully established that it cannot be paid i.e. production of death certificate whilst current HMCTS policy

enables debt to be cancelled once debt is over 12 months old and is not able to be traced at that point in time using the limited tracing tools available.

Further Data Analysis

43. Whilst the results above show the effect that the companies had on the pilot accounts in terms of collection against the debt stock provided, the aim of the pilot was to gather evidence on: how the characteristics of aged debt have an impact on recovery rates; whether private companies can be more effective at enforcing debt than HMCTS and if so to what degree. The following sections discuss the methodology used to address these questions, the results of the analysis and the limits in the methodology.

44. The contribution of the analysis presented here to the aims of the pilot are:

- to understand what characteristics of the debtor accounts drive the enforcement rate of aged debt;

- to examine the relative effectiveness of private debt management organisations relative to existing HMCTS enforcement; and

- to identify any commercial drivers and constraints that might influence a national roll-out of aged-debt enforcement.

45. The data that were available against each account for analytical purposes were: the region where the account was imposed; the face value of the account; the age of the account; the firm that undertook the collection/enforcement action; and the debtor's personal characteristics (sometimes incomplete or inaccurate).

46. Of the 27,508 accounts, 2,936 were not included within the analysis owing to the accounts being either cancelled, consolidated into another account, or having had another account consolidated in during the pilot. Of these accounts 1,663 (57%) were accounts allocated to HMCTS at the start of the pilot. This raises concerns over the comparability of baseline HMCTS performance with other companies if cancelling of debt was found to impact significantly on collections.

Methodology

47. At the core of our approach a regression analysis was undertaken to analyse and quantify the impact of those factors which affect the likelihood of achieving partial or full payment of accounts. We used this model to explore a range of scenarios with (i) varying account portfolios and (ii) qualities of management information (MI) and to extrapolate the results of the pilot to a valuation of the total aged debt stock as of March 2012.

48. Differing enforcement powers and characteristics of the accounts worked (e.g. Company C did not work any accounts in London, the HMCTS sample contained a single account with a balance of £60,000) makes inferences around the relative effectiveness of the companies difficult, if not irrelevant. Instead the companies involved are split into two groups, each providing insights into the potential improvement in collections that could be achieved via two mechanisms: (1) enhanced enforcement (Company C); and (2) improved MI (Company A, Company B). The analyses of these mechanisms are outlined in detail below.

49. In both cases, the performance of HMCTS in the pilot is taken as our baseline against which improvements in value of collections by either mechanism are measured.

Results of further analysis

Drivers of enforcement rates

50. Table 5 below outlines those factors affecting the likelihood of achieving payment that were adopted in the final regression model. This model can be used to assess the relative effectiveness of the companies in comparison to HMCTS whilst holding other relevant factors constant.

51. From Table 5 we observe that the age of the account at pilot start has a moderate negative impact on the probability of receiving either partial or a full payment (i.e. the older the account at pilot start date the less likely it is that there will be full or partial payment). Regional effects are strong, with the likelihood of achieving full payment in all other regions being significantly higher than in London (i.e. the baseline region). An increase in account value results in an increased likelihood of partial payment, but a reduction in the likelihood of receiving a full payment.

52. The model suggests that there may be significant potential to increase partial and full payments through improvements to MI. We explore this impact further below.

Enhanced Enforcement

53. HMCTS and Company C benefited from comparable enforcement powers whilst neither appeared, based on their data returns, to invest in improving the quality of MI[6]. As a result we interpret the higher value of payments collected by Company C (reported below) as a measure of increased effectiveness in terms of enforcement. We quantified the increase in collections that would have been expected if both Company C and HMCTS had access to the total aged-debt sample accounts (i.e. to control for bias in the account samples allocated to each firm) and explored where within the sample of account any differences in collection amounts were located.

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[6] A survey of 485 accounts enforced by HMCTS suggested that fewer than 2% of address details were revised or improved. Company C reported an improvement to 3% of postcodes. Company B reported an improvement on approx. 24% of account address details.

Table 5: Summary of factors influencing likelihood of payment of debt (Note: *Regional impacts only are relative to accounts registered in London*)

Explanatory Variables	Impact on likelihood of partial payment	Impact on likelihood of full payment
Midlands	High (+)	High (+)
North East	Low (+)	Moderate (+)
North West	Moderate (+)	High (+)
South East	Low (+)	High (+)
South West	Moderate (+)	High (+)
Age at pilot start (years)	Moderate (-)	Moderate (-)
Account Amount	Moderate (+)	High (-)
Debtor Male	High (+)	High (-)
NINO Populated	High (+)	High (+)
Home phone populated	Moderate (+)	High (+)
Mobile phone populated	High (+)	High (+)
Date of Birth populated	None	Low (+)

54. Table 6 below presents the expected performance of HMCTS and Company C if they had been the only participant to manage the total aged-debt sample accounts at the start of the pilot. This was estimated as follows:

- For each account, the estimated probability of full payment, from the regression analysis, was multiplied by the value of the account to achieve the "full payment amount";

- For each account, the estimated probability of partial payment was multiplied by the value of the account and by 40% (the average proportion paid when account was partially paid) to achieve the "partial payment amount";[7] and

- The "full payment amount" and "partial payment amount" were summed for each account to get the total estimated payments for each account.

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[7] This figure was calculated from an analysis of all pilot accounts that recorded a payment of less than the full account amount

These total estimated payments for each account were summed across all accounts.

55. By modelling the potential performance of each firm on the total pilot sample of 27,508 accounts table 6 controls for the impact of any bias in the sample allocation. This is of particular note in the case of HMCTS where their total payments from the sample contained a single payment of approx. £60,000.[8] All modelled payment values are rounded to the nearest £1000.

56. From Table 6 improvements in payments as a fraction of total debt of 3.8% points could be achieved on the total pilot debt stock. Expressed as an increase in payment value this represents an increase of 49% on the HMCTS baseline (i.e. from £463k to £688k).

Table 6: Estimated payments if total pilot debt stock was allocated to HMCTS and Company C.

Firm	HMCTS		Company C	
Measure	Pilot Actuals	Model	Pilot Actuals	Model
Partial payments	£24,687	£266,000	£9,100	£90,000
Full payments	£100,095	£197,000	£230,795	£597,000
Total payments	£124,782	£463,000	£239,895	£688,000
Value of Total	£1,243,881	£5,954,974	£1,798,685	£5,954,974
% Enforced	10.0%	7.8%	13.3%	11.6%
Improvement	-	-	**3.3% points**	**3.8% points**

57. In support of this effectiveness gain Figure 1 demonstrates where this additional, modelled, revenue was located relative to the distribution of account value. HMCTS collected a disproportionate number of small fines relative to the distribution of the total pilot stock. For fines of over £200, Company C consistently outperformed HMCTS, receiving payments on accounts across all values.

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[8] We also recognise that 26% of accounts allocated to HMCTS for the pilot were cancelled or consolidated with other outstanding debt.
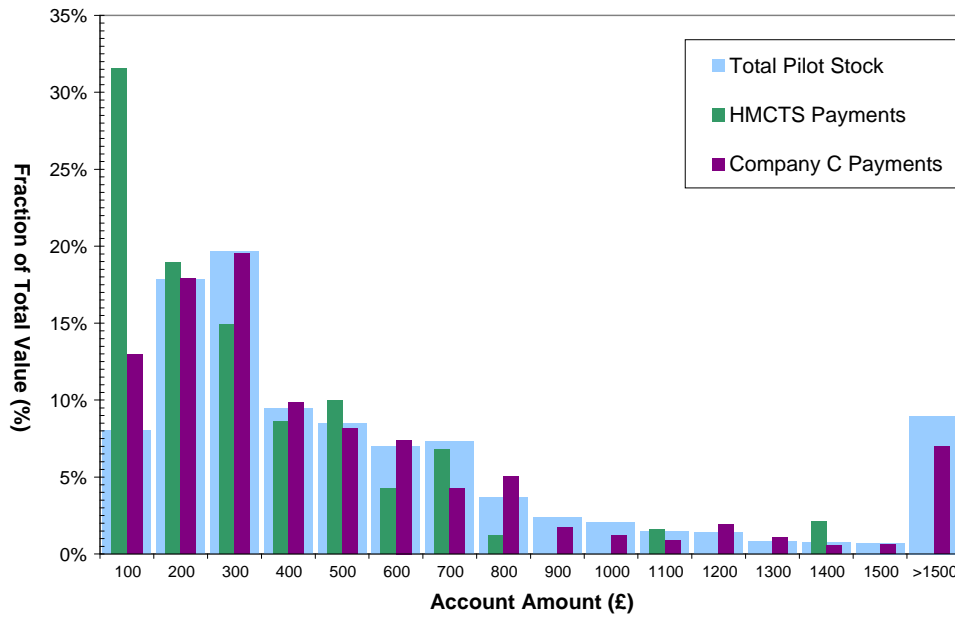
Figure 1: Comparison of percentage of total pilot aged-debt value or payments received by each firm by account amount (Note: *£60,000 payment made to HMCTS removed to prevent it dominating the percentage of total account value collected*)

Improved Management Information (MI)

58. As identified in Table 5 the probability of recovering a partial or full payment can be increased by having the offender's National Insurance number (NINO), home phone or mobile phone number fields populated. Significant improvements in this MI were achieved by Company A and Company B, having the potential to lead to enhanced payments if supported by requisite enforcement capability.

59. The improvements in MI are quantified by measuring the improvement in population of these key fields. The results of this are presented in Table 7. We note that data returns did not consistently report date of birth information therefore efforts to improve MI in this area cannot be measured.

Table 7: Improvements in MI achieved by Company A and Company B (Note(s): *Account improved implies that a change field was recorded, as distinct from populating a previously empty field. We assume that all changes represent improvements to MI*).

Field	Home Phone	Mobile	NINO
Populated (pre)	193	364	1026
Populated (post)	462	639	1183
% Accounts improved	**4%**	**4%**	**2%**
% Increase in identified	**139%**	**76%**	**15%**
Populated (pre)	218	438	1192
Populated (post)	697	919	1204
% Accounts improved	**7%**	**7%**	**<1%**
% Increase in identified	**220%**	**110%**	**1%**

60. In addition to filling in missing information, there is further potential to improve on existing MI. In their return Company B provided additional information as to where fields had been not only populated if blank but improved (e.g. correction of name, updated phone number etc.). Company B reported improvements to 24% of address details and 23% of postcodes. Analysis of the Company A data contained an additional 135 records with improved NINO. The analysis presented here (via table 7) therefore likely under-represents the improvements to MI made by Company A and Company B.[9]

61. Having measured the improvements in MI achieved by Company A and Company B we can use the model outlined above to measure the impact of this enhanced MI on the expected value of payments.

62. We simulate the impact on the expected payments from the total pilot debt stock if HMCTS or Company C were the firm responsible for collection of the debt. This makes the assumption that these companies made no improvements to MI during the pilot.[10] The results of this analysis are presented in Table 8.

63. From Table 8 we estimate that enhanced MI could have resulted in an additional 0.5%-0.9% of accounts being enforced during the pilot period. This translates into an increase in expected total payments of 8% on baseline (e.g. increasing from £688k to £742k in the Company C case).

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[9] Without further data-cleaning, a full analysis of improvements to MI is not possible.
[10] In practice Company C did improve the *Forename* field in line with the increases achieved by Company A and Company B, however they reported no improvement in any other MI fields. Furthermore, Forename was not identified as significantly impacting the likelihood of payment.

64. In practice the effects of enhanced MI would be expected to have significant additional benefits not measured by the pilot study. First we would expect it to support increased likelihood of payment for current-year impositions through supported compliance. Second, and in the longer run (i.e. beyond the 12 week pilot period), we would anticipate enhancement of data to continue, further amplifying the effect observed here.

Table 8: Expected recoveries for HMCTS and Company C based on total pilot debt stock with and without MI improvements achieved by other participating companies

Firm	HMCTS		Company C	
Measure	Baseline	Improved MI	Baseline	Improved MI
Partial payments	£266,000	£280,000	£90,000	£94,000
Full payments	£197,000	£215,000	£597,000	£648,000
Total payments	£463,000	£495,000	£688,000	£742,000
Value of Total	£5,954,974	£5,954,974	£5,954,974	£5,954,974
% Enforced	7.8%	8.3%	11.6%	12.5%
Improvement on HMCTS Baseline:			**3.8% points**	**4.7% points**

65. Care must be taken in assuming that a 'hybrid' firm, combining the effectiveness gains in both enforcement and MI would in practice emerge. Under resource constraints improved enforcement and MI may not be pursued to the extent observed in any of the pilot companies, here taken in isolation.

Implications for cancelling debt

66. The decision around which aged debts are more suitable to be cancelled, is in practice unlikely to be based (or, at least, not solely) on a measured probability of enforcement based on pilot conditions.

67. The companies in the pilot may not have had sufficient incentive to work equally on each account (there was no financial reward) and so companies may not have dedicated the same efforts to all accounts. This could bias the results in terms of determining which accounts cannot be enforced versus those accounts that would not be enforced. Second, although accounts that are older, from London and with poor quality or poorly populated data seem more difficult to enforce, it is not possible to accurately value the enforceable value of individual accounts.

68. There could also be a cost associated with cancelling debt in terms of the signal it could send to offenders. It is not clear whether this risk is outweighed by the resource saving associated with cancelling accounts. It may be more sensible to only cancel accounts after compliance and enforcement activity is found to be ineffective, as was the view of the participants in the aged debt pilot.

Summary

69. The data returned from the pilot supported the measurement of the probability of payment as a function of a number of account characteristics:

    a. *Age of the debt*: older accounts are less likely to be fully enforced than younger accounts;

    b. *Region where the fine was sentenced*: accounts originating from London are significantly less likely to be enforced compared with other regions;

    c. *Value of the fine*: higher value accounts are less likely to be paid in full but more likely to be enforced than lower value accounts; and

    d. *Data held on debtor*: identification of National Insurance number, home and mobile phone numbers increase the probability of payment.

70. The performance of the companies taking part in the aged-debt pilot suggest that the collection rate of aged debt can be improved via two mechanisms:

    e. *Enhanced enforcement*: Company performance in the enforcement of aged debt suggests that an additional 4% of accounts could be enforced, resulting in a 49% increase in expected total revenue.

    f. *Improved management information (MI)*: Only limited effects of improvements in MI could be measured over the duration of the pilot. However, models suggest that an additional 8% in expected total

revenue could be achieved with the level of MI enhancement reported by companies during the pilot.

71. These results should be considered indicative as they are based on a limited pilot period using a sample of around 3% of all aged debt accounts. The market value of the aged debt stock may therefore be different from the estimates above.

72. A significant caveat is recognised in that the different levels of experience and enforcement powers of pilot companies and the different sample allocations to each firm, compounded by the short duration of the pilot, make direct company against company comparisons unfair. Further to this, comparisons directly against HMCTS are hampered due to a significant number of accounts allocated to HMCTS for the pilot (approx. 20%) being cancelled or consolidated.

Recommendation

73. It is clear from the analysis above that using the tools and techniques that the companies have available will increase the number and value of fines collected and reduce the outstanding debt owed HMCTS. It is recommended that the methods used be adopted by HMCTS in order to increase fine collection and reduce outstanding debt.

74. If HMCTS does not have the resources or capital to provide these tools and techniques then consideration should be given as to the options of how this can be obtained including, but not exclusive to, working with companies such as those in the pilot to provide these services to realise the potential gains.