HM Government

Tackling Debt Owed to Central Government

An Interim Report of the Fraud, Error, Debt Taskforce

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Foreword

One of the reasons for the establishment of the Fraud, Error and Debt Taskforce was our concern about the level of losses due to uncollected debt owed to Government. Debt to Government arises in a number of ways: through non payment or late payment of taxes, fines, licence fees and other charges, or through payment of benefits and tax credits to which an individual may not have had the entitlement to that money.

During the latter part of 2011 the Taskforce worked with central government departments and their partner organisations to build a comprehensive picture of the scale and distribution of debt. We have been entirely focused on debts that have become overdue and need action to be taken in order to collect them as this is where we see the main opportunities for improvement. For the first time we have a clear picture of this debt, which has revealed that central government incurs losses in the region of £7-8 billion every year.

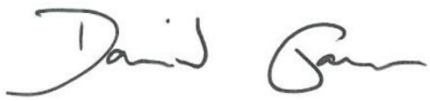
With an £81 billion deficit, we must drive down the levels of debt and the losses experienced by Government by becoming better and quicker at collecting it. Whilst there have been initiatives run by different parts of government to improve performance, we have been struck by the need for more join-up across the board and we believe there is much more that we could and should be doing. We want to use the Taskforce to make sure those Departments with a good track record in this area share their expertise, resources and data to help drive improvements right across Government.

Debt is a complex and emotive subject and so we must be mindful of the effects on those individuals and businesses that have fallen into debt. We recognise that there are those that are in genuine hardship, who may struggle to repay debts of any kind, including those owed to Government, and these are the people and businesses that need our support to help them get back on track. At the other end of the spectrum, there are those that deliberately avoid paying even when they have the means to do so and this is where we want to see consistently tough action to recover that money.

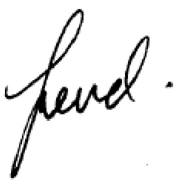
Through this report, and the work that will follow, we want to explore how we can improve both the efficiency and effectiveness of our debt operations. We want to build on existing good practice and look at new ways of working. In particular, we think there may be a case for introducing new commissioning models for debt, whether that is greater use of contracted services, amalgamation of functions or even looking at commercial models to run our debt operations. Departments are already shifting to a greater use of external services, whether that is data analytics; use of credit reference information or debt collection agencies as well as looking at ways of increasing the skills and support for those staff that perform the vital role of processing and collecting debt. We must continue on this path and strive to become best in class learning from those that do it well, whether that is local government, the private sector or even from other countries across the world that have devised innovative solutions to tackling debt.

It is time to make sure that money owed to Government is paid to the Exchequer so that it can be used in the right places for the benefit of all citizens. We are absolutely committed to recovering this money so that it can be used to fund our schools and hospitals and protect front-line jobs and services.

Rt. Hon. Francis Maude MP
Minister for the Cabinet Office and Paymaster General



David Gauke, MP
Exchequer Secretary to the Treasury



Lord Freud
Minister for Welfare Reform

Executive Summary

The Fraud, Error and Debt Taskforce was established in late 2010 as a high-level, cross-Whitehall group to address the enormous level of losses faced by Government. The Taskforce, supported by a panel of debt industry experts, has brought together expertise from the public and private sectors to look at the particular issue of debt owed to Government. The objective of these groups in the first instance has been to understand the scale and distribution of overdue debt and to develop a cross-government approach focused on greater collaboration and consistency that will help to reduce losses over the long term.

Driving down debt is one of the cornerstones of the Government's efficiency and reform agenda, which delivered £3.75 billion of savings in the last financial year and will be making a significant contribution to reducing the deficit over the course of this Parliament. These efficiency savings have come from eliminating waste and reducing spending in a range of areas such as procurement, ICT, marketing and property. The Cabinet Office is leading the charge on efficiency and now, alongside these areas, it will be extending its remit to drive a cross-Government approach to tackling fraud and error and better collection of debt.

Tackling debt owed to government is a complex area. Through the work of the Taskforce, we have sought to capture a snapshot of debt taken across the 2010/11 financial year. This has shown in the region of £7-8 billion of losses to Central Government. This is made up of the debt that Government had to write-off (including a large part due to those debts that have become irrecoverable due to insolvency) plus the effective cost of the interest on the stock of debt held by Government. 95% of the total stock fell into three main categories: tax debt, unpaid fines and repayments required on overpaid benefits and tax credits. Whilst the proportion of overdue debt is small compared to the £469 billion received by the Exchequer in tax, and the £191 billion of benefits paid out over the same period, in the current constrained fiscal environment, it is vital that we maximise the money available to the Exchequer to run vital public services and support those in society who most need our help. This is why the Taskforce is now bringing a new focus on debt.

This report signals a step change in the Government's approach to tackling debt. In the past, debt management and collection has been an activity that each Department has carried out individually. Debt can be reduced if we focus our efforts on identifying ways of preventing money becoming overdue. We must be more consistent in our treatment of debtors so that we ensure that we support those in greatest need and we must also take consistently tough action against those that avoid payment. We should also make our systems and operations work more effectively and efficiently through greater collaboration and integration.

Whilst Departments such as HMRC, DWP and Her Majesty's Courts & Tribunals Service have made substantial progress in tackling their debt, we must now go further. At the heart of this is taking advantage of the existing expertise, resources and data to create a truly cross-government approach. We must focus our efforts on recouping those debts that are both enforceable and recoverable and take steps to eliminate those debts that cannot be recovered.

In this interim report, the Taskforce has identified four priorities for tackling debt:

- **Prevention** – investment and resource should go into preventing debt becoming overdue, not solely into enforcement and sanctions. Where processes make it difficult to comply with payment, these should be redesigned and Departments should make use of techniques drawn from behavioural insights.

- **Fairness** - being fair to those that do pay on time by taking a proportional response to those that do not. This means tough action on those that avoid payment where they can afford to pay, whilst supporting those who genuinely need help, through arrangements for payment-by-instalment or an agreed deferral period. This might include new powers and funding arrangements such that more of the cost of collection is passed onto the debtor.

- **Efficiency** – silos must be removed; and opportunities taken to achieve economies of scale through aggregating functions and jointly procuring debt services such as data analytics and use of debt collection agencies where there is evidence that this will be cost effective.

- **Effectiveness** – ensuring that organisations are supported to maximise their debt management and collection activities through investment in staff, sharing information and by ensuring that Departments measure and report debt performance consistently and accurately.

Taken together, these priorities will help to not only collect more debt but also do this more fairly and efficiently. In this way, the Government's actions will help those individuals and businesses who need help in meeting their obligations and will deal appropriately with those who require tough action to compel payment.

The next stage of this work will be to complete three main activities:

i. Act immediately to ensure the best deal for Government through the negotiated single crown commercial framework contract for the use of debt collection agencies and establishing a similar arrangement for credit reference work for debt collection purposes and strongly promote these to Departments.

ii. Test the viability of new models that may alter the handling of debt across Government. This will build on the established practices in government as well as trialling new techniques and ways of working. Based on the results we will, by summer 2012, establish with Departments whether there is a business case for change.

iii. Bring consistency to the legal sanctions and hardship support for debtors by different departments to ensure fairness.

The Taskforce has made a good start in initiating a more concerted and joined-up approach to tackling debt and has already identified the proposals in this report to deliver against these goals. But this is only a start. Greater energy, collaboration and an approach that prioritises tackling debt is needed. This challenge will begin to be addressed over the next six months as the Taskforce moves to translating these proposals into final recommendations with a clear implementation plan.

Findings by the Taskforce

The Taskforce carried out a survey across central government departments, their agencies and arms length bodies to build a picture of the scale and distribution of debt as well as building a picture of how this is currently being managed. Organisations were asked to limit their reports to monies which were overdue for payment and needed action to be taken to collect them. This definition of debt is used throughout this report.

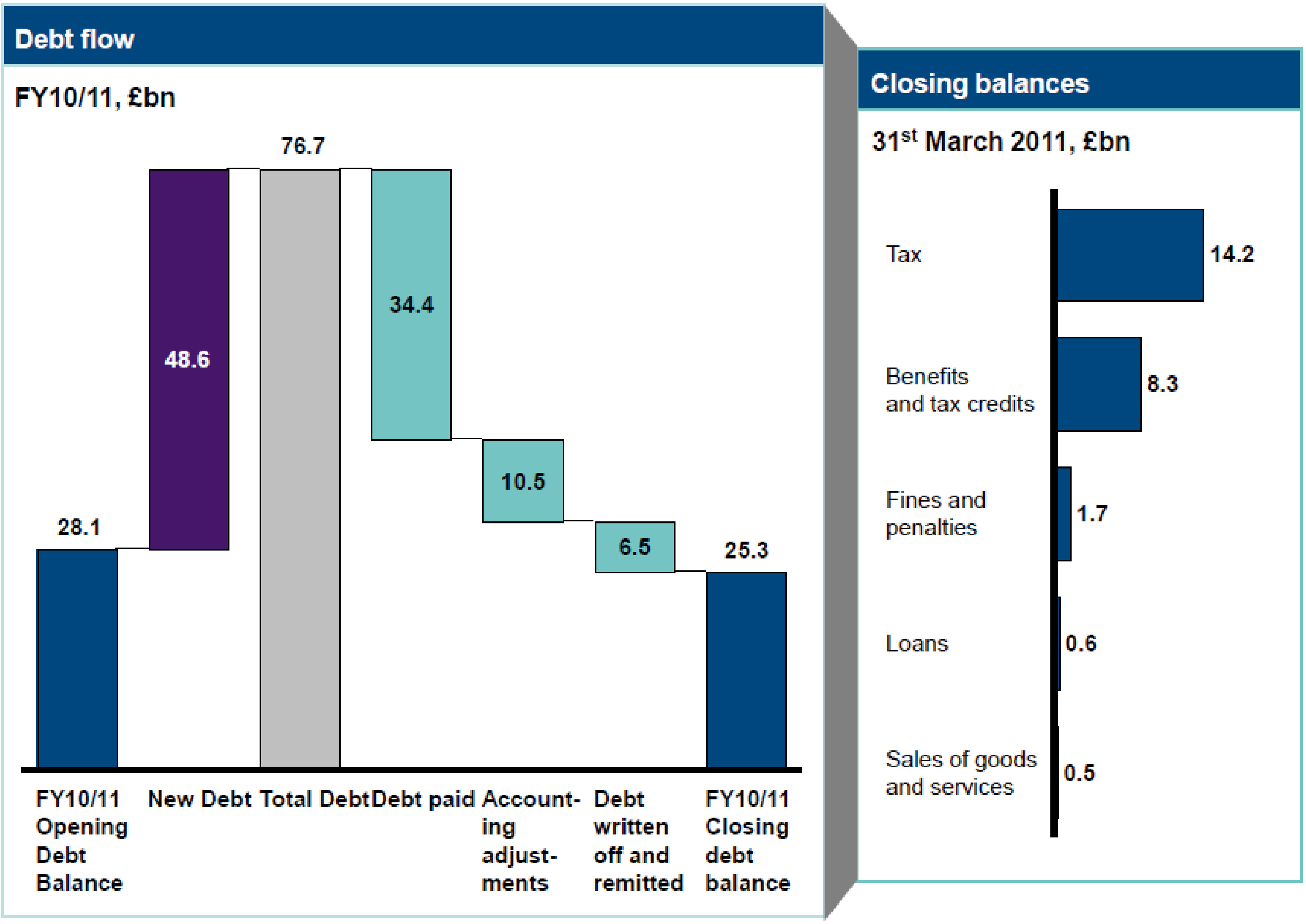
The National Audit Office analysed the returns provided by central government and cross-referenced these with the figures quoted in their published accounts and trust statements. This revealed that in the last financial year, central Government incurred losses of £7-8 billion. £6.5 billion of those losses were through writing-off debts, often due to businesses becoming insolvent making those debts legally unenforceable. A much smaller amount had to be written off through official error. Government also incurred losses due to the effective net cost of the interest on debt stocks.

This stock totalled £25.3 billion[1] at 31 March 2011. The majority of this debt was owed to the tax and benefits system but there were also significant debts relating to the non-payment of fines and a range of smaller debts owed to other parts of central government that had not received payment for their services or repayments against loans provided. The £25.3 billion total excludes tax under dispute where the value of the tax due has not yet been finally determined.

Figure 1 provides a snapshot of how much debt was created, paid, adjusted or written-off over the course of the last financial year.

[1] Cabinet Office Survey June 2011

Figure 1: Debt balances over the 2010/11 financial year and breakdown by type at 31 March 2011



It is important to note of the £25.3 billion identified as overdue, 54% of that total has an accounting provision set against it. In short, this means that the organisation responsible for that debt considered it unlikely to be collected. This can arise where there is an expectation that further accounting adjustments will reduce the balance. A provision can also be made because the debt has been overdue for a long period, because contact with the debtor may have been lost or because it is recognised that the debtor may not be able to afford to repay.

The survey also looked at the current arrangements for debt management and collection across central government. These ranged from those organisations with only 1 or 2 members of staff, who collect debts as part of their work in finance functions, to Departments like HMRC and DWP where there are dedicated debt management and collection functions that employ thousands of people. In total, there are around 13,000 civil servants working on managing and collecting debt in central government. These are often more junior staff responsible for casework, answering queries from the public as well as taking and processing payments. Many Departments also hold contracts with data analytic companies, credit reference agencies and with debt collection agencies, which often share the job of compiling and processing data, tracing debtors and collecting debts.

By building an overall picture of Government debt, the Taskforce can now focus on maximising the amount of debt that is recovered and ensuring that its scarce resources are targeted appropriately.

Progress to date

The Taskforce has welcomed the progress that Departments have made to date in improving their debt collection activities. A few examples are set out in this section and there are further examples of success in the section on ‘Proposals for Action’. These seek to illustrate that good practice not only exists but that there should be a greater sharing and adoption of those tools and techniques that work.

HMRC

During 2010/11, tax revenues totalled £469 billion. Of that total, £46 billion was paid late meaning that 90% of taxes were paid on time in 2010/11. HMRC has introduced a sophisticated ‘campaigns-based’ approach using detailed analytics to segment their debtors according to their payment behaviour and apply targeted strategies to maximise the amount of tax debt it is able to recover. During 2010/11 HMRC undertook specific initiatives to remove some estimated and automatically generated debt from within its systems, for example, penalties and assessments charged because the taxpayers failed to provide information at the right time. This has eliminated around £2 billion of debt that on subsequent receipt of that information was not shown to be due. This has allowed HMRC to focus more efficiently and effectively on that debt that is due and recoverable. HMRC has also been able to reduce the amount of debt by a further £1 billion by tackling some of its older debts and through improvements in the end-to-end processes that HMRC have applied in their debt management. HMRC’s debt balance includes £1.8 billion which is subject to ‘Time to Pay’ arrangements. These instalment arrangements help customers who are experiencing short term cash-flow problems get back up to date and pay off their tax in full. HMRC has made significant and sustained reductions in its debt balance (which includes tax credit overpayments) reducing it from nearly £26 billion in April 2009 to £19 billion in March 2011, since when it has continued to fall.

This progress has been achieved in the context of wider efficiency savings including a reduction of 8% in full time equivalent staff. HMRC has also increased its use of debt collection agencies in order to diversify its strategies for collection. HMRC plans to put around £1 billion a year out to agencies over the spending review period

Department for Work and Pensions

DWP has been working for a number of years to increase its debt recovery performance. DWP recouped £320 million of benefits overpayments in the last financial year compared to only £177 million in 2000. DWP has put increasing focus on identifying debt and is now embarking on an ambitious transformation programme to further improve and reform its debt operations. This will include establishing a Debt Controller role to provide the strategic direction for managing and collecting debt. The Debt Controller will be responsible for the development of a Departmental debt strategy, which will have a particular focus on segmenting debtors and identifying options for increasing recoveries and ultimately driving down debt levels. The transformation programme also aims to improve the customer experience of those with debts to the benefits system, reduce staff numbers within the debt process and use more with external suppliers. Overall this will achieve administrative savings of some £95 million between 2012-2021 whilst, at the same time, supporting further improvements in the total amount of debt recovered.

Since 2004, DWP has also been making use of debt collection agencies, placing £740 million out for collection with these third parties and is now looking at extending this approach as part of its wider transformation programme. DWP is also introducing changes within the Welfare Reform Bill that will allow more freedom to exchange data with other government departments and give DWP powers to make Direct Earnings Attachment orders, both of which will increase recovery rates and further drive down costs.

The introduction of Universal Credit will, over time, change the debt position in DWP by reducing the volume of new debt being created by allowing adjustments rather than creating overpayments. This will effect a larger proportion of routine debtors who will in future remain in receipt of Universal Credit and therefore reduce the current amount of debtors off benefit.

Her Majesty's Courts and Tribunals Service

Over the last three years Her Majesty's Courts and Tribunals Service has successfully achieved a 14.5% increase in collections of fines imposed by the Courts as well making an 11.5% reduction in costs in running the organisation. Last year, this meant HMCTS collected a record £282 million, £23.1 million more than the previous year. HMCTS has a clear strategy focusing on making people pay their fines promptly rather than taking enforcement action once the fine is overdue. HMCTS has increased the use of telephone and text messaging when contacting those with fines to pay. HMCTS has also successfully used intelligence tracing tools to make sure there are up-to-date contact details for debtors as well as increasing the use of sanctions such as deducting fines from benefit payments and recovering money directly from people's wages via attachment of earnings. This has had a knock-on effect on the number of distress warrants (where bailiffs recover goods from individuals up to the value of the fine).

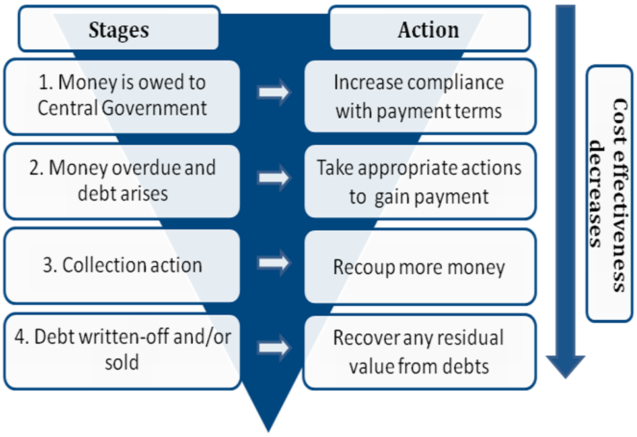
These reduced by 8% last year compared to year before.

Over the course of the spending review, HMCTS has an ambitious programme of reform to improve collection activities even further. This will include improving IT, automating bulk processes where possible and introducing a new business model, which could see HMCTS forming a partnership with a commercial company.

The Taskforce Approach to Tackling Debt

The Taskforce has identified that debt affects all Departments and that a common approach to tackling it should improve cash flow into the Exchequer as well as making long term efficiency savings. The Taskforce is focusing on two areas. The first is to maximise the collection of money through encouraging greater up-front compliance. This will increase the cost-effectiveness of recovery activities. At the same time, the Taskforce wishes to see a reduction in the amount of debt that progresses through to the final stage of enforcement action, write-off or sale, which can be expensive and does not provide good value-for-money. The proposals set out in this document cover the entire lifecycle of a payment as set out in Figure 2 and acknowledge that whilst cost-effectiveness dictates that prevention is better than cure, there will always need to be an appropriate set of sanctions and recovery powers to deal with individuals and businesses who have the ability to pay their debts but choose not do so.

Figure 2: Life cycle of a payment owed to Government



The Taskforce is not proposing a 'one-size-fits all' solution to tackling debt to government. There are many different types of debts and huge differences in the types of debtors, both in terms of personal circumstances and their reasons for not complying with the payment terms or those required by law. However, the Taskforce has identified a common set of principles (see Figure 3) that should be applied in tackling debt. Adoption of these principles will help to deliver improvements across central government.

Figure 3: Principles for tackling debt

- **Prevention** – investment and resource should go into preventing debt arising, not solely into enforcement and sanctions. Where processes make it difficult to comply with payment obligations, these should be redesigned and Departments should make use of techniques drawn from behavioural insights.

- **Fairness** – being fair to those that do pay on time by taking a proportional response to those that do not. This means tough action on those that avoid payment where they can afford to pay, whilst supporting those who genuinely need help, through arrangements for payment-by-instalment or an agreed deferral period. This might include new powers and funding arrangements such that more of the costs of collection are passed onto the debtors.

- **Efficiency** – silos must be removed; and opportunities taken to achieve economies of scale through aggregating functions and jointly procuring debt services such as data analytics and use of debt collection agencies.

- **Effectiveness** – ensure that organisations are supported to maximise their debt management and collection activities through investment in staff, sharing information and by measuring debt performance consistently and accurately.

Proposals

While progress is being made in each of these four areas, the Taskforce recommends that the Government continues to drive reforms that will deliver further savings. Based on the assessment of the Taskforce, there are a number of proposals that we have already identified against the four priorities. Where possible we have sought to illustrate each proposal with a case study showing examples of where this is already being done in central government either across a Department or through a pilot. The Taskforce will look to build on these examples as it identifies areas where potential savings could be made. We have also drawn on examples from Local Government, private sector and from overseas. The Taskforce will continue to explore these and other potential reforms in the coming months.

Priority 1: Prevention

Upfront prevention of debt and compliance with payment terms through having the right policies, processes and controls in place. To achieve this we will:

- Encourage Central Government to focus its investment in up-front compliance with payment terms, rather than in enforcement activities, to maximise value-for-money. In many Departments, it is clear that the focus of their debt management and collection activities is on enforcement actions against those that had failed to pay. There are already some good examples of where organisations have put systems in place to help their customers understand when and how to comply with Government requirements. One such example is Companies House, which has introduced reminders that are clearer on what they want their customers to do thus helping them to avoid penalty fines but also making use of communication channels suited to their business customers.

Case Study: Companies House reminds customers to file their annual returns and accounts

Whilst the compliance rate on filing accounts has increased to 92.5% for active companies, filing of annual returns had remained stubbornly low at 67.3% at October 2010. Companies House changed their annual return reminder letter so that the emphasis on delivering these on time was highlighted with a red banner over the enforcement message. Companies House has also introduced an e-reminder service which provides customers with reminders for accounts and annual return due dates to up to four e-mail addresses. Over 150,000 companies signed up in the first three months. These changes together have increased the compliance for filing annual returns up to 72.2% by October 2011.

- Encourage Departments to increase the number of methods by which debts can be paid. The survey found evidence that not every Department had the same payment methods available for those wishing to pay their debts, in order to make it easy for individuals to comply with payment terms. Her Majesty's Courts and Tribunals Service has already made changes in this area and this has helped increase payment of fines issued by the Courts.

Case Study: HMCTS makes it easier to pay fines.

Over recent years HMCTS has increased the number of methods by which payments of fines can be made. HMCTS now has in place a number of payment methods that make it easy for offenders to pay fines. These include cash payments using payment cards in Post Offices and Paypoint outlets and payment by credit and debit card both online and via a 24 hour telephone payment line. These payment methods are actively promoted by enforcement teams and offenders are directed to the methods that are most appropriate and convenient for them. These payment methods together now make up approximately 50% of all the payments received by HMCTS for financial penalties

- Consider how to apply techniques from behavioural science to help segment and target debtors appropriately. Over the last year, the Behavioural Insights Team (BIT) from the Cabinet Office has been working with a number of government departments, agencies and local authorities to test whether the application of behavioural insight techniques can encourage greater compliance with payment terms and will summarise this in a paper to be published in February 2012. Many of these interventions are relatively cheap and simple, requiring little up-front investment, and therefore can be very cost effective. Wider application of these techniques will help organisations to ensure their messages are clear, consistent and tailored so that customers know the consequences of non-payment but are also encouraged to pay promptly and engage early if they are facing problems in making the necessary payment(s).

Case Study: HMRC letters' trials

In February 2011, HMRC – supported by the Behavioural Insights Team – began a trial to establish the impact of altering the messages sent in letters to encourage tax debtors to pay tax owed. HMRC and BIT designed a suite of letters, which were sent to people owing Self Assessment tax debts for the first time.

The trial was on a large scale, comprising around 140,000 debts worth £290 million. The results were that letters which informed people that the majority of people in their area had already paid their tax, and which reminded people about the importance of paying tax for their local services, outperformed the control group letters by around 15 percentage points.

That is a significant result, which HMRC will be looking to apply in other areas of debt collection, and for fraud and error. HMRC estimate that if the most successful letters were sent to all self-assessment customers, and the tax collector resource freed up were used to bring in other uncollected Exchequer debts, it would generate £30 million of extra revenue to the Exchequer annually - as well as advancing over £160 million of cash flow by approximately 6 weeks each year.

- Support more widespread sharing of best practice so that all organisations can benefit from the expertise of those Departments which have demonstrated success in their debt processes. The survey identified that there is a lot of good practice in debt management and collection across Central Government, however, this is not routinely shared.

Case Study: Local Authorities sharing best practice

The London Revenues Group (LRG) consists of 33 London boroughs who work together to share good practice on council tax and business rates collection. It conducts regular surveys on collection issues, sharing the results and identifying examples of good practice and innovation. Examples of recent topics include agency staff pay, provisions for bad debt, bailiff fees, use of collection agents, e-billing, and data sharing.

In partnership with BACS Payment Schemes Ltd, the LRG recently held a £25,000 prize draw to attract people to pay their council tax by direct debit. Fifteen members of the LRG participated. The campaign delivered 34,500 new Direct Debit payers, and efficiency savings close to £345,000. The participating authorities saw a conversion rate to Direct Debit increase between 4% and 10%, and the average payback period on the small investment of £5,000 per authority was only 2.6 months.

Summary of proposals

The Taskforce will:

Encourage Central Government to focus its investment in up-front compliance with payment terms, rather than in enforcement activities.

Encourage Departments to increase the number of methods by which debts can be paid.

Where behavioural insights have shown to be successful, the Cabinet Office will ensure these are rolled out across Government.

Support widespread sharing of best practice so that all organisations can benefit from the expertise of those Departments which have demonstrated success in their debt processes.

Priority 2: Fairness

Take a consistent approach across central government to dealing with debtors. This should include supporting those individuals and businesses who are struggling to pay their debt and may need extra help, whilst isolating and taking a tough approach on those that avoid paying their debts when they have the means to do so. To this end, we propose to:

- Ensure consistent treatment in supporting those in genuine hardship who are struggling to manage and pay their debts. The Taskforce recognises that the majority of individuals and businesses are compliant in making their payments to Government on time. The Taskforce found that most Departments do have discretionary measures that they can use to support those who cannot pay either through setting up alternative payment arrangements, deferring payment or in the most extreme cases cancelling debts altogether. The Taskforce believes it is extremely important to be more consistent in these approaches and to adopt those systems that best support the debtor, whilst also recouping the money. The case study below sets out how HMRC has been supporting small and medium size businesses through its 'Time to Pay' arrangements. This has helped those businesses struggling in these tough economic times to meet their tax obligations without compromising these businesses' ability to continue trading.

Case Study: HMRC and Time to Pay

Whilst HMRC has always allowed payment by instalments for those in genuine hardship, in November 2008 it introduced its Business Payment Support Service (BPSS) to help small and medium-sized businesses needing more time to pay their tax bills. Covering most taxes, it allows the majority of those in difficulty to arrange to spread payments over an agreed period. By the end of June 2011, the BPSS had made about 444,400 Time to Pay arrangements, involving £7.7 billion of tax of which £6.7 billion had been received with the rest not yet due. Around 60 per cent of payments are spread across three months or less, with 80 per cent of arrangements for no more than six months. More than 90 per cent of the value of arrangements is being paid on time.

- Take a tougher approach to those that choose not to pay by ensuring consistency in the sanctions imposed on debtors so that they are appropriate and proportional to the type and size of debt. The Taskforce will support proposals for legislation to enable this. Many Departments reported to the Taskforce that they have a proportion of debtors who choose not to pay their debts even when they have the means to do so and in a small number of cases deliberately avoid payment. In order to be fair to those that do pay and to send out the right signals to those that do not, there must be a tougher approach to those that choose not to pay. This, in part, will require greater consistency in the sanctions imposed on debtors; however, this will also require legislation to enable a single complete view of the Government's debtors so that those customers who are running up debts across a number of Central Government organisations or even across one organisation (e.g. in the case of multiple tax or benefit debts) can be identified and targeted appropriately for enforcement action. A more joined-up approach will also allow greater use of existing systems that allow automatic collection of debts. For example, DWP, as set out in the case study below, collects a range of debts on behalf of other organisations by deducting set amounts from the ongoing payment of benefits. This not only helps those individuals to manage their debts but also ensures that the money is repaid.

Case Study: DWP deductions on behalf of other organisations

HMCTS now has enhanced access to DWP's customer database. This has helped with the identification of offenders who are suitable for 'deduction from benefit' orders. This is where the payment of court fines is deducted directly from the income of those on benefits up to a maximum value of £5 a week. It is intended to increase this amount to £25 once Universal Credit has been implemented. The number of these orders has increased doubled the financial year 2007/08. The information has also been useful in tracing where it was previously thought that they had 'disappeared'.

Summary of proposals

The Taskforce will:

Ensure consistent treatment in supporting those in genuine hardship who are struggling to manage and pay their debts.

Take a tougher approach to those that choose not to pay by ensuring consistency in the sanctions imposed on debtors so that they are appropriate and proportional to the type and size of debt.

Priority 3: Efficiency

Reduce the amount spent on debt management and collection whilst improving the amount of debt recovered, through identifying opportunities to bring together functions; creating economies of scale and ensuring that there are the right incentives on organisations to improve their performance. To this end, we plan to:

- Consider the case for bringing together debt collection operations where this will increase efficiency and effectiveness. Debt collection operations across Government often include many of the same processes and systems. The Taskforce will consider whether there should be an aggregation of debt functions. We should build on existing arrangements where debts are collected by another Department e.g. court fines being directly deducted from the income of those offenders who are benefits' claimants. The Taskforce plans to explore and analyse the potential benefits of a range of new and different commissioning models for managing our debt operations against the current arrangements. These models might include merging existing functions; creating an enhanced role for organisations to deal with debts on behalf of others e.g. via the PAYE or the benefits system; a new centralised enforcement body within central government to deal with the toughest debts; joint venture(s) with the private sector or greater outsourcing of debt functions where appropriate. This work will need to be underpinned by an improved approach to data sharing. For each model, there will need to be a careful assessment of the legal, funding, policy, ownership and accountability implications. We will learn from international examples where this has been done successfully as illustrated by the case study on Denmark and Canada.

Case Study: Denmark and Canada – a lesson in bringing together debt functions

Denmark and Canada have both amalgamated debt functions that were previously carried out by individual parts of Government into their respective tax authorities (their equivalent to HMRC). They both started with the premise that similar processes and types of collection were being made by different Departments and detailed analysis showed that there was potential for improved economy and efficiency through a merger of functions. In Canada, this led to the transfer of responsibility for collection of social program overpayments and defaulted student loans into the tax authority. The ownership and accountability of the debts still remains with the Department that issues the money but responsibility for the collection and enforcement of any debts is now in a single place allowing multiple debts to be collected in one transaction.

In Denmark, the tax authority collects all public debts owed to the Danish Government, which require additional action and enforcement. This includes all courts fines and municipal debts as well as welfare payments, student loans and tax debts. All creditor rights are transported by law to the recovery authority. The Danish tax authority has an array of sanctions available that relate to the different types of debts. However they have also introduced a single overarching sanction which allows them to carry out direct deductions from earnings, which can be applied to enforce any type of debt. The amount of deductions is automatically generated based on a simple assessment of circumstances e.g. level of earnings and number of dependants and is calculated for all debts that are owing. This has reduced the ability for debtors to avoid paying and has also removed the manual processes that were required to administer the payment of debts.

- Work with the Government Procurement Service and the Crown Representatives to make sure the whole of Central Government is getting the best deal from third party debt service providers. The survey showed that at over 30 different organisations hold contracts with Central Government providing data analytics, credit reference information, legal support and debt collection services including bailiffs. As part of the wider contract negotiations that have been led by the Cabinet Office, debt services' contracts should be negotiated on behalf of the Crown so that Government can maximise its buying power and support those organisations with smaller volumes of debt to get the best price. This approach has already been applied to debt collection agencies, where a framework contract open to the whole of Government already exists (see case study). The Taskforce would like to see this approach extended with other third party suppliers of data including credit reference information, technology and legal expertise. There should be consideration given to the type of payment model that is most appropriate as there are opportunities for greater use of payment-by-results.

Case Study: A single framework contract for debt collection agencies

HMRC has recently negotiated and signed a framework contract with 10 debt collection agencies, which the rest of government are able to use. This means that much smaller organisations will be able to benefit from the reduced commission rates that HMRC has secured because of the huge volumes already guaranteed under this contract. HMRC expects to put up to £1 billion per year of debt through these agencies over the course of the current spending round. DWP has confirmed that it will be using this contract to tackle the collection of overpaid benefits for those who are no longer claiming. Ten other government organisations have already indicated that they are considering using this contract once their current arrangements come to an end. HMRC will also be providing a contract management service for those organisations that have relatively small requirements for the DCA's services.

- Work with Departments to prevent unnecessary write-offs and to develop a consistent and appropriate approach to writing-off debts where it is clear that the money cannot be recovered. The survey identified that there was little consistency in how Departments differentiated between their recoverable and irrecoverable debt and the process by which they wrote off their debts. To help Departments segment their debt balances and maximise their recoveries, they will need the right tools: better data analytics; technology or expertise. The case study below illustrates how Her Majesty's Courts and Tribunals Service are already testing different methods to target their aged debt balances. For some Central Government organisations there are no means to write off any debts even where the likelihood of recovery is nil. Legislation may be required to address this. Even where a debt has to be written off there may be opportunities to recover any remaining residual value through mechanisms such as debt sale. This is not something that has previously been used by Central Government and so this is a further area that should be explored in the context of maximising money into the Exchequer

Case Study: Recovering Aged Debts

HMCTS is embarking on a pilot to tackle its 'aged debt' - those debts that are over a year old and have already been through enforcement procedures. HMCTS wants to ascertain the collectability of its debts. Each supplier will be provided with 7,000 randomly selected aged accounts to work with over a 3 month period. Each supplier will use a different combination of tools and techniques so it will be possible to see which work the best for that type of difficult to collect debt. This will not only have applications right across the HMCTS debt portfolio but across other parts of government, where the debt profiles may be similar.

- Work closely with HM Treasury to understand the incentive mechanisms available in the system to help ensure cost effective or cost-neutral reductions to debt levels. The case study below sets out how HMRC has secured funding as part of its Spending Review settlement in 2010 to invest in its systems and staff to increase the amount of money into the Exchequer.

Case Study: HMRC reinvesting £917 million to tackle the tax gap

In the spending review (SR) HMRC is required to reduce its spending by 25 per cent through increased performance and efficiencies. However Ministers have allowed HMRC to reinvest £917 million of these efficiency savings to tackle avoidance, evasion and fraud to realise a further £7 billion per annum in revenue protection and collection in the SR period.

Whilst the majority of the investment is being applied to compliance work, the remaining funding will be spent on a range of interventions designed to collect more debt. HMRC is applying innovative approaches using outbound contact centres, debt collection agencies and has recently introduced the recovery of debt through PAYE coding in order to collect more money. We expect an annual return on investment of around £0.5 billion per year by 2014/15.

Summary of proposals

The Taskforce will:

Consider the case for bringing together debt collection operations where this will increase efficiency and effectiveness.

Ensure the best deal for Government through a negotiated single crown commercial framework contract for the use of debt collection agencies, credit reference agencies and other debt-related services for debt collection purposes and strongly promote this to Departments.

Work with Departments to prevent unnecessary write-offs and to develop a consistent and appropriate approach to writing-off debts where it is clear that the money cannot be recovered.

Work closely with HM Treasury to understand the incentive mechanisms available in the system to help ensure cost effective or cost-neutral reductions to debt levels.

Priority 4: Effectiveness

Increase the amount of debt recovered through more intelligent use of data, better monitoring of debt and development for those staff responsible for managing and collecting debts. To achieve this, we propose to:

- Support the Operational Delivery Profession (OPD) which is made up of those people, and their managers, in Government who provide services directly to customers and the public. The OPD is encouraging the professional development of staff working in areas such as debt management and collection. Whilst the survey identified that over 13,000 civil servants work in this area it is apparent that many of these staff do not identify themselves as ‘debt collectors’ particularly in smaller organisations. Often, these staff are embedded in finance functions or are defined as ‘case-workers’. This has not encouraged sufficient focus or pride in the important job of recouping money owed to the Government. Within the OPD framework there is already a level 2 diploma in debt management and separate technical training modules which together form an accredited programme of training. The Taskforce has drawn on examples from the wider public and private sector to identify how best to improve the performance of those staff working in debt management and collection including industry bodies such as the Institute of Credit Management. The case study of Verizon, a major telecommunications company set out below, demonstrates that the key drivers of performance are the setting of clear standards for debt recovery work for staff at every level, clear objectives and targets, skills development, routes for career progression and accredited qualifications.

Case Study: Transforming debt management in Verizon

Verizon Global Enterprise is the global IT solutions partner to business and government, including 99 percent of the Fortune 500. Following various mergers, the company had ended up with multiple legacy finance systems - including approximately 40+ billing systems, and credit teams spread across Europe. The company set out to streamline and consolidate its systems to better support the business, and drive business success. However, in tandem, Verizon initiated a series of training programmes, designed to foster a culture of performance excellence amongst credit team members, and also to help with staff retention. The key objective was to challenge the view that credit management is simply a financial function, rather positioning it as professional business skill. Spearheaded by the director of finance at Verizon EMEA, individual training and development plans were introduced, including an allocation for

20+ hours of training for each employee per year. In addition, new training and qualifications were introduced that combine both specific debt collection skills with wider transferrable business-focused skills. Verizon reports that staff retention in credit management has vastly improved and that staff, through the organisation's staff survey, recognise the investment and emphasis on training and CPD.

- Consider the case for routinely sharing relevant information between organisations to help track down debtors. Central Government organisations individually hold data about those that owe them money. However, where that information is incomplete, they can struggle to recoup debts, particularly from those who are determined to avoid payment. Central Government could tackle this problem by removing barriers between Departments on sharing information. This would increase the accuracy and breadth of information, which ultimately will help recoup more money, more effectively. Organisations such as DWP and HMRC, who have the largest client databases, already operate tracing systems for other public sector organisations to access data on debtors and these services should be used more widely. The Taskforce is committed to removing barriers to sharing information and it will recommend changes to legislation where there are unnecessary legal barriers. Ultimately, this should help Central Government to improve its service to the public through fewer requests for the same information but also to tackle those customers who are running up multiple debts across organisations so as to allow more coordinated action. The case study below illustrates how Central Government is already sharing information using its existing systems to recoup debts effectively and this is the type of approach that the Taskforce will be looking to extend. The Welfare Reform Bill, when it is enacted, will allow greater sharing of information between HMRC and DWP which will mean that these Departments will be able to track individuals as they move between work and benefits so that collection of their debts to either department can be recouped.

Case Study: DWP and HMRC information sharing

DWP and HMRC undertook a very limited exercise using a small sample of their customers to identify where they overlapped. They compared data and found a 19% overlap where a debtor either had a debt with one department and a relationship with the other or a debt to both. They then ran an exercise where they asked those debtors who had a debt with HMRC and were in receipt of a DWP benefit, if they were prepared to repay that debt by deductions from their benefits on a voluntary basis. This resulted in around 20% of the debtors in the sample agreeing to repay and recovered an additional £61,000. The Welfare Reform Bill will allow this exercise to be repeated on a much larger scale.

- Work with Departments and the private sector to develop clear and transparent benchmarks supported by a consistent set of metrics on debt that will drive improvements in performance. These metrics should focus not only on bottom-line measures such as the amount of money recouped, but also on the efficiency and effectiveness of debt functions so that differences in the types of debt and debtor can be taken into account. The collection of debt data from Departments illustrated that there is no standard set of metrics or benchmarks that are used to manage or monitor debt. The Taskforce recognises that better measurement and monitoring of debt by individual Departments will in some cases lead to an increase in the levels of debt reported. This, however, should not be seen as a case of poor performance but rather as a starting point for driving improvement. These benchmarks will also support greater oversight and challenge from within Departments by Non-Executive Directors, Audit and Risk Committees and from the National Audit Office.

Case Study: Quarterly Data Summaries

The Cabinet Office introduced the Quarterly Data Summaries at the start of the 2011/12 financial year. These summaries require all Departments to report and publish management information across a wide range of categories from procurement spend to headcount. Within these, there is a requirement to report on levels of debt and debtor days. These metrics will require further refinement and monitoring to ensure that they are used consistently and routinely but should be an excellent way of monitoring debt figures in the future.

Summary of proposals

The Taskforce will:

Support the Operational Delivery Profession which is encouraging the professional development of staff working in areas such as debt management and collection.

Consider the case for routinely sharing relevant information between organisations to help track down debtors.

Work with Departments and the private sector to develop clear and transparent benchmarks supported by a consistent set of metrics on debt that will drive improvements in performance.

Section 3: Summary of Proposals

Prevention

- Encourage Central Government to focus its investment in up-front compliance with payment terms, rather than in enforcement activities.
- Encourage Departments to increase the number of methods by which debts can be paid.
- Where behavioural insight techniques are shown to be successful, roll these out across Government to help segment and target debtors appropriately.
- Support more widespread sharing of best practice so that all organisations can benefit from the expertise of those Departments which have demonstrated success in their debt processes.

Fairness

- Ensure consistent treatment in supporting those in genuine hardship who are struggling to manage and pay their debts.
- Take a tougher approach to those that choose not to pay by ensuring consistency in the sanctions imposed on debtors so that they are appropriate and proportional to the type and size of debt.

Efficiency

- Consider the case for bringing together debt collection operations where this will increase efficiency and effectiveness.
- Ensure the best deal for Government through a negotiated single crown commercial framework contract for the use of Debt Collection Agencies and Credit Reference Agencies for debt collection purposes and strongly promote this to Departments.
- Work with Departments to prevent unnecessary write-offs and to develop a consistent and appropriate approach to writing-off debts where it is clear that the money cannot be recovered.
- Work closely with HM Treasury to understand the incentive mechanisms available in the system to help ensure cost effective or cost-neutral reductions to debt levels.

Effectiveness

- Support the Operational Delivery Profession which is encouraging the professional development of staff working in areas such as debt management and collection.

- Consider the case for routinely sharing relevant information between organisations to help track down and deal with debtors.

- Work with Departments and the private sector to develop clear and transparent benchmarks supported by a consistent set of metrics on debt that will drive improvements in performance.

Section 4: Next Steps

The Taskforce has identified a significant opportunity to support the wider deficit reduction programme by improving the efficiency and effectiveness of its debt management and collection activities. There is still much work to be done on how best to do this but the Government, through this document, wishes to signal how seriously it takes this task. The Taskforce will report again before the summer recess in 2012 with a concrete set of proposals, setting out the timetable for the key actions.

This will require an in-depth piece of work to build the case for new approaches to debt. It will identify how we may want to alter the legal, funding, policy, ownership and accountability of how debt is managed and collected by Government. This will include how it supports those who genuinely need the Government's help and how to deal with those who deliberately avoid payment, where stronger enforcement action may be necessary. It will also work closely with organisations such as Civil Service Learning on implementing its proposals around optimising those staff across Departments whose responsibility it is to collect debts and will identify how Government can get the best deal from third party debt management and recovery suppliers.

In the coming months, the Taskforce will be working with Departments to run a range of pilots to identify the best techniques to maximise debt recovery. This will include further application of behavioural insight techniques across a wider set of debts and organisations in Central Government. There will also be other pilots testing a number of other tools and techniques. These include how best to collect aged debt and how different types of data and technology can best support the debt recovery.

Finally, the Taskforce will work closely with the Treasury and the National Audit Office to develop suitable benchmarks, drive consistency in approaches to managing debt and in ensuring that the right incentives are available in the system. The Taskforce will also continue to work with the Debt Expert Panel to ensure that it benefits from their in-depth knowledge, particularly that of its non-executive members who have experience of both private and public sector debt management and collection.

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