

STANDING UP TO BE COUNTED.

The skills that external debt collection agencies can bring to local authorities may be vital in weathering the current economic storm says Kurt Obermaier, Executive Director of The Credit Services Association

The thought of employing an external debt collection agency (DCA) to recover council money is an anathema to some who need persuading that the professional debt collection agency of today is a world away from the tarnished image of yesteryear. Whilst many councils are still comfortable using bailiffs, use of an external DCA is considered by some to be a step too far, with an inherent threat of losing control of the recovery process. But times have changed.

Many Local Authorities are now taking their lead from central government, looking to the example of such bodies as the Department of Work & Pensions (DWP) that has been using private collection agencies to recover overpaid benefits since 2003. Others within the public sector such as the Driver & Vehicle Licensing Agency (DVLA) and the National Health Service have similarly issued external tender documents for the collection of penalties and unpaid fees respectively. The examples are there for those who choose to look.

Local Authorities are using private collection agencies widely for all manner of collections from 'mainstream' to 'sundry' debts. These can be anything from former tenant arrears (FTAs) and council tax, through to commercial rates and unpaid fees.

There is no doubt that finance is becoming less readily available. As a consequence, pressure on cashflow is building, and the role of the credit department in keeping the cash flowing is becoming more critical than ever. The public sector in particular is watching its purse strings, and whilst it does not have all of the same pressures as commerce and industry, it nevertheless has to focus on cashflow to ensure its services are delivered on time and on budget. Improving cash flow means having a sound credit management strategy; a sound credit management strategy includes an informed policy on collections, and the possibility of engaging with external debt collection agencies.

But prejudices towards debt collectors still exist, and not everyone is convinced. So what are their concerns?

First and foremost is the fear of losing control, and the need to protect one's reputation. More than half of those questioned (55%) in a previous survey conducted by the CSA state the key reason for NOT employing an external debt collection agency is the fear of losing control when employing a third party, and not having control on what is done and said on their behalf.

Second on the list of concerns is one of cost. Senior management employ credit controllers or departments to stop debts occurring in the first place. To employ an agency therefore, in their minds at least, is doubling

up on costs. It is in effect paying for the same 'service' twice – and would mean admitting that their own collections team has 'failed'.

Nothing could be further from the truth. Employing a third party to collect debts – and specifically a member of the Credit Services Association – does not mean losing control, or putting ones reputation at stake. Far from it. Members of the CSA adhere to a strict Code of Practice. There are specific procedures and rules that these members follow with teams dedicated to a specific task – and that is recovering debt.

CSA members are professionals. Their business, their training, and their ambition is all about achieving results for their customers. It is their focus. It is their raison d'être. It is not a bolt-on service to other services that they may undertake. It is core. Their methodology is one of engaging the debtor, not confronting them. It is this collaborative approach that reaps better results, and maintains the creditor/debtor relationship for the future.

Unlike practically any other industry, agencies are only paid on results. Whilst certain legal firms may operate a 'no win no fee' service in specific cases, in the debt collection industry, no win no fee is pretty much accepted as the industry standard. Clients, therefore, have quite literally nothing to lose and everything to gain.

Increasingly, credit managers are measured on what are called DSOs (Days Sales Outstanding); most will have a specific DSO number that has been reached, and their performance – and often their reward – is based on achieving this figure. Far from indicating 'failure', the market for debt collection continues to grow because organisations are increasingly recognising how agencies should be utilised as an integral part of a credit management strategy.

The credit crunch has some time left to run, which means greater pressure on the public sector to maximise resources, and being sympathetic to the needs of its 'customers'. That means keeping an open mind and learning from the private sector. And in terms of keeping the cash flowing, that means actively looking at what the private collections agency have to offer.