

Accounts Written-off in 2017

Date:	May 28, 2018
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

The purpose of this report is to inform the Toronto Public Library Board of accounts written-off during 2017 under delegated authority provided to the City Librarian. Accounts written-off are predominantly comprised of customer accounts purged by the Integrated Library System (ILS). For 2017, \$869,064 of accounts were purged, which represents a small increase of \$28,614 or 3% from the prior year.

FINANCIAL IMPACT

In 2017, customer accounts totalling \$869,064 were purged and written-off by the ILS, which represents a small increase of \$28,614 or 3% from the prior year, and is 12% below the five-year annual average. Declining fines revenue over the past five years, a trend being experienced by nearly all public libraries, is the primary reason for the relatively lower purge amount.

As fines are recorded as revenues only when actually received, which is standard practice in public libraries, the write-offs are not shown as a loss in the 2017 operating results. The operating budget is only based on customer fines that are actually expected to be collected during the year. This accounting practice for fines has been reviewed with the external auditors and the Auditor General.

The Director, Finance & Treasurer has reviewed this financial impact statement and is in agreement with it.

ALIGNMENT WITH STRATEGIC PLAN

TPL's 2016-2019 strategic plan priorities include breaking down barriers to access and driving inclusion by removing systemic barriers, especially for families and households living in poverty. In March 2016, the Board approved reducing fines that act as a barrier for service. TPL will continue to be fiscally responsible while delivering relevant, accessible and responsive library services and supporting Council priorities.

ISSUE BACKGROUND

The *Public Libraries Act* is based on a principle of free library services. Toronto Public Library's mandate is, above all, to preserve and promote equitable, universal access to information and high-quality services and programs, in a welcoming and supporting environment.

The practice of charging customers fines for overdue or lost items is covered in the Circulation and Collection Use (including Fees and Fines) Policy, most recently approved by the Board at the meeting on May 15, 2017. Fines are charged as an incentive to encourage return of library collections on time. When an item is lost or damaged, a replacement charge is assessed based on the original invoiced cost, regardless of the age or condition of the lost item or whether that item is replaced in the collection. A pre-due notification email process was introduced in 2013, which allows customers to better manage their accounts. In April 2018, pre-due notifications became the default notification preference, rather than the opt-in feature, for all customers with email.

The purging of fines, which is a system write-off of fines that are deemed to be uncollectible, is standard business practice for libraries and serves very practical and pragmatic business and financial purposes. Purging is covered in the Circulation and Collection Use (including Fees and Fines) Policy, which sets two criteria for the regular annual purge of outstanding account balances from the ILS database:

- when the last use of the library card is more than two years and the total balance owing is less than \$100; or
- when the last use of the library card is more than five years and the total balance is greater than \$100.

The Library purges fines only after taking all of the following actions to collect accounts:

1. Borrowing privileges are suspended as soon as:
 - a. \$30 of fines is owing; or
 - b. 15 items are overdue.
2. Telephone or email notifications at seven days and 21 days overdue.
3. Final mail notice with account billing and collection agency warning.
4. Adult accounts over \$10 are referred to a collection agency, with instructions for the customer to contact the Library to clear their account. The collection agency does not collect payments. Only if a customer contacts the Library and resolves their account, which includes a collection fine of \$5 to \$15, does the collection agency get paid a percentage of the amount collected.
5. Only when all these measures have failed, and a minimum number of years have passed (two years for accounts less than \$100 and five years for accounts greater than \$100), are the accounts purged from the system.

Fines Collection

Since amalgamation, the Library has focused on and significantly improved its fines collection processes, policies and procedures to achieve the complementary objectives of customer retention, operational efficiency and fiscal responsibility. Careful consideration has been given to the policies established and resources allocated to achieving these goals. Literature and experience of the Toronto Public Library and other library systems across North America, have shown there is a point of diminishing returns as more punitive fines or penalties do not necessarily increase revenues collected, and have, in fact, been shown to have detrimental effects on both the financial and business performance of the Library as customers choose not to pay fines or return materials, and may even stop using the Library altogether.

Significant changes have been made in the area of fines collections following the introduction of a single ILS in 1999 that allowed a common database of library collections:

1. Immediately after amalgamation, the circulation and fines policy was harmonized.
2. Benchmarks were developed to monitor the amount of fines collected and the amount waived, and the benchmarks are essentially being met.
3. Cash registers were introduced to approximately 50% of the branches, which had never used cash registers, so now all branches have registers. As part of a technology innovation project, in 2018, TPL will be replacing the cash registers with point of sale machines that are integrated with the ILS, which will lead to increased accuracy and efficiencies.
4. Detailed cash-handling procedures were harmonized and performance benchmarks developed.
5. Extensive staff training has been provided on how to deal with customers on fines collection and cash handling, and how to use systems and equipment.
6. Copy cards and point-of-sale machines were introduced to reduce cash handling and to facilitate payments, which also serve to reduce account write-offs.
7. Fines were introduced for holds not picked up, interlibrary loans and for digital equipment.
8. Use of a collection agency was introduced in 2003 to deal with uncollected adult accounts greater than \$50. In 2012, use of the collection agency was extended for uncollected adult fines over \$10. At the time when the collection agency option was being assessed, an environmental scan showed that TPL already had one of the most stringent collections processes for overdue and lost items fines.

Since 2003, using the collection agency for uncollected accounts has resulted in cash collection of \$2,667,317 net of the collection agency commission and \$3,013,028 of collections returned.

9. Fines rates for children and adults were significantly increased in 2012 and then partially rolled back in 2016 when it started to present a significant barrier to service.
10. New lower fines were introduced for teens and young adults to reduce barriers.
11. A system enhancement in late 2013 allows customers to pay fines on-line that will further reduce cash handling and staff intervention. In 2016, the on-line payment service fee was eliminated.
12. As part of a technology innovation project, in 2018 and 2019, TPL will introduce the ability for customers to pay fines at self-checkout stations.

COMMENTS

Section 19.1 of the approved Financial Control Policy authorizes the City Librarian to write-off outstanding accounts of \$10,000 or less owing to the Library as uncollectible provided that reasonable efforts have been made to collect the outstanding amount. Any single account balance greater than \$10,000 would need Board approval for write-off and there were none in 2017. Below is a five-year summary of total write-offs:

Total Write-Offs						
Type of Fine	2013	2014	2015	2016	2017	Annual Average
Fines for past due	240,711	704,566	458,096	383,881	406,784	438,808
Lost Materials	286,667	707,282	513,392	396,970	392,433	459,349
Referral fees	24,999	197,122	84,749	59,184	69,846	87,180
Total Purged	552,377	1,608,970	1,056,237	840,035	869,064	985,337
Other write-offs		701	176	414	-	
Total write-offs	552,377	1,609,671	1,056,413	840,449	869,064	

Since 2011 there have been a number of significant changes made to fines rates and structure and the expanded use of the collection agency, which resulted in unusual fluctuation in purges over the 2013 to 2014 period. The 2017 purge totalling \$869,064 represents a small increase of \$28,614 or 3% from the prior year, and is 12% below the five-year annual average. The increasing use of e-materials, which incur no fines, and the lower fine rates implemented in late 2016 are expected to result in lower fines revenue over time. However, by making it easier to pay fines online and at self-checkout terminals, this could help to mitigate the declining fines trend.

Lost items purged in 2017 totalled \$392,433 and represents 45% of the total purge. It should be noted that the purge value represents the original purchase value of the lost items, and the

market value for the lost item may be significantly less than the purged amount because the lost item is in circulation and its value has depreciated over time with use. The estimated number of lost items purged is 29,700 items, which represents 0.10% of the total annual circulation of 30,098,890. In other words, 99.90% of all items borrowed are returned.

	2013	2014	2015	2016	2017	Annual Average
Fines purged*	552,377	1,608,970	1,056,237	840,035	869,064	985,337
Number of accounts purged	44,708	69,559	53,678	46,338	46,115	52,080
Average account balance	12.36	23.13	19.68	18.13	18.85	18.43
* children & teens fines purged	242,989	218,905	298,645	250,507	252,593	

The average customer account balance purged is \$18.85, which is relatively unchanged from the previous year. It should also be noted that of the amounts purged in 2017, \$252,593 or 29% was owed by children and teens, whose accounts are not sent to the collection agency.

CONTACT

Larry Hughsam; Director, Finance & Treasurer; Tel: 416-397-5946;
Email: lhughsam@torontopubliclibrary.ca

SIGNATURE

Vickery Bowles
City Librarian