

## **Accounts Written-off in 2015**

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| <b>Date:</b> | May 30, 2016                 |
| <b>To:</b>   | Toronto Public Library Board |
| <b>From:</b> | City Librarian               |

### **SUMMARY**

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The purpose of this report is to inform the Toronto Public Library Board of accounts written-off during 2015, which are predominantly comprised of accounts purged by the Integrated Library System (ILS) in accordance with the approved policy. For 2015, \$1,056,237 of accounts were purged, which is above but still in line with the five-year annual average. The 2015 purge represents a decrease of \$552,733 or 34% from the prior year, though the 2014 purge amount was unusually high for reasons explained in the Accounts Written-off in 2014 report.

### **FINANCIAL IMPACT**

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In 2015, customer accounts totalling \$1,056,237 were purged and written-off by the ILS, which is above but still in line with the five-year annual average. A Fines Forgiveness Campaign, which is part of the City's Poverty Reduction Strategy, resulted in fines of \$0.126 million being forgiven in branches serving Neighbourhood Improvement Areas (NIAs).

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 on the 2015 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.

### **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 March 21, 2016. 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.

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 serve 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 once:
  - 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 \$40 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 \$15 collection fine, does the collection agency get paid a percentage of the amount collected.
5. In 2012, a small balance program was introduced and applied retroactively, that sends adult accounts between \$10 and \$40 to the collection agency; previously, these accounts over two years old would have been purged after going through all the processes above. A \$5 collection fee is also added to the account.
6. Only when all these measures have failed, and a minimum of two additional 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 that 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 materials 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.
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. Between 1999 and 2012, adult fines had doubled and children's fines had quadrupled.
8. Use of a collection agency was introduced in 2003 to deal with uncollected accounts. 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.
9. In 2012 additional collections measures were implemented as the threshold for sending an account to the collection agency was reduced from \$50 to \$40 and the referral fee for engaging a collection agency on an account was raised from \$10 to \$15. In addition, a small balance program was introduced to recover outstanding accounts between \$10 and \$40, with a \$5 referral fee.

Since 2003, using the collection agency for uncollected accounts has resulted in cash collection of \$2,080,750 net of the collection agency commission and \$2,688,944 of collections returned.

10. From 2012 up to 2015, fines rates were based on the nature of the materials borrowed rather than the type of library card held.
11. New fines were introduced in 2013 for inter-library loans and for holds not picked up.
12. A system enhancement in late 2013 allows customers to pay fines on-line which will further reduce cash handling and staff intervention.
13. A new fine for digital equipment was implemented in mid-2014.

### **2016 Changes to Fees and Fines**

The Circulation and Collection Use (Including Fines and Fees) Policy – 2016 Review report at the March 21, 2016 Board meeting, noted that while fines revenues did increase in 2012, there was a 10% revenue decline in 2013 due to factors such as changing customer behaviour, partially in response to higher fines, more options for customers to manage their accounts to avoid fines, and increasing use of downloadable materials for which there is no late fee. Revenues continued to decline in 2014 and negative impacts on library registration and usage also became evident.

The 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. At the March 21, 2016 meeting, the Board adopted a number of recommendations for changes to the fines and fees structure and rates to achieve strategic outcomes of equitable and inclusive service. The changes included a return to a fines structure based on the age of the cardholder rather than age designation of the materials being borrowed, as this will provide incentive for child and teen membership. Also included, were reductions in the fines rates for all customer age categories, especially for children and teens to create equitable access to barrier free library service and to encourage library use. An environmental scan of other major public library systems showed that TPL fines were among the highest in North America. Reduced rates, which are more reflective of the industry standard, can encourage customers to borrow again by reducing the fear of fines.

### **2014 Purge**

The Accounts Written-off in 2014 report noted that the 2014 purge amount of \$1,608,970 was unusually high due to a number of reasons, including the significantly expanded use of the collection agency beginning in 2012, account purges which were delayed from 2012 to 2014, and generally higher customer account balances resulting from higher fines. An analysis of write-offs over 2010 to 2014 showed an annual average write-off of approximately \$0.948 million.

## **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 2015. Below is a five-year summary of total write-offs:

#### Total Write-Offs

| Type of Fine            | 2011           | 2012           | 2013           | 2014             | 2015             | Annual Average |
|-------------------------|----------------|----------------|----------------|------------------|------------------|----------------|
| Fines for past due      | 276,616        | 275,408        | 240,711        | 704,566          | 458,096          | 391,079        |
| Lost Materials          | 559,841        | 367,336        | 286,667        | 707,282          | 513,392          | 486,904        |
| Referral fees           | 43,083         | 33,139         | 24,999         | 197,122          | 84,749           | 76,618         |
| <b>Total Purged</b>     | <b>879,540</b> | <b>675,882</b> | <b>552,377</b> | <b>1,608,970</b> | <b>1,056,237</b> | <b>954,601</b> |
| Other write-offs        | 1,940          |                |                | 701              | 176              |                |
| <b>Total write-offs</b> | <b>881,480</b> | <b>675,882</b> | <b>552,377</b> | <b>1,609,671</b> | <b>1,056,413</b> |                |

As explained in this report, in 2012 there were a number of significant changes made to fines rates and structure and in the expanded use of the collection agency, which resulted in unusual fluctuation in purges over the 2012 to 2014 period. The 2015 purge totalling \$1,056,237 is considered a more expected amount, which is above but still in line with the five-year annual average. Note that impact of the reduction in fines rates approved by the Board earlier this year, expected to be implemented in the fourth quarter of 2016, will impact uncollected fines to be purged in 2019 (for accounts less than or equal to \$100) and 2022 (for accounts greater than \$100).

Lost items purged in 2015 totalled \$513,392 and represent 50% 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 39,000 items, which represents 0.12% of the total annual circulation of 32,505,963. In other words, 99.88% of all items borrowed are returned.

|                                 | 2011    | 2012    | 2013    | 2014      | 2015      | Annual Average |
|---------------------------------|---------|---------|---------|-----------|-----------|----------------|
| Fines purged*                   | 879,540 | 675,882 | 552,291 | 1,608,970 | 1,056,237 | 954,584        |
| Number of accounts purged       | 45,099  | 49,144  | 44,708  | 69,559    | 53,678    | 52,438         |
| Average account balance         | 19.50   | 13.75   | 12.35   | 23.13     | 19.68     | 17.68          |
| * children & teens fines purged | 276,687 | 259,549 | 242,989 | 218,905   | 298,645   |                |

The average customer account balance purged is \$19.68, which is a bit higher than the rolling five-year average, likely due to higher fines rates as well as new fines implemented in 2012 being purged mostly in 2014 with a residual effect in 2015. It should also be noted that of the amounts purged in 2015, \$298,645 was owed by children and teens, whose accounts are not sent to the collection agency. As noted earlier, the changes in the fines structure in 2012, which resulting in fines being charged by material type rather than card type, resulted in

significantly fewer children cards, which helps to explain why the children and teens fines purged in 2014 and 2015 are relatively lower.

### **Fines Forgiveness Campaign**

In 2015, Council approved funding for TPL to implement a Fines Forgiveness Campaign as part of the City's Poverty Reduction Strategy. A forgiveness campaign can help to overcome the barrier and provide these individuals with access to library print and downloadable materials, digital services like the Digital Innovation Hubs, and cultural experiences, like the Museum & Arts Pass Program. The initiative advances the new strategic priorities of breaking down barriers to service and driving inclusion, and serves as a temporary measure until the reduced fine rates are implemented in the fourth quarter of 2016.

In 2015, fines totalling \$0.126 million were forgiven in branches serving NIAs and 3,144 customers were involved. The campaign has been successful in encouraging customers to use their library cards again as after their accounts were cleared, 2,643 participants, or 82%, went on to borrow over 140,000 items. The waived amounts will lower the purge in future years.

### **CONCLUSION**

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 which act as a barrier for service. As the Strategic Plan objectives are implemented, TPL will continue to be fiscally responsible while delivering relevant and responsive library services and supporting Council priorities.

### **CONTACT**

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### **SIGNATURE**

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