Appendix 'A'

Performance Indicator Recovery Plan

Performance Indicator Description: Average Days Taken to Receive Payment	
Year End Target Within Commercial Norm (45 to 60 days)	**Current Performance** 55 days (April to June 2013)

Introduction

Approximately **200,000+** debtor invoices are raised on behalf of the County Council each year and this volume has remained constant for at least the past 3 years. The value of these debtor accounts has also remained fairly constant over this period with an average value of **£300m** per annum being invoiced.

Debt is treated in 2 distinct elements ;

- **Care Debt** - debt which has been raised in respect of the provision of social care.
- **Corporate Debt** - all other debt of the council.

The commercial norm is to receive payment for outstanding debt between 45 and 60 days. Lancashire's performance is currently at 55 days and therefore although performance has deteriorated over the past 2 years, recovery times remain within the commercial norm.

Care Debt

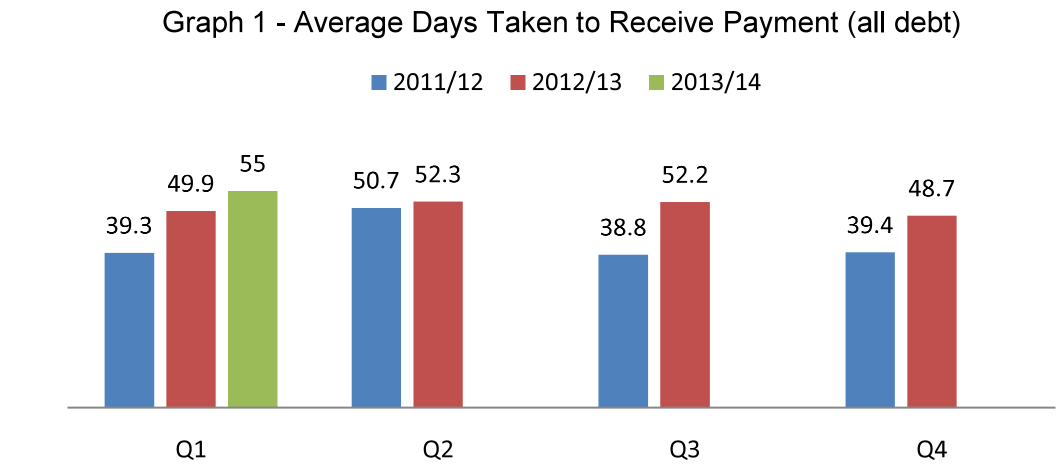
Although 'care debt' only makes up approximately 20% of the value of the 'total debt raised per annum' it consists of approximately 80% of the total number of invoices. It is care debt which is the most difficult debt to recover due to the volumes and the sensitive nature of the debt and although the volume of care debt has increased, the level of outstanding care debt more than 180 days old is only 2.6% of the total income raised and this is within an accepted commercial norm.

Non- Care Debt

For non-care debt, the average recovery time is 49 days which is well within the commercial norm. As non-care debt accounts for over 80% of the value of debt that the County Council recovers this means that most of the County Council's debt is recovered well within the commercial norm.

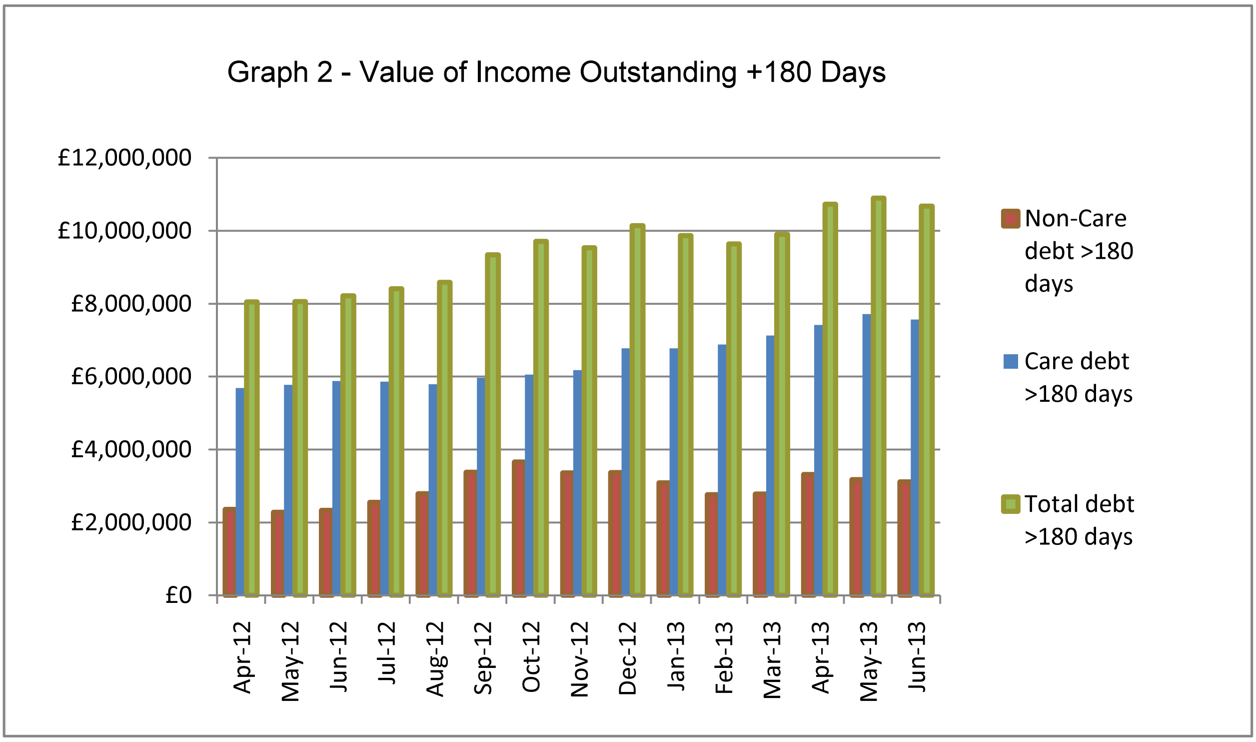
Why is this indicator under-performing?

Whilst current performance is within the commercial norm there has been deterioration in performance over recent years and a review is considered appropriate to establish what measures can be taken to stop any further deterioration and improve on the position. An analysis of performance is set out in Graph 1 below;



The indicator provides a very basic measure of the average payment period for invoiced income. It converts the value (£) of outstanding invoices at the end of each month (the debtor balance) into an equivalent number of collection days based on the average daily collection rate being achieved. This is an accepted methodology.

An analysis of income outstanding for more than 180 days has been carried out to illustrate how debt is increasing and this is set out below in Graph 2.



The graph above shows that the increase in the value of debt older than 180 days predominantly relates to care debt. The rate of non-care arrears is relatively stable at between £2.5m and £3.5m which equates to approximately 1.3% of the total value of the non care debt raised per annum. This level has been constant over the past 4 years (though it has been subject to 'problem spikes' usually as a result of external forces such as the recent transfer of PCT's to CCG's).

The level of care debt has increased over recent years and this can be directly linked to a change in policy in April 2010 which saw residential care providers being paid at the gross amount and the County Council becoming responsible for collecting the client contribution. Prior to this, care homes were paid the net amount and had to recover the client contribution themselves. The direct outcome has been a significant increase in the value and volume of invoices being raised by the County Council and subsequently an increase in debt levels. This in turn has impacted on the performance indicator. It is however worth noting that the level of outstanding care debt more than 180 days old is equivalent to 2.6% of the total care debt in any one year and this is well within an accepted commercial norm.

A new invoice is raised every month to each service user and there are currently 35,000 invoices in the system relating to 8,500 clients. Each invoice not paid within 35 days automatically becomes an outstanding invoice.

Care debt is more difficult to recover as it involves vulnerable people. In some instances the recovery of care debt is dependent upon the sale of a property and this can significantly increase the length of time it takes to recover the debt. The majority of these cases are managed by the County Council's legal department.

What actions are required to put it back on track? What action will be taken?

It is clearly in the interests of the County Council to ensure income due for chargeable services is realised at the earliest opportunity, not only to aid cash flow but to minimise the resources consumed in collection activity and reduce the risk of non-payment escalating into bad debt and the need for subsequent write off.

Although recovery times are within the commercial norm there are a number of actions that can be taken to improve this further and these actions may also impact on the more difficult to collect care debt. The actions outlined below feature within the County Treasurer's 2013/14 Business Plan and centre on the implementation of a Debt Management Strategy explicitly targeted at maximising the volume and value of income recovered within 30 days. Delivering against this objective will reduce both the average payment period and the value of invoices +180 days whilst simultaneously reducing the volume of outstanding invoices;

1. **The development and implementation of an updated Income and Debt Management Policy,** to be effective from January 2014 which;-
    - Incorporates elements of commercial best practice appropriate to local authority circumstances (credit checks, payment in advance, timely invoicing, regular monitoring, swift remedial action, cessation of discretionary services)
    - Recognises the discrete types of debt which face LCC and targets effort and resources specifically and effectively at their underlying causes in an effort to ensure debt is raised appropriately in the first instance.
    - Improved management information which shows a more accurate position of unsecured debt and taking into account external factors that cannot be influenced by the County Council, i.e. the time it takes to settle deceased estates. This is particularly important for care debt.
    - Provides a clear framework for effective income and debt management which educates service departments about the actions they should be taking locally to minimise the number of invoices which turn into debts in the first place. Best practice includes securing payment up front and ceasing to provide further discretionary services to clients who are in arrears.
    - Incorporates a fully revised and updated debt recovery and write off procedure

2. **Debt Collection**

A number of actions are being taken to improve debt collection times including;

- Re-tendering of the County Council's Debt Collection Services which is due to go live in December 2013. The contract is designed to operate in a competitive environment rewarding collection success and developing added value through a collaborative partnership approach with our internal Debt Team.
- Consideration of paperless direct debits as a means to secure direct debit payment agreements immediately (whilst in discussion with the debtor by phone) thus removing the opportunity for default associated with the current requirement to exchange paperwork by post.

3. **Reporting**
   Reporting information from the Oracle 12 system could be improved which will enable more effective recording and reporting of outstanding debt for follow up. Key reporting weakness that have been identified and which will be addressed are;-

   - Accurate and up to date information at business unit level and at client level
   - Report of debt at strategic levels in the organisation.
   - Streamlined mechanism for reporting debt at client level. The current process is inefficient and focusses on individual invoices rather than grouping at individual debtor level.

4. **Educating Budget Holders on their responsibilities of effective income management**
   Work is underway with budget holders that sets out their responsibilities in relation to income and debt management. Budget holders will be asked to consider where debt occurs, if there are alternatives to reduce debt, i.e. direct debit or on-line payments and to monitor debt levels as part of their monthly monitoring process. A review of the write off process is also being carried out to speed up the write off process should debt be deemed to be irrecoverable or uneconomical to pursue.

   True local accountability for effective income management is dependent upon the availability of appropriate information at business unit level. Efforts to increase awareness and ownership of debt by individual budget holders will need to focus on making income management part of the normal budget monitoring cycle.

5. **Partnership working with the Benefits Assessment Team**
   There are steps within the current assessment process which appear to exacerbate the level of outstanding care debt. For example, the criteria used to assess whether a client is eligible to pay for their care does not take into account the level of 'other debts' the client currently has. This may result in an inaccurate position of affordability being made and subsequently invoices being raised which the client is just 'not able' to pay and which eventually get written off. Other Local Authorities have fairly recently changed the criteria against which they assess clients and this will be considered as part of the review.

6. **Utilising the legislative powers available to Local Authorities to recover debt**
   Some debts prove extremely difficult to collect and it is in the interests of the County Council to use the legislative powers available to best effect. Discussions are under way with other local authorities on their experiences of using the powers available (including section 423 of the Insolvency Act where clients have deprived themselves of capital by giving away assets). Findings will inform a review of the number and type of cases currently being taken forward for action by LCC Legal Services and the rate of collection success being achieved.