**Appendix 'B'**

**Performance Indicator Recovery Plan**

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| **Performance Indicator Description:** Debt Owed to the County Council |
| **Previous Period (September 2014)**£30.34m | **Current Performance (December 2014)**£37.44m  |
| **Introduction / Context** 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.

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. The majority of debt owed to the County Council is from within 6 months. The graph below shows the breakdown of debt according to how long it has been outstanding. However it is clear that the longer the debt is outstanding, the harder it is to collect. It is therefore important that significant focus is placed on recovering debts as early as possible in the cycle.**Why is this indicator under-performing?**This indicator has increased over the last quarter due to the following factors:* Typically each year there is a spike in outstanding debts in October due to invoices raised by schools at the start of each academic year. In September 2014 24,000 invoices (£30m) were raised compared with 15,000 (£11m) in August 2014. These will generally be paid on an instalment basis by parents for services such as school transport and school dinners. When a debt exceeds 35 days it becomes an outstanding debt and therefore all those debts that were raised on an instalment basis result in a large increase in the outstanding debt total, even though they are not considered a problem debt.
* The use of direct debits is a critical factor in the debt collection process. The Authority continues to encourage debtors to agree to be set up for payment via direct debit as the probability of recovering debt is substantially higher when using this payment method. The use of direct debits means less use of the Debt Team resource to chase debts, as it is more likely that it will be paid. In September 2014 the direct debit take up rate for care was 58.27%, whereas in December 2014 it was 57.29% and has now fallen to 54.72%. The direct debit take-up has been affected by the implementation of the replacement care systems and more information is provided later in the report. A performance indicator has been introduced for County Benefit Service to increase direct debit take-up
* Care debt continues to be the primary reason for increases in the outstanding debt amount. The Authority on average each month has £0.4m debt that is unpaid. The work that is taking place to improve debt management systems, processes and initiatives such as paperless direct debits and more timely assessment processes will result in a reduction in clients not settling their accounts.

An increase in the value of care debt arrears has been a steady trend since March 2010. It was at this point that a change in policy transferred the risk for care arrears (the non - payment of invoices for residential care costs) from care providers to LCC. Previously, LCC had paid residential care homes net (only paying for that part of any care package not funded by service user contributions) and suppliers billed service users direct for their contributions. The new approach involved paying providers gross which ensured they received 100% of the agreed rate, but simultaneously transferred risk and responsibility for recovering service user care contributions to LCC. The direct outcome has been a significant increase in the value and volume of invoices relating to social care charging and a deteriorating care arrears situation.A new invoice is raised every month to each service user assessed as able to make a contribution to their care costs. Each invoice not paid within 35 days automatically becomes an outstanding invoice and is transferred to the debt team for collection action. |
| **What progress has been made since the last report presented to Cabinet Committee on Performance Improvement (CCPI) in October 2013?** |
| In October 2013 a Performance Indicator Recovery Plan was presented the CCPI relating to the average days taken to receive payment, but also contained details about the position on outstanding debts owed to the County Council. This report identified a number of actions that needed to take place and provided deadlines. Whilst good progress has been made in achieving some of the action points, the complexity of the implementation and the dependency on other key parts of the business has meant that implementation has been slower than expected. Full completion of all activity (except a paperless direct debit capability) is however scheduled and on track to be completed by June 2015 and this is set out below;**Internal Audit Team Review**Subsequent to the report to CCPI, a review of processes and working practices was carried out by the Internal Audit Team and from this it was agreed with the County Treasurer's Management Team that the areas of focus were;* Development of a Corporate Income and Debt Management Policy
* Charging Policy for Care
* Development of Debt Strategies and subsequent re-configuration of IT systems
* Direct Debit Take Up/Financial Assessment Process
* Paperless Direct Debit
* Clarification of roles with Legal Services

These were broadly in line with the expectations set out to CCPI but provided greater depth on the activity that would be required. At that time it was clear that in order to have effective debt management strategies in place the timescales involved may take longer than originally envisaged.1. **Development of a Corporate Income and Debt Management Policy**

A draft Income and Debt Management Policy has been completed and shared with the Management Team. The policy aims to:* Incorporate 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)
* Recognise 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.
* Improve management information which shows a more accurate position of unsecured debt and taking into account factors 'out of our control', such as the time it takes to settle deceased estates.
* Provide a clear framework for effective income and debt management which moves towards working with and educating services to ensure basic requirements are complied with when raising debt in the first instance.
* Incorporate a fully revised and updated debt recovery and write off procedure

Following comments and feedback from Management Team and a final version of the policy will be signed off by June 2015.1. **Charging Policy for Care**

The requirement for an updated charging policy for adult social care reflects the need to publicise changes brought about through the County Council's implementation of the Care Act and to better explain and support prospective service users preparing to receive care services (funding care, undergoing a financial assessment, making payments where a contribution is required, advising the County Council about changes in circumstances). A new charging policy for care will be developed as part of the County Council's timetable for the implementation of the Care Act and will include information on how payment methods that limit the potential for an increase in new debt (promoting/incentivising Direct Debit, deferred payment arrangements) and preventing payment arrears from escalating (early intervention on non-payment).1. **Development of debt strategies and subsequent re-configuration of ICT systems**

In October 2013 details were provided in the report that significant development work was required within Accounts Receivable in Oracle R12. This would enable greater automation of processes, appropriate differentiation for different types of debts and debtors and provide better reporting information on debt for various different stakeholders. A substantial amount of work has been completed to make sure that the system design and other elements such as letters, statements and emails, reports and even design principles for the post that a debtor will receive (one envelope per debtor) are giving the County Council what it needs to manage debt efficiently and effectively. The design and project planning of this work strand has taken longer than anticipated due to the complexity of the different types of debt within the County Council. This stage was considered fundamental in ensuring that the County Council is able to maximise the effectiveness of its debt recovery processes and maximise the benefit from our financial systems. The debt strategies have now been agreed and signed off by a newly established Debt Management Programme Board and the re-configuration of the ICT systems is currently underway by BTLS. A recent key milestone of sign off for the design stage has been completed and the new debts strategies are now being built. A significant testing phase has been built into the project plan to provide assurance that the new system is working as anticipated. The go-live date for the new system is June 2015. In addition, an initial piece of work has been completed by BTLS in relation to paperless direct debit capabilities with a statement of requirements completed. This work is currently on hold as it is dependent on the new debt strategies functionality. It will resume once the new strategies are in operation from June 2015.1. **Direct Debit Take-Up/Financial Assessments**

A key factor in the collection of care debt is the take-up of direct debits. All clients are encouraged to sign up to a direct debit mandate in order that care debt can be collected promptly. Direct debit take up has started to fall over recent months and is largely attributable to the implementation of the care systems replacement that went live in June 2014. Issues in implementing the new system resulted in some incorrect bills and consequently some clients cancelled these. A significant amount of work has been in place to overcome the issues of the systems implementation and we are now in a position where there is greater confidence in the billing and therefore it is hoped that more clients will chose direct debit as the preferred method of payment.The speed of financial assessments is also another key factor in ensuring that clients are aware of care costs as early as possible and that they are charged accordingly. Since the last CCPI meeting, the financial assessment team has transferred back to the County Council from the previous strategic partnership, OCL, and work is underway to ensure that effective processes are in place. This work will continue over the next few months.1. **Paperless Direct Debits**

An initial piece of work has been completed by BTLS in relation to paperless direct debit capabilities with a statement of requirements completed. This work is currently on hold as it is dependent on the new debt strategies functionality. It will resume once the new strategies are in operation from June 2015.1. **Clarification of the role of Legal Services**

Timely and effective legal action is a critical part of effective debt management and requires the processes and procedures supporting the identification, referral and management of cases to be as efficient as possible.As part of the development of debt strategies which will bring greater automation to the collection process, the need to ensure appropriate cases are referred to Legal Services in a consistent way has been identified. Discussions have been held with Legal Services to develop standard processes for cases to be referred.1. **Appointment of a new external Debt Collection Agency (DCA)**

A new external contract for Debt Collection Services was awarded to Rossendales in June 2014. 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. Referral to external agencies currently only includes non-care cases with flow controlled by the Debt Manager as part of his planning and delivery of an effective collection strategy. The initial feedback on progress to date has been positive with over £50k of debt recovered in recent months from cases that were considered to be challenging due to their age and type. There is also scope for greater success once the ICT solution to debt strategies is implemented. |
| **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 required for collection activity and reduce the risk of non-payment escalating into bad debt and the need for subsequent write off.The actions outlined set out in the previous section and below feature within the County Treasurer's 2014/15 Business Plan and centre on the implementation of a new Income and Debt Management Policy explicitly targeted at maximising the volume and value of income realised and therefore reducing the levels of outstanding debt. In addition to the ongoing work set out earlier in the report, the following actions are also underway;1. **Establishment of the Debt Management Programme Board**

In order to build on the momentum achieved to date and to ensure that the work undertaken achieves the required outcomes, a Debt Management Programme Board has been established. This contains representatives from Financial Administration, Internal Audit and BTLS. The aim of the Board is to provide a robust control and decision making function to ensure that the different work strands relating to debt management are working towards the same key objectives and clearly identify where they impact on each other. The Board is chaired by the new Head of Exchequer Services.1. **Additional Resources allocated to the Debt Management Team**

As the new systems and processes are being developed it is necessary for some of the existing data to be cleansed and ensure that resources can be targeted to those debts that are truly recoverable. A "cleanse and migrate" process is required for older debts prior to migrating them into the new debt strategies system. Cases will either be immediately identified (against set criteria) as appropriate for write off and the correct authorisation sought or will involve telephone contact with the debtor to ascertain current circumstances and form a decision on whether the invoice should be assigned to a new strategy, referred to the DCA or Legal Services for recovery action or be recommended for write off. Given the scale and the volume of transactions this is not considered to be achievable within the current resources. Additional temporary resources have been agreed and the appointment process has just been completed and this extra resource will now start to have an impact in reducing the amount of debt outstanding to the County Council.1. **Utilising information technology to improve collection success**

Internal processes within the debt teams have been reviewed to ensure workflows are efficient and support the changes made within the ICT systems. The success of the changes to the ICT systems will ~~be~~ therefore be further enhanced by the changes in the ways of working within the team and the ability to analyse data more effectively and efficiently to provide quality management information. The successful achievement of the go-live date for the new debt strategies system will result in significant improvements in the debt management process:* Effective debt reporting to be produced at an appropriate level of detail, by client and in a timely manner.
* Improved and more automated debt collection strategies resulting in an overall greater automation of the entire debt collection process. This will include progressing debt through to debt collection agencies, legal action and write off. The redesign of the debt strategies will result in a greater differentiation between cases within Accounts Receivable which will assist in prioritising/targeting collection effort more effectively.
* Improved letter and email templates to be distributed to debtors
* Enhanced printing and enveloping procedure that will collate letters in certain circumstances consolidate summary information and create statements. This should result in debtors receiving clearer information on the debt that they owe to the County Council.
* Use of automated Oracle workflow functionality to manage internal invoice query resolution, freeing collector resources.
* Movement towards paperless direct debits wherever possible 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 of paperwork by post.
1. **Increased resources available to Budget Holders**

Budget Holders are a critical part of the process for recovering debts as they raise the invoice and often have the relationship with the debtor. In order to assist Budget Holders in recovering their debts, additional reports and guidance have been produced to support budget holders. These include;* Regular summary and detailed information on unpaid invoices for their service area
* Toolkits that provide "how to" guides and useful information targeted at budget holders

**CONCLUSION**A significant amount of work has been undertaken since the last Recovery Plan was presented to CCPI in October 2013, however, the scale and complexity of the work involved has meant that progress has not been as fast as anticipated. The original scope of work has been widened to incorporate more transformational activity to improve work processes and enable systems to support more effective and efficient working practices which will have greater longer term benefits for the Council. Much of the detailed work is now complete and once the ICT systems have been re-configured to support the newly designed and transformed processes it is anticipated that the County Council will have, by the end of June, effective income and debt management policies and processes in place. It is important that the work carried out to date continues to be monitored on a regular basis to ensure the required outcomes are achieved and progress will be monitored through future budget monitoring reports. |