

## **Cabinet Committee on Performance Improvement**

Meeting to be held on Monday 25<sup>th</sup> July 2016

### **Report of the Head of Exchequer Services**

Electoral Division affected: (All Divisions);
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#### **Debt Management**

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#### **Executive Summary**

In October 2013 a Performance Indicator Recovery Plan was presented to Cabinet Committee on Performance Improvement due to the high levels of outstanding debts owed to the County Council.

The levels of outstanding debt continue to be high with particular difficulties in collecting debts that are over 6 months old and a high number of debtors who do recurrently not pay their debts despite being chased by the Debt Management Team.

A significant amount of work has taken place over particularly the last 12 months to put in place process, IT systems and policies that aim to increase the debt recovery rates over the next 12 months.

#### **Recommendation**

The Cabinet Committee on Performance Improvement is asked to review and comment on the report.

### **1. Background and Advice**

In October 2013 a Debt Management Performance Indicator Recovery Plan was presented to the Cabinet Committee on Performance Improvement (CCPI). This report identified a number of actions that needed to take place and provided deadlines.

Further reports were provided to CCPI in March and July 2015 which provided updates in relation to each action point, with the majority being completed by July 2015. The action points that were presented and discussed are set out below:

- 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

## 2. Outstanding Debt Position as at 31<sup>st</sup> March 2016

Over the past 5 years the outstanding debt position of the County Council has continued to increase and is still a significant problem that requires attention. This is an area that has regularly been reviewed by Management Team and Members through reports to Cabinet Committee for Performance Improvement and as part of the quarterly Quality of Service Report.

The increasing problem relates to those debts that are over 6 months old (180 days) and also care debtors that recurrently do not pay their debts to the County Council.

Debts that are over 6 months old are commonly referred to as a "bad debt" and therefore a bad debt provision is held in relation to these debts due to their increasing probability of non-payment. The creation of the provision is as a result of a charge being made to the billing service's revenue budget. In addition the County Council is experiencing a high number of debtors who recurrently do not pay their debts, particularly on Adult Social Care despite being chased by the Debt Management Team at the County Council.

The position for outstanding debts for the County Council as at 31<sup>st</sup> March 2016 is as follows:

Age of Debt	Corporate Debts (£)	Care Debts (£)	Total (£)
731 Days +	1,738,855	5,640,994	<b>7,379,849</b>
366 – 730 Days	1,200,890	4,135,755	<b>5,336,645</b>
181 – 365 Days	999,161	3,201,496	<b>4,200,657</b>
121 – 180 Days	704,251	1,312,147	<b>2,016,398</b>
91 – 120 Days	312,867	687,452	<b>1,000,319</b>
61 – 90 Days	1,024,259	680,459	<b>1,704,718</b>
31 – 60 Days	6,021,825	1,092,879	<b>7,114,704</b>
1 – 30 Days	13,942,104	1,926,965	<b>15,869,069</b>
<b>Total</b>	<b>25,944,212</b>	<b>18,678,147</b>	<b>44,622,359</b>
<b>Total Invoices</b>	<b>10,067</b>	<b>47,335</b>	<b>57,402</b>
<b>Total Debtors</b>	<b>6,098</b>	<b>10,558</b>	<b>16,656</b>

The table above demonstrates that the County Council has significant levels of debt over 6 months old (Care £13.0m, Corporate £3.9m). As a debt becomes older the probability of collection reduces, and it is therefore good accounting practice to hold a bad debt provision to mitigate the risk of debts being written off. Debts are written off for a variety of reasons, most commonly when a company goes into

administration or is insolvent, but also in other circumstances that mean it would be uneconomical to pursue a debt.

As mentioned above the County Council puts funds aside for those debts that are older than 6 months (180 days). The Bad Debt Provision has been rising over recent years in line with the increasing aging profile of the County Council debt stock.

### **3. Update on Debt Management Performance Indicator Recovery Plan**

#### **a) Development of Corporate Income and Debt Management Policy**

The Debt Management Policy, Processes and Responsibilities (2015) document was approved by the Deputy Leader in April 2015. This was subsequently supported by the new Accounts Receivable IT System in July 2015.

The policy stated that there would be no use of external agencies or court action for care debts, but this is a possible course of action for corporate debts. This decision was taken due to the vulnerability of some of the service users/debtors that would be within the care debt category of debts.

When the policy was approved it was agreed that it would be reviewed in October 2015 and any required amendments would be made. As part of this process it became clear that the Income and Debt Management Policy, Processes and Responsibilities did not give the Debt Management Team or the County Council the tools and techniques to be able to chase care debts effectively and assertively. There are a number of outstanding care debtors who are recurrently choosing not to pay their outstanding debts for services provided by the County Council and therefore the policy must be revised to try to rectify this issue. It is important to note that these debtors are not all service users, it is common for others (such as family members) to act on their behalf in relation to financial matters.

The Care Act 2014 (which become operational from 1<sup>st</sup> April 2015) guidance notes state that it is an option of a Local Authority to refer an outstanding debt to County Court if all other options for repayment have been explored with the debtor. In reviewing and benchmarking against other Local Authority debt policies that we have been able to access, the majority make reference to referring cases to external agencies and court action where necessary.

The revised Income and Debt Management Policy, Processes and Responsibilities (March 2016) removed exclusions to refer outstanding care debts to external agencies and taking court action.

The new policy states that when all other debt recovery options have been exhausted by the Debt Management Team that a referral is made to the County Council's Legal Services who will make an application to the County Court if applicable. Each case will be reviewed in detail prior to referral to Legal Services, as it is acknowledged that those debtors contained within the care debt category could contain some vulnerable service users and there could be a high degree of sensitivity surrounding the debtor. As a final resort a referral will be made to a

Debt Collection Agency (again following a review process assessing the sensitivity and vulnerability of the debtor).

### **b) Charging Policy for Care**

The non-residential charging policy is currently being revised to link to the revised Income and Debt Management Policy, Processes and Responsibilities and also changes that are required in order to achieve increased income for the County Council as part of the budget savings programme. This will be subject to review by the County Council's Finance, Commissioning, Adults Services and Management Teams prior to going forward for Member approval and any necessary periods of consultation.

### **c) Development of Debt Strategies and subsequent re-configuration of IT systems**

The new Accounts Receivable System went live in July 2015. The system provides an automated solution for sending out reminders, statements and letters, combined with the improved classification of debtors using the newly developed debt strategies and should enable the Authority to recover debts more promptly which subsequently will improve the probability of collection.

The new IT system is working well and providing the Debt Management Team with greatly improved performance management information that allows the manager of the team to easily see outstanding debts and individual collector performance.

The system still contains a significant amount of "old" debts where the likelihood of non-collection is high. A review of each individual debtor is currently taking place (initially focussing on the oldest and highest value) to analyse the current position with each "old" outstanding debtor. The Debt Management Team have completed case management documentation for each debt and making a recommendation for the next action for that debtor (one option may be for write off).

### **d) Direct Debit Take Up/Financial Assessment Process**

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. A recent benchmarking survey indicated that Lancashire's Direct Debit take-up rate was above the average for Local Authorities, however we would like to increase our rate from c50% to nearer 90% as we understand this is achieved by some Local Authorities.

An end to end process review has been completed over the past 6 months that took a service user from the referral for a financial assessment to the chasing of their outstanding debts, in addition to a review of the Direct Payments process. All the teams involved were fully engaged and have enjoyed seeing the contributions of the feedback they have given.

The Exchequer Services Manager is currently implementing the recommendations of the end to end process review which she is working on with many different members of staff within the different teams involved in the process. Examples of "quick wins" have included a pilot team focussing solely on the end to end Direct Payments process, getting issues resolved on IT systems and using the County Council's print resources more efficiently (as the team produce lots of letters for Service Users) etc.

#### **e) Paperless Direct Debit**

This item has been delayed, however this will be reviewed over the next 12 months as part of remaining outstanding developments surrounding income and payment methods. The key priority is set out above in point d) in relation to getting debtors to sign up to using direct debit.

#### **f) Clarification of Roles with Legal Services**

As part of the revised Income and Debt Management Policy the Legal Services team will undertake a vital role in the recovery of debts. As detailed above the revised policy contains the option to take outstanding debts to court which will increase the volume of cases that Legal Services are involved in. The team have been given approval to recruit additional resources to enable them to meet the increased demand. Weekly meetings are held between Legal Services and Exchequer Services to ensure that progress is made in recovering debts.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

There is a need to regularly review, recognise and conclude uncollectable cases in a timely way to enable the County Council's Debt Collectors to focus on potentially recoverable debts. A high volume of live cases currently compromises the ability of collectors to respond to new cases quickly and results in an enlarged and unmanageable debt stock which overestimates the value of income the County Council is likely to recover. The revised Income and Debt Management Policy, Processes and Responsibilities, in addition to new and automated IT systems and strategies, will support the increased probability of debt recovery.

## List of Background Papers

Paper	Date	Contact/Tel
Income and Debt Management Policy, Processes and Responsibilities – Revised March 2016	2 <sup>nd</sup> March 2016	Kate Lee/x31733
Debt Management Recovery Plan Update Report	28 <sup>th</sup> July 2015	Kate Lee/x31733
Quarterly Corporate Performance Monitoring and Improvement Quarter 3 2014/15 (Appendix B)	10 <sup>th</sup> March 2015	Lisa Kitto/x34703