

AGENDA MANAGEMENT SHEET

Name of Committee Resources, Performance and Development
Overview And Scrutiny Committee

Date of Committee 25th July 2006

Report Title Debt Recovery - Progress Report

Summary The Committee is invited to comment on this progress report in respect of debt recovery.

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Would the recommended decision be contrary to the Budget and Policy Framework?
 No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members
- Cabinet Member
- Chief Executive
- Legal David Carter, Greta Needham, Marian Shalloe – comments incorporated
- Finance David Clarke – comments incorporated
- Other Chief Officers
- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION

SUGGESTED NEXT STEPS:

Details to be specified

Further consideration by
this Committee

To Council

To Cabinet

To an O & S Committee

To an Area Committee

Further Consultation

Agenda No

Resources, Performance and Development Overview and Scrutiny Committee 25th July 2006

Debt Recovery - Progress Report

Joint Report of the Strategic Director of Resources and Strategic Director of Performance and Development

Recommendation

That progress in relation to debt recovery is noted. The comments of Committee members are invited.

Introduction

1. Under the Council's own Debt Recovery Best Practice Guide it is required practice to report regularly to members on debt recovery performance. Your Committee considered progress reports on debt recovery in May 2002, June 2003, September 2004 and October 2005.
2. The County Council's standard payment terms are 21 days. The Audit Commission recommends referral of unpaid invoices for legal action after 42 days. Our experience has been that the first legal letter, sent out by Legal Services shortly after receipt of a referral from a department, is effective in recovery of debt. Based on this experience the following provision is included in our Statement of Required Practice (part of the Best Practice Guide):

Chief Officers are required to:

'Refer all debts not paid within 42 days for legal action. If a debt is not referred for legal action at 42 days, Chief Officers must be able to justify the reason for not doing so.'

3. Management of debt recovery performance focuses on minimising the value of debts over 42 days old. This report:
 - ◆ Provides figures indicating performance in relation to 'over-42 days' debts;
 - ◆ Sets these figures in the context of the value of invoices raised, also providing trends and comparisons; and
 - ◆ Provides comment on debt recovery performance.

Value of 'over-42 days' debts

4. The table below shows:

- the total **value** of 'over-42 days' debt at 31st March in the last eight years; and
- the total **value** of invoices issued in the last eight years.

		1999	2000	2001	2002	2003	2004	2005	2006
		£m	£m	£m	£m	£m	£m	£m	£m
A	Value of 'over-42 days' debt	2.7	2.5	1.6	1.8	1.9	3.4	1.7	2.4
B	Value of invoices issued in year	26.7	27.1	47.6	41.6	49.8	50.6	55.9	70.6

The value of invoices raised has risen substantially over recent years and any assessment of debt recovery performance needs to take account of this. Dividing row A above by row B gives 'over-42 days' debts as a proportion of the value of invoices raised (see table below) and this is the performance indicator on which we now focus.

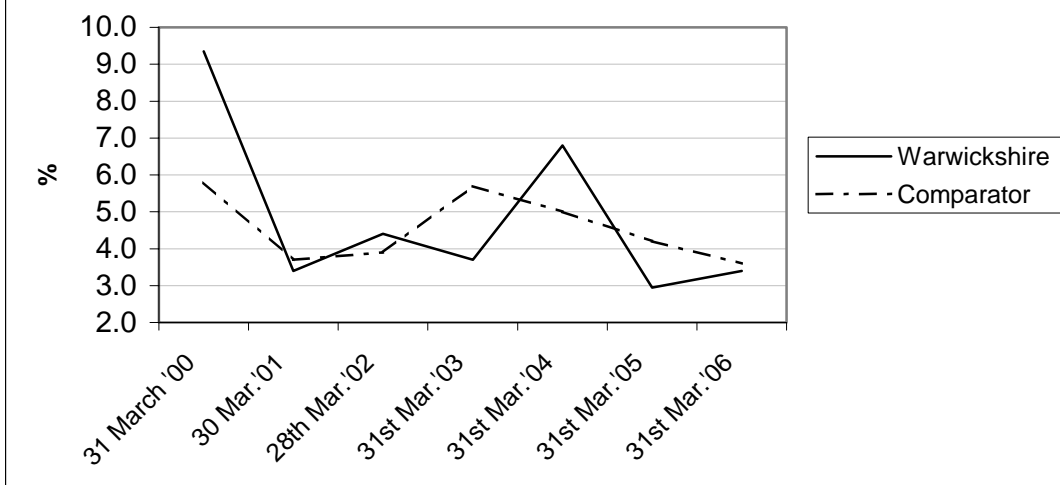
'Over-42 days' debts as a percentage of the value of invoices raised

	1999	2000	2001	2002	2003	2004	2005	2006
	%	%	%	%	%	%	%	%
'Over-42 days' debts as a percentage of the value of invoices raised (A/B*100)	10.1	9.2	3.4	4.3	3.7*	6.8*	3.0*	3.4*

* This performance compares with a target of 4.0%. The 2004 figure was unusually high as a result of the failure of local Primary Health Care Trusts (PCTs) to pay before 31st March large invoices issued by Social Services in earlier months.

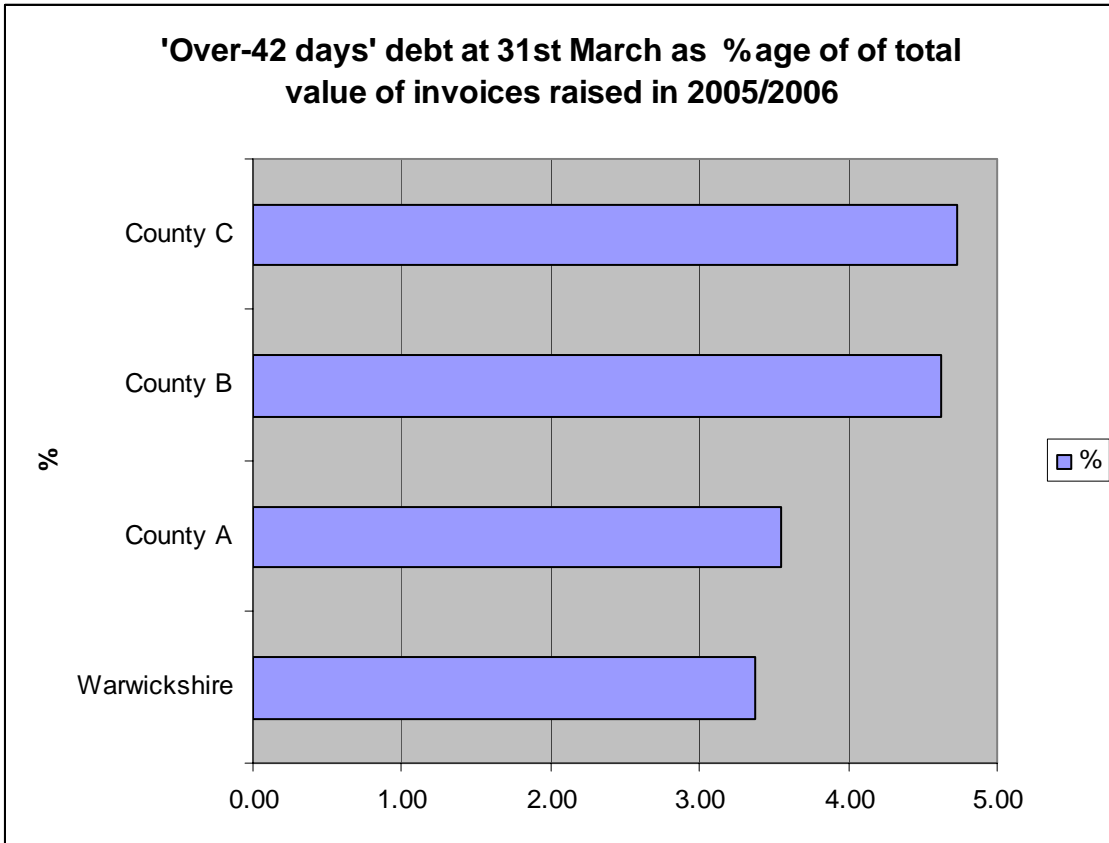
5. The authority has, for a few years now, been a member of a Midlands Counties Benchmarking Club on Debt Recovery that was originally set up by WCC legal staff. This has enabled us to compare our practices against other authorities. With one higher performing authority we have gone further than this and have been exchanging performance information (on the basis of 'value of 'over-42 days' debt as a percentage of annual value of invoices raised') since March 2000.
6. Table 1 below compares the performance of Warwickshire as a whole with this comparator authority over the last seven years:

TABLE 1: Value of 'over-42 days' debts as a %age of invoices raised in last 12 months - Warwickshire and Comparator authority

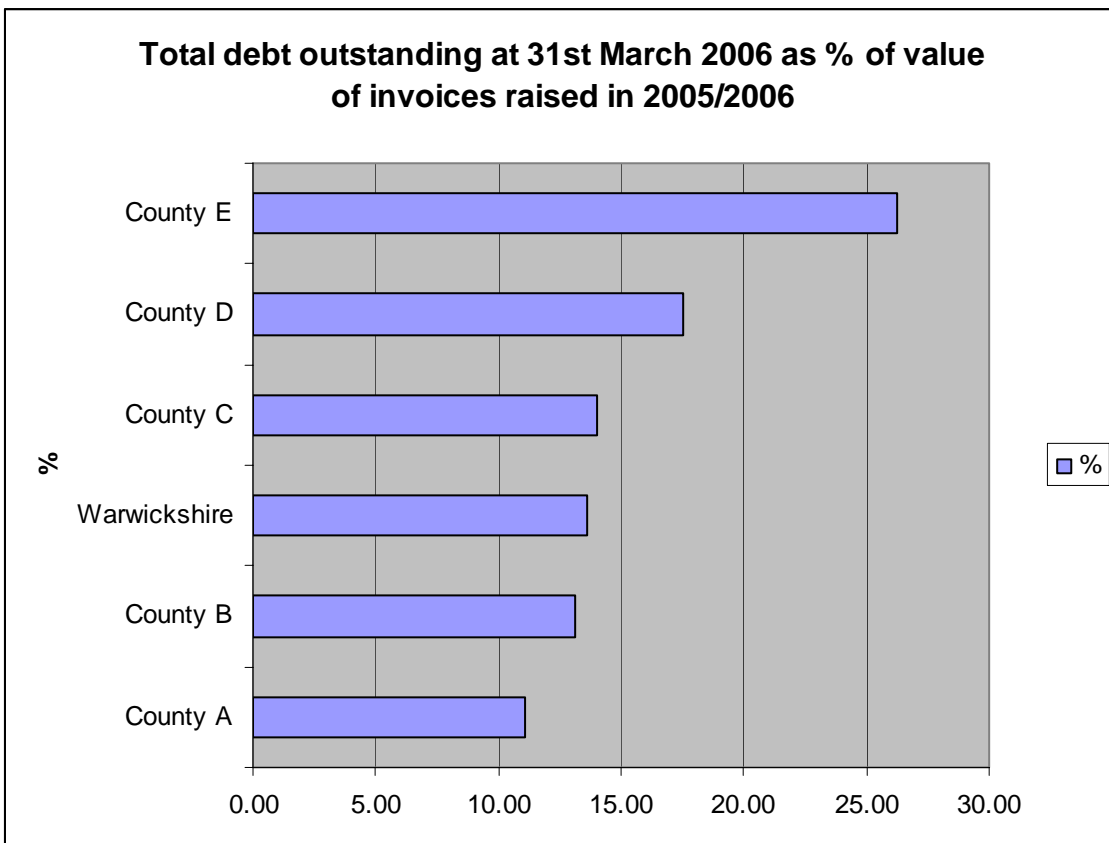


Latest developments in benchmarking performance

- In 2006 we have been in contact, via the Society of County Treasurers, with a wider group of County Councils with a view to benchmarking performance. This exercise is still in its infancy but our progress to date is indicated in the 2 charts below. The group of counties comprises, in no particular order, Cheshire, Staffordshire, Lancashire, Cumbria, Powys, Shropshire, Worcestershire, Leicestershire and, of course, Warwickshire. Of these, only 3, apart from Warwickshire, have supplied data related to 'over-42 days' debts and the comparison on this basis is indicated in the chart below.



8. Some counties could not provide 'over-42 days' data but were able to provide data relating to **all** debts (i.e. including those that are not even overdue for payment yet) and the comparison on this basis is indicated in the chart below.



9. Three of the counties have not yet supplied any information in relation to this exercise. Our intention is to develop this benchmarking exercise further in the next few months.

Value of 'over-42 days' debts – performance by individual departments

10. The performance of individual departments over the same period is indicated in the charts in Tables 2 and 3 below. The charts are drawn in a way which enables members to see how the performance of each department:
- ❖ has changed during the last seven years; and
 - ❖ compares with that for Warwickshire as a whole.

It should be borne, in mind, however, that the nature of the debts collected by different departments varies and some categories of debts are harder to collect than others.

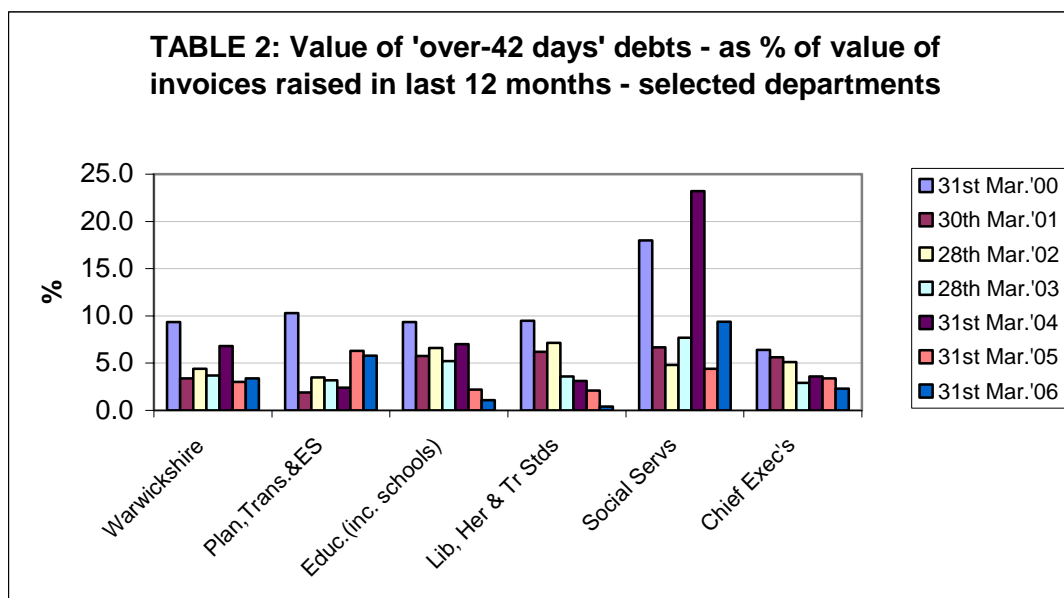
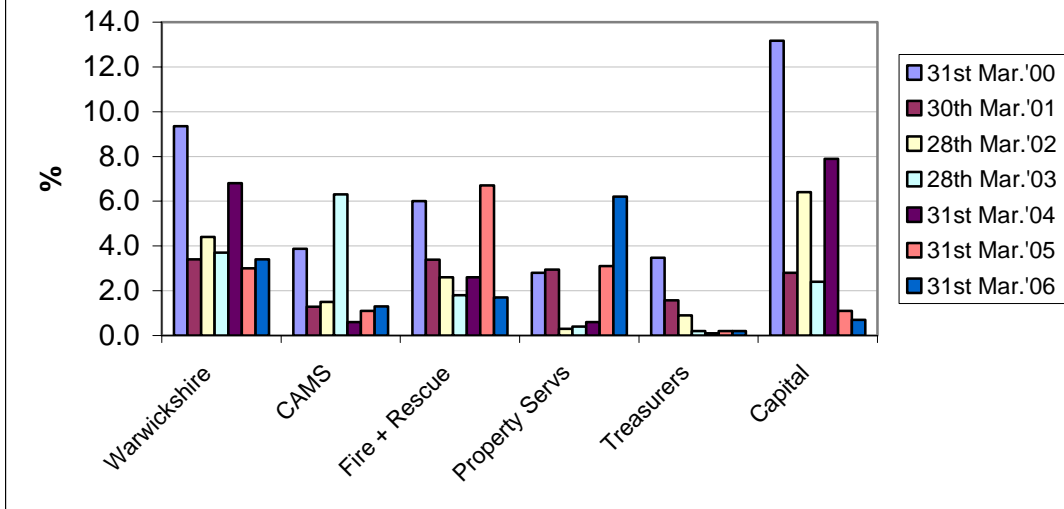


TABLE 3: Value of 'over-42 days' debts - as % of value of invoices raised in last 12 months - selected departments



Latest position in relation to large debts

11. A snapshot of debts over £30,000 was taken on 16th May. This list is attached below with an indicator as to whether the debt remains outstanding or whether it has been paid. The debts shown in bold are those that remain from the list previously considered by Corporate Services Overview and Scrutiny Committee.

Dept	Invoice No	Debtor Name	Value of invoice (£)	Outstanding (£) at 16th May 06	Invoice Date	6th July Paid (P) or Outstanding (OS)
SS	00090571	South Warwickshire PCT	584,175	52,148	08/01/2004	OS
SS	00116852	South Warwickshire PCT	75,308	75,308	23/03/2005	OS
PT	00117651	WARWICK DISTRICT COUNCIL	97,117	61,894	12/04/2005	OS
SS	00117797	South Warwickshire PCT	49,839	49,839	14/04/2005	OS
SS	00117798	South Warwickshire PCT	39,581	39,581	14/04/2005	OS
SS	00117858	South Warwickshire PCT	62,924	62,924	15/04/2005	OS
SS	00118033	Home Farm Trust	42,774	42,774	19/04/2005	OS
EDSC	00128872	GOVERNORS OF ST JOSEPHS RC	70,894	70,894	11/11/2005	P
SS	00130699	South Warwickshire PCT	126,857	126,857	13/12/2005	OS
PT	00132223	NATIONAL GRID TRANSCO	100,000	35,450	12/01/2006	P
SS	00132559	South Warwickshire PCT	42,900	42,900	18/01/2006	P
PS	00133795	GOVERNORS OF ST JOSEPHS RC	47,175	47,175	08/02/2006	OS
EDSC	00134255	WCC ETOPE COMMUNITY SCHOOL	38,987	38,987	17/02/2006	P
EDSC	00134269	WCC KENILWORTH SCHOOL	36,185	36,185	17/02/2006	OS
SS	00135713	People In Action	53,827	53,827	02/03/2006	OS
SS	00136666	South Warwickshire PCT	141,640	141,640	16/03/2006	P
SS	00136667	South Warwickshire PCT	52,997	52,997	16/03/2006	OS
PT	00137066	WRAP	30,481	30,481	27/03/2006	P
EDSC	00137303	Nisai Virtual Academy	45,019	45,019	29/03/2006	OS
SS	00137510	South Warwickshire PCT	84,516	84,516	31/03/2006	OS
EDSC	00137834	LAING HOMES LTD	36,049	36,049	10/04/2006	OS
PT	00137881	WARWICK DISTRICT COUNCIL	87,971	87,971	11/04/2006	OS
EDSC	00138041	North Warwickshire And	130,375	130,375	13/04/2006	P
CL	00138053	WARWICKSHIRE POLICE AUTHORITY	60,084	60,084	13/04/2006	P
SS	00138296	Rugby Primary Care Trust	42,600	42,600	20/04/2006	OS
CL	00138498	WARWICKSHIRE POLICE AUTHORITY	144,813	144,813	24/04/2006	P
EDSC	00139154	WCC SOUTHAM COLLEGE	156,251	156,251	08/05/2006	P
EDSC	00139149	WCC STRATFORD GRAMMAR SCHOOL	122,966	122,966	08/05/2006	P
PT	00138640	NUNEATON & BEDWORTH BOROUGH COUNCIL	118,436	118,436	26/04/2006	P
PT	00138787	NUNEATON & BEDWORTH BOROUGH COUNCIL	111,129	111,129	02/05/2006	P
SS	00138940	South Warwickshire PCT	93,162	93,162	03/05/2006	P
PT	00138643	WARWICK DISTRICT COUNCIL	90,326	90,326	26/04/2006	P
EDSC	00139153	WCC EXHALL GRANGE SCHOOL	64,280	64,280	08/05/2006	OS
PT	00138582	WARWICKSHIRE CONSTABULARY	64,131	64,131	25/04/2006	P
TR	00139338	Youth Justice Board	60,588	60,588	10/05/2006	P
PT	00138641	RUGBY BOROUGH COUNCIL	57,461	57,461	26/04/2006	P
CL	00139013	WARWICKSHIRE POLICE AUTHORITY	57,369	57,369	04/05/2006	P
PT	00139240	WARWICKSHIRE ENVIRONMENTAL TRUST	54,560	54,560	09/05/2006	P
EDSC	00139151	WCC ALDERMAN SMITH SCHOOL	50,000	50,000	08/05/2006	P
EDSC	00139152	WCC ALDERMAN SMITH SCHOOL	50,000	50,000	08/05/2006	P

Members may wonder what has happened to the debt raised against the Rent Office (a branch of H.M. Government) in 2002 which has appeared in previous reports. Some work has been undertaken to assess what is felt to be the 'recoverable' element of this debt and the effect is to reduce the outstanding amount from £42,000 to £18,000. This assessment has been conveyed to the Rent Service. Since the list

above comprises only those debts where the amount outstanding exceeds £30,000, this particular debt has been omitted.

Commentary on performance

12. The overall performance for 2005/2006 (as per the table in paragraph 4 above) is, at 3.4%, better than the target of 4.0% and good compared with previous years, though not quite as good as 2004/2005. The benchmarking information also shows Warwickshire to be a good performer. There is still clearly a significant issue in relation to South Warwickshire PCT. This is being addressed and, once it is resolved, performance will improve significantly. Meanwhile, continuous attention is being paid to further improve performance in relation to other debts.

Debts written off

13. When this Committee previously considered debt recovery it was agreed that subsequent reports would provide some detail of the amounts of debt written off. This is provided in the table below:

	31 st March 2005			31 st March 2006		
	(1) No. of write- offs	(2) Value of write- offs (£'000)	(3) Value of write- offs as % of invoices raised in year (%)	(4) No. of write- offs	(5) Value of write- offs (£'000)	(6) Value of write- offs as % of invoices raised in year (%)
CAMS	3	0.3	0.01	15	9.7	0.39
Chief Exec's	0	0	0	4	1.0	0.02
Capital	0	0	0	0	0	0
Education (incl. schools)	221	35.6	0.18	91	22.7	0.10
Fire and Rescue	71	4.9	1.23	93	15.8*	4.24
Libraries, Heritage and Trading Standards	297	11.8	1.0	267	8.2	0.6
Property Services	14	1.7	0.22	2	2.0	0.21
PT+ES (incl. CFM and Warco)	43	6.6	0.11	34	6.5	0.09
Social Services	26	18.9	0.19	27	8.1	0.06
Treasurers	0	0	0	0	0	0
TOTALS	675	79.8	0.14	534	74.0	0.10

The figures in columns (3) and (6) above demonstrate that the value of write-offs is, at around a tenth of one per cent, very small compared with the annual value of debts raised.

* This includes a single large debt of £9,926.57 as approved by Cabinet on the 9th March 2006.

Debts not included in figures above

14. As mentioned earlier in the report, the figures above relate only to invoices raised on the authority's main Ash debtors system. Substantial debt falls outside these figures because the debts are raised on other systems. In each case procedures are in place to ensure that debts are recovered but performance management of these debts is not necessarily on the same basis as it is for the Ash debts. Performance in relation to these debts is indicated in the paragraphs below.

Social Services – Residential Care

	31 st March 2005	31 st March 2006	Variation
Total 'over-56 days' debt	£1.731m	£1.840m	+£0.109m
Total income collected in year	£17.309m	£15.636m	-£1.673m
'Over-56 days' debt as % of total income collected	10.0%	11.8%	+1.8%

15. Part of the £1.840 million 'over-56 days' debt for Residential Care is secured debt and this is indicated below:
- £0.587 million is secured by legal charge on property. This compares to £0.494 million at 31st March 2005.
 - £0.129 million relates to deceased persons, which are awaiting action by the estate. This compares to 0.116 million as at 31st March 2005.

This leaves unsecured debts of £1.120 million compared with £1.121 million at 31st March 2005.

Social Services – Domiciliary Care

	31 st March 2005	31 st March 2006	Variation
Total 'over-56 days' debt	£0.112m	£0.113m	+£0.001m
Total income collected in year	£2.431m	£2.613m	+£0.182m
'Over-56 days' debt as % of total income collected	4.6%	4.3%	-0.3%

Property Services - Rent Management

	31st March 2005	31st March 2006	Variation
Total 'over-42 days' debt	£0.229m	£0.308m	+£0.079m
Total amount invoiced in year	£2.239m	£2.223m	-£0.016m
'Over-42 days' debt as % of total amount invoiced	10.2%	13.9%	+3.7%

16. The 'over-42 days' debt rose during the year, mainly due to staffing changes. The position has improved since 31st March and the latest figure is £263,000. Further improvement is expected in the months ahead.

Library & Information Service – Outstanding Book Invoices

17. As mentioned in the 2004/05 report, we have revised and streamlined our processes and procedures. The new procedures continue to ensure that invoices are sent to debtors much earlier, which has resulted in the debt chasing procedure throughout the department being actioned sooner.

Current level of debt for year end 2005/06 is as follows.

	Raised in 2004/ 2005	Raised in 2005/ 2006
Current Outstanding Debt (£)	67	7465
No of Invoices to which Debt Relates	2	111
No of Invoices raised in the year	1568	1672

18. The current outstanding debt for 2005/06 book invoices is £7,465 (111 invoices), which is 8% of the total invoiced debt. At the same stage last year, the 2004/05 debts were £12,628 (262 invoices), which equalled 15%. Total outstanding for book invoices now stands at £7,532 (relating to 113 invoices). This compares with £12,946 (relating to 264 invoices) in 2004/05. Only 2 invoices are now outstanding prior to 1st April 2005 and the value of these invoices is just £67.

Comments from Community & Environment Legal Services, Law & Governance

19. Earlier improvements continue to be built upon and proactive advice and support is given to clients on a regular basis in relation to the whole debt process. Most clients refer unpaid debts to Legal Services promptly and have good systems in place to provide information to support the debt. Where there are problems these are discussed at regular debt review meetings and advice given on how improvements can be made. It is still the case that the majority of debts referred are recovered following the first legal letter threatening court action. This continues to support the view of the Audit Commission about the effectiveness of the first legal letter. Only a small number of debts need to be pursued through the Court in comparison to the

number of debts referred. Clients referred 789 debts to Legal Services in the year 2005/2006, 389 debts were recovered in full, approximately 55% when compared against the number of referrals in period. (If the value of the debt recovered rather than the number of debts is considered, the amount recovered is £1,590,921.89 approximately 79%). A number of older problematic debt matters have been referred in the year 2005/2006, initially for advice. In addition the referral figures include Community Care and Residential debts, some of which are referred for monitoring. Both of these types of referrals and the different processes used in dealing with them have had an impact on the overall recovery rate for the year

20. Legal Services use a Debt Case Management System, which has highly defined dedicated workflows for different types of debt, and an excellent schedule and reminder system inbuilt. Processes are under continuous review and improvements regularly implemented. For example there is a streamlined procedure for Library debts in place, which has been agreed with the Client. The process was reviewed in June 2006 and amendments made which have been clearly documented for all involved in the process. Implementation of the system has enabled a proactive and high-quality debt recovery service to be offered to directorates. For the Council to secure maximum benefit from this investment it is essential that all departments refer unpaid debts promptly at 42 days and the importance of this is communicated to directorates.

Cost of Debt Recovery

21. The staffing costs of administering debt recovery are estimated at £150,000 per year. The loss of interest incurred in failing to recover all Ash debts within 42 days is estimated at £70,000. This may sound a lot but our performance compares favourably with other counties, as the chart in paragraph 7 above indicates, and so loss of interest in those other counties will, in relative terms, be higher than Warwickshire's.

Recommendation

22. Members are asked to note the progress made in relation to debt recovery and to comment on this report.

David Clarke, Strategic Director of Resources
David Carter, Strategic Director of Performance and Development

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Warwick