

AGENDA MANAGEMENT SHEET

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

Date of Committee 13th November 2007

Report Title Debt Recovery - Update

Summary The Committee is invited to note the report and comment upon the progress on debt recovery.

For further information please contact:

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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 Cllr Booth, Cllr Haynes, Cllr Atkinson – for clearance
- Cabinet Member Cllr Cockburn – for information
- Chief Executive David Carter – reporting officer
- Legal Sarah Duxbury – for clearance
- Finance David Clarke – reporting officer
- Other Chief Officers
- District Councils
- Health Authority
- Police

Other Bodies/Individuals

FINAL DECISION Yes

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

Resources, Performance and Development Overview and Scrutiny Committee - 13th November 2007

Debt Recovery - Update

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

Recommendation

Members are asked to note the report and comment on the progress since March 2007 on debt recovery being reported and the detailed analysis contained in Appendix A for 2006/07.

1 Background

- 1.1 At the Resources, Performance and Development Overview and Scrutiny Committee meeting on 24th April 2007, members requested the continuation of regular reporting on debt recovery. This report provides a snapshot as at 30th September 2007. The report briefly examines the Council's performance on over-42 days old debt and will update members on the outstanding over £30,000 debts reported in April.
- 1.2 In addition, Appendix A attached to this report analyses in greater detail the annual performance of the Council for 2006/07.

2 Over-42 Days, Over £30,000 Debt

- 2.1 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 Directorate is effective in recovery of debt. Based on this experience the following provision is included in our Statement of Recognised Practice (part of the Best Practice Guide):

Strategic Directors 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, Strategic Directors must be able to justify the reason for not doing so.'

2.2 Members will recall the report in April 2007 gave a list of the over 42 days debt greater than £30,000. An update of this list is given below. The debts previously reported to members in April are highlighted in bold.

(1)	(2)	(3)	(4)	(5)	(6)
Directorate	Invoice No	Debtor Name	Value of invoice (£)	Outstanding amount (£)	Invoice Date
SS	00117798	South Warwickshire PCT	39,581	39,581	14/04/2005
SS	00117797	South Warwickshire PCT	49,839	49,839	14/04/2005
PT	00137881	Warwick District Council	87,971	69,865	11/04/2006
EDSC	00141294	Isle Of Wight Council	30,766	30,766	19/06/2006
SS	00147614	North Warwickshire PCT	54,537	54,537	24/10/2006
SS	00149306	Warwickshire PCT	61,072	61,072	20/11/2006
SS	00150752	Warwickshire PCT	63,777	63,777	12/12/2006
EDSC	00151127	Warwickshire PCT	40,000	40,000	20/12/2006
EDSC	00153469	WCC Etone Community School	41,379	41,379	31/01/2007
SS	00157525	Warwickshire PCT	126,857	126,857	21/03/2007
SS	00157734	Warwickshire PCT	31,744	31,744	26/03/2007
PT	00158223	Warwick District Council	95,844	95,844	03/04/2007
EDSC	00160023	Warwickshire PCT	73,419	73,419	11/05/2007
EDSC	00160791	WCC Ash Green School	32,518	32,518	29/05/2007
EDSC	00161604	Coventry & Warwickshire Partnership Trust	88,674	88,674	07/06/2007
EDSC	00161839	WCC Etone Community School	72,017	72,017	12/06/2007
SS	00163061	Warwickshire PCT	64,153	64,153	04/07/2007
SS	00163059	Warwickshire PCT	79,572	79,572	04/07/2007
PT	00164190	Taylor Woodrow Developments Ltd	72,895	72,895	30/07/2007
EDSC	00164629	Warwickshire PCT	52,000	52,000	07/08/2007
PT	00164621	David Wilson Homes West Midlands	78,540	78,540	07/08/2007
SS	00164787	Warwickshire PCT	41,624	41,624	13/08/2007
SS	00164790	Warwickshire PCT	75,363	75,363	13/08/2007
SS	00164788	Warwickshire PCT	76,888	76,888	13/08/2007
		Total		1,512,924	

Of the above, £151,525 (invoices 00164621 and 00164190) has been recovered since 30th September 2007.

2.3 The value of over-42 days, over-£30,000 debt has increased from the position at the end of March 2007, when the total value outstanding on these types of debt was £1,332,126. Of the 17 debts shown in the previous report, there are 8 debts remaining and a further 16 new debts.

2.4 It is apparent from the above list that the debts owed by the PCTs dominate, making up £930,426 of the total of £1,512,924 (61%). The three PCTs merged into one for the whole County last October. A new Deputy Head of Finance in the PCT has recently been appointed and an initial meeting has taken place to discuss the level of outstanding debt and processes for dealing with it. Additional information has been supplied and a further meeting is scheduled for early November when we hope to make progress. We would hope to be able to bring a report to Members well before the end of the financial year with proposals on current outstanding debt and how we would wish to work together in the future.

3 Total Outstanding Debts

- 3.1 Although the value of over-42 days, over £30,000 debts has increased, the total value of outstanding debts (including the over-42 days, over £30,000 debt) at the end of September 2007 has reduced by approximately 10% to £9m. Obviously this includes a large number of invoices that have been recently raised and should not be regarded as problem debts.

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

Shire Hall
Warwick

13th November 2007

Debt Recovery in 2006/07- Progress Report

Introduction

1. Under the Council's own Debt Recovery Best Practice Guide it is required practice to report regularly to members on the Council's annual debt recovery performance. Your Committee considered progress reports on debt recovery in May 2002, June 2003, September 2004, October 2005 and July 2006.
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):

Strategic Directors 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, Strategic Directors 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

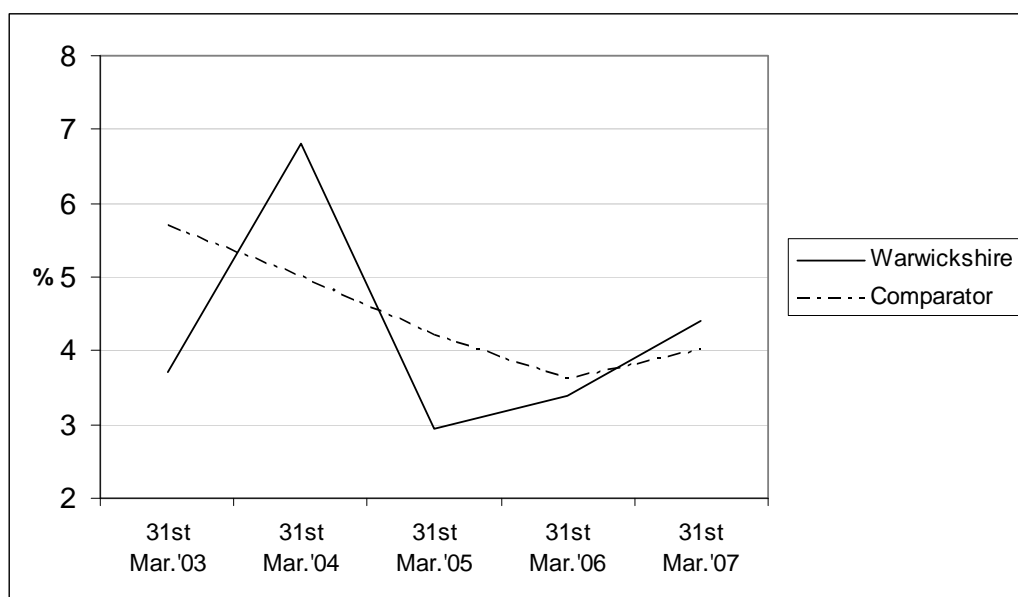
4. The table below shows:

- **A:** the total value of 'over-42 days' debt at 31st March in the last five years;
- **B:** the total value of invoices issued in the last five years; and
- **C:** the value of 'over-42 days' debt as a percentage of the total raised in each year.

		2003	2004	2005	2006	2007
A	'Over-42 days' debt (£m)	1.9	3.4	1.7	2.4	2.8
B	Invoices issued in year (£m)	49.8	50.6	55.9	70.6	63.5
C	'Over-42 days' debts as a percentage of the value of invoices raised (%)	3.7	6.8	3.0	3.4	4.4

5. The value of invoices raised has risen substantially over recent years and any assessment of debt recovery performance needs to take account of this. We therefore focus on the value of outstanding debts as a proportion of the value of invoices raised in the year (line C above). Since 2002/03 this target has been set at 4.0%. The 2004 figure was unusually high as a result of the failure of local Primary Care Trusts to pay before 31st March large invoices issued by Social Services in earlier months.
6. The authority has 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. Figure 1 below compares the performance of Warwickshire as a whole with this comparator authority over the last five years:

Figure 1: Over-42 days debts as a percentage of annual invoices raised for Warwickshire and comparator authority



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

7. The performance of individual Directorates since 31st March 2005 is indicated in figures 2 and 3 below. Figure 2 summarises the annual position for each Directorate, whilst figure 3 shows a more detailed analysis of each Directorate's performance with time. Note that, whilst these figures are now organised on a Directorate basis, in previous years the equivalent figures were based on the old departmental structure. Some assumptions have therefore had to be made to reanalyse the 2005/06 data on a Directorate basis. It should also be borne in mind that the nature of the debts collected by different Directorates varies and some categories of debts are harder to collect than others.

Figure 2: Over-42 days debts as a percentage of annual invoices raised for Directorates and Warwickshire as a whole: annual summary

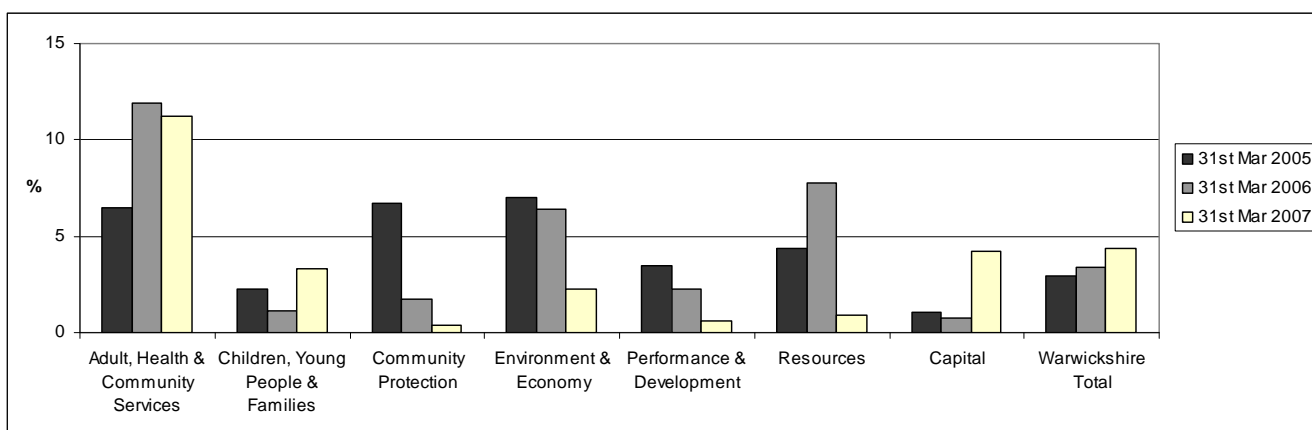
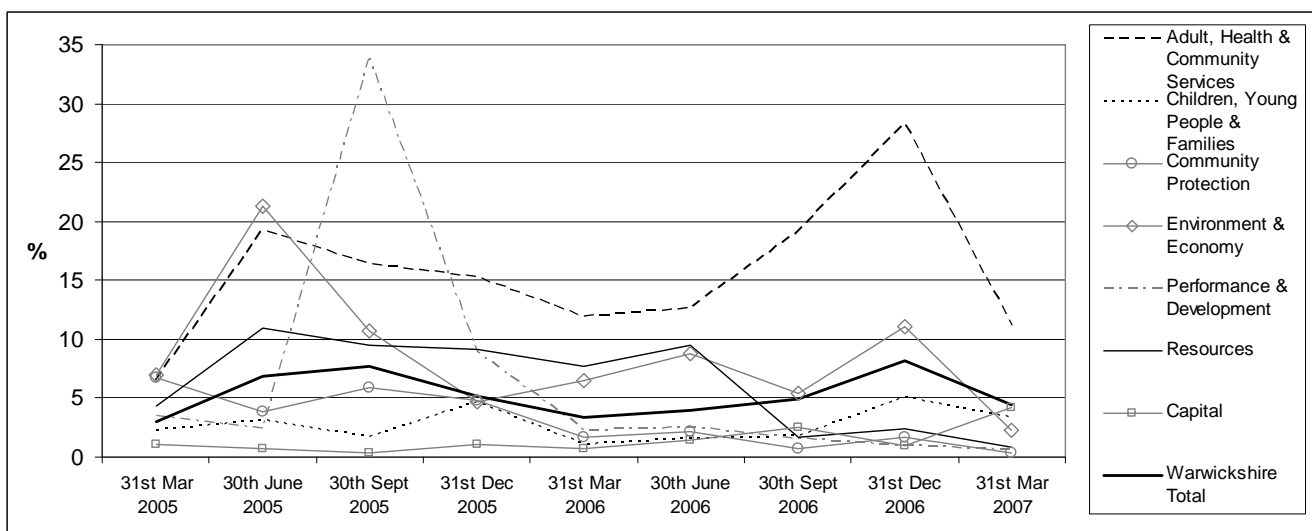


Figure 3: Over-42 days debts as a percentage of annual invoices raised for Directorates and Warwickshire as a whole: quarterly breakdown



Commentary on performance

8. Overall, the outstanding debt for Adults, Health and Community Services is the only Directorate consistently above the 4% target although as noted earlier, the debts collected by this Directorate are likely to be different in nature than those collected by other Directorates. In particular, this Directorate is hit especially hard by a few, relatively large, outstanding debts. In April 2007, this committee received a report on the over-42 day debts with individual values greater than £30,000 as at 31st March 2007. Of the £1,332,126 total reported, the Adults, Health and Community Services Directorate raised £727,715 (54.6%). Of this, £692,239 was owed by Warwickshire Primary Care Trust or its predecessors. These large debts made up nearly 47% of the total outstanding on Adult, Health and Community Services' invoices at 31st March 2007 shown in figures 2 and 3 above.
9. There has also been an increase in outstanding Capital invoices, with £108,000 outstanding at 31st March on an annual total of £2,545,000. £73,846 of this related to a single debt which is no longer outstanding. This has taken the Capital percentage above the target of 4% for the first time in the last three years.
10. The overall performance for 2006/07, at 4.4%, has worsened slightly since 2005/06. Apart from the capital debts discussed above, the only Directorate showing an increase in percentage of outstanding debts is the Children's, Young People and Families Directorate. In moving from 1.1% at 31st March 2006 to 3.3% at 31st March 2007, its performance still remains below the target of 4%. However, since this Directorate dominates the total value of invoices raised by the Council overall, making up 36.5% (with the next highest Directorate being Adults, Health and Community Services at 21.8%), any worsening in the Children, Young People and Families Directorate's performance has a large influence on the performance of the Council as a whole. This Directorate is also subject to non-paid debts by the Primary Care Trust (see table in main report), although to a lesser degree than the Adults, Health and Community Services Directorate.
11. As a whole, Warwickshire's performance has worsened relative to both the comparator authority and to the target of 4% for the first time since 2003/04. This is partly because the total value of invoices raised has fallen by 10% in the last year, whilst the value of over-42 day debt has risen by 17%. It is of interest to note that the comparator authority has also seen a worsening of performance in the same period, although not to the same extent as Warwickshire.

Debts written off

12. 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. Please note that again some reorganisation of the figures at 31st March 2006 has been necessary in order to fit the Directorate structure:

	31 st March 2006			31 st March 2007		
	(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 (%)
Adult, Health and Community Services	297	16.4	0.11	270	16.1	0.12
Children, Young People and Families	91	22.7	0.10	74	15.3	0.07
Community Protection	93	15.8	4.24*	42	2.2	0.05
Environment and Economy	41	6.8	0.09	63	9.0	0.07
Performance and Development	4	1.0	0.02	1	1.6	0.10
Resources	17	11.7	0.34	18	2.5	0.05
TOTALS	543	74.4	0.10	468	46.6	0.07

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

13. 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 2006	31 st March 2007	Variation
Total 'over-56 days' debt	£1.840m	£2.047m	+£0.207m
Total income collected in year	£15.636m	£14.329m	-£1.307m
'Over-56 days' debt as % of total income collected	11.8%	14.30%	+2.5%

14. Part of the £2.047 million 'over-56 days' debt for Residential Care is secured debt and this is indicated below:

- £0.719 million is secured by legal charge on property. This compares to £0.587 million at 31st March 2006.
- £0.044 million relates to deceased persons, which are awaiting action by the estate. This compares to 0.129 million as at 31st March 2006.

This leaves unsecured debts of £1.280 million compared with £1.120 million at 31st March 2006.

Social Services – Domiciliary Care

	31 st March 2006	31 st March 2007	Variation
Total 'over-56 days' debt	£0.113m	£0.128m	+£0.015m
Total income collected in year	£2.613m	£2.782m	+£0.169m
'Over-56 days' debt as % of total income collected	4.3%	4.6%	+0.3%

Property – Rent Management

	31 st March 2006	31 st March 2007	Variation
Total 'over-42 days' debt	£0.308m	£0.213m	-£0.095m
Total amount invoiced in year	£2.223m	£2.344m	+£0.121m
'Over-42 days' debt as % of total amount invoiced	13.9%	9.1%	-4.8%

15. Since 31st March 2007 the total 'over-42 days' debt has been further reduced by £0.048m (22.5%) resulting in a revised total 'over-42 days' debt of £0.165m at 30th September 2007. Of this amount, £0.126m is in respect of Smallholdings rent, due to the Environment and Economy Directorate.

Library & Information Service – Outstanding Book Invoices

16. Current level of debt for year end 2006/07 is as follows.

	Raised in 2006/ 2007
Current Outstanding Debt (£)	6,672
No of Invoices to which Debt Relates	101
No of Invoices raised in the year	1,289

The current outstanding debt for 2006/07 book invoices is £6,672 (101 invoices), which is 8% of the total invoiced debt. At the same stage last year, the outstanding debts from 2005/06 were £7,465 (111 invoices), which also equalled 8%, whereas in March 2004/05 the outstanding debt level was £12,628 (262 invoices), equalling 15%. Therefore the 2006/07 figures indicate that the changes to processes and procedures initiated in 2004/05 continue to deliver improved performance.

Comments from Community & Environment Legal Services, Law & Governance

17. 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. Some clients refer unpaid debts to Legal Services promptly and have good systems in place to provide information to support the debt. 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 463 debts to Law & Governance in the year 2006/07, down by 326 from 2005/06. A total of 273 debts were paid off in full, approximately 59% of 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 £716,894.62, which is approximately 70%.
18. A number of older problematic debt matters were referred in the year 2006/07, initially for advice. Of these, 31 resulted in cancellation of the invoices or charges as they were claimed in error and/or there was insufficient documentation to substantiate the debts. In addition the referral figures include Community Care and Residential debts, some of which are referred for monitoring and are ongoing. 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.
19. A review of the Debt Recovery Team in Law & Governance, took place in Autumn 2006, which included a review of charging for the services provided to clients. It was concluded that whilst the Team provide an excellent service to clients as evidenced by a customer satisfaction survey, the cost of providing the service was heavily subsidised by Law & Governance. As a result the fixed fee charge to clients has been increased for 2007/08 and the standard service refined. Review of the service to clients is ongoing. In addition the Debt Recovery Service provided by Law & Governance was subjected to an Internal Audit, which concluded that arrangements operated by the Team were working well. This review supported an increase in the charge for referrals and an ongoing review of the service provided.
20. Law & Governance 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. This means a proactive and high-quality debt recovery service can be offered to Directorates. The earlier a debt is referred to Legal, whether in query or not, the quicker a decision can be made on viability and the more likelihood there is that if it is viable it will be recoverable. 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 on a regular basis.

Cost of Debt Recovery

21. The 2006/07 staffing costs of administering debt recovery are estimated at £140,000 per year. The loss of interest incurred in failing to recover all Ash debts within 42 days is estimated at £85,000.