

AGENDA MANAGEMENT SHEET

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

Date of Committee 10 June 2008

Report Title Update on Debt Recovery incorporating the 2007/08 Annual Report

Summary

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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 Atkinson and Cllr Haynes
- Cabinet Member Cllr Cockburn – for information
- Chief Executive David Carter – reporting officer
- Legal Sarah Duxbury
- Finance David Clarke – reporting officer
- Other Chief Officers
- District Councils
- Health Authority
- Police
- Other Bodies/Individuals Paul Williams, Scrutiny Officer

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

Agenda No

Resources, Performance and Development Overview and Scrutiny Committee - 10 June 2008.

Update on Debt Recovery incorporating the 2007/08 Annual Report

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

Recommendation

Members are asked to note the report and comment on the progress since November 2007 on debt recovery and the detailed analysis included in the 2007/08 Annual Report attached as Appendix A.

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 the large outstanding debts of the authority. This report presents a snapshot of these large outstanding debts as at 19th May 2008, providing an update on changes since the last report in November 2007.
- 1.2 In addition, **Appendix A** attached to this report is the Annual Report for 2007/08 analysing in greater detail the annual performance of the Council for the year ending 31st March 2008.

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 November 2007 gave a list of the over 42 days debt greater than £30,000. An update of this list is given in Table 1, below. The debts previously reported to members in November are highlighted in bold.

Table 1: Outstanding Over 42 days, Over £30,000 debt

(1)	(2)	(3)	(4)	(5)	(6)
Directorate	Invoice No	Debtor Name	Value of invoice (£)	Outstanding amount (£)	Invoice Date
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
EDSC	00151127	Warwickshire PCT	40,000	40,000	20/12/2006
EDSC	00153469	WCC Etone Community School	41,379	41,379	31/01/2007
PT	00158223	Warwick District Council	95,844	95,844	03/04/2007
EDSC	00160023	Warwickshire PCT	73,419	73,419	11/05/2007
EDSC	00165191	Warwickshire PCT	53,000	53,000	29/08/2007
PT	00166068	Color Estates Ltd	80,602	60,602	05/09/2007
EDSC	00168357	Warwickshire Primary Care Trust	31,389	31,389	17/10/2007
SS	00168607	Warwickshire Primary Care Trust	48,134	48,134	19/10/2007
EDSC	00168872	Warwickshire PCT	88,674	88,674	25/10/2007
PT	00171144	Atlantic Property Developments PLC	43,198	43,198	29/11/2007
EDSC	00171287	Warwickshire Primary Care Trust	30,896	30,896	03/12/2007
EDSC	00172287	Stoke on Trent City Council	33,770	33,770	20/12/2007
EDSC	00172666	WCC Etone Technology Language	43,201	43,201	07/01/2008
SS	00173135	Warwickshire Primary Care Trust	82,080	82,080	10/01/2008
PS	00177785	WCC St Johns Primary School	58,276	58,276	05/03/2008
PT	00178293	Optima	30,231	30,231	12/03/2008
SS	00178398	Warwickshire Primary Care Trust	83,346	83,346	13/03/2008
		Total		1,038,069	

2.3 The total of outstanding over 42 days, over £30,000 debt is approximately £1 million. This is almost £500,000 less than the level reported to this Committee in November 2007. A summary table of the level of debts cleared from the list in the previous report in November is included in table 2 below:

Table 2: Over 42 days, over £30,000 debt cleared

Debtor	No. of Invoices	Value of Invoices £
Primary Care Trusts	13	817,007
Schools	2	104,537
Other	2	167,214
Total	17	1,088,758

2.4 Only 6 debts remain from the previous list reported in November. Legal Services are engaged in a continuing dialogue with Warwick District Council in a bid to recover the debts listed in Table 1, above. These debts relate to outstanding planning search fees between 2004/05 and 2006/07.

2.5 Legal Services are also pursuing the debt owed by the Isle of Wight Council. This is a dispute over the fees charged for an 'Out of County' placement.

- 2.6 Members will be aware of the difficulties the authority has in receiving payment from Warwickshire Primary Care Trust (WPCT) and it should be noted that at the Cabinet meeting in February, around £200,000 of WPCT debt was written off. Cabinet also requested the Adult, Health and Community Services Overview and Scrutiny Committee to examine the current process in relation to WPCT debts and what action should be taken to prevent a similar situation arising in the future.
- 2.7 There are two debts relating to Etone School. They are being vigorously chased at several different levels within the Children, Young People and Families directorate. A payment from Stoke on Trent City Council is expected shortly.
- 2.8 An agreement has been made with Color Estates to pay their debt through quarterly instalments so this debt may remain on these reports in the future albeit with a reducing balance. A payment from Optima is expected imminently.

DAVID CLARKE
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Debt Recovery in 2007/08

1 Introduction

- 1.1 The County Council's Debt Recovery Best Practice Guide requires regular reports to members on the County Council's annual debt recovery performance. This Committee has considered progress reports on debt recovery annually from May 2002 through to last years report in November 2007. This report continues that requirement and evaluates the County Council's debt recovery performance for 2007/08.
- 1.2 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;
 - ◆ Provides figures on debts written off and the cost of debt recovery;
 - ◆ Provides a commentary on debt recovery performance.

2 Value of 'over 42 days' debts

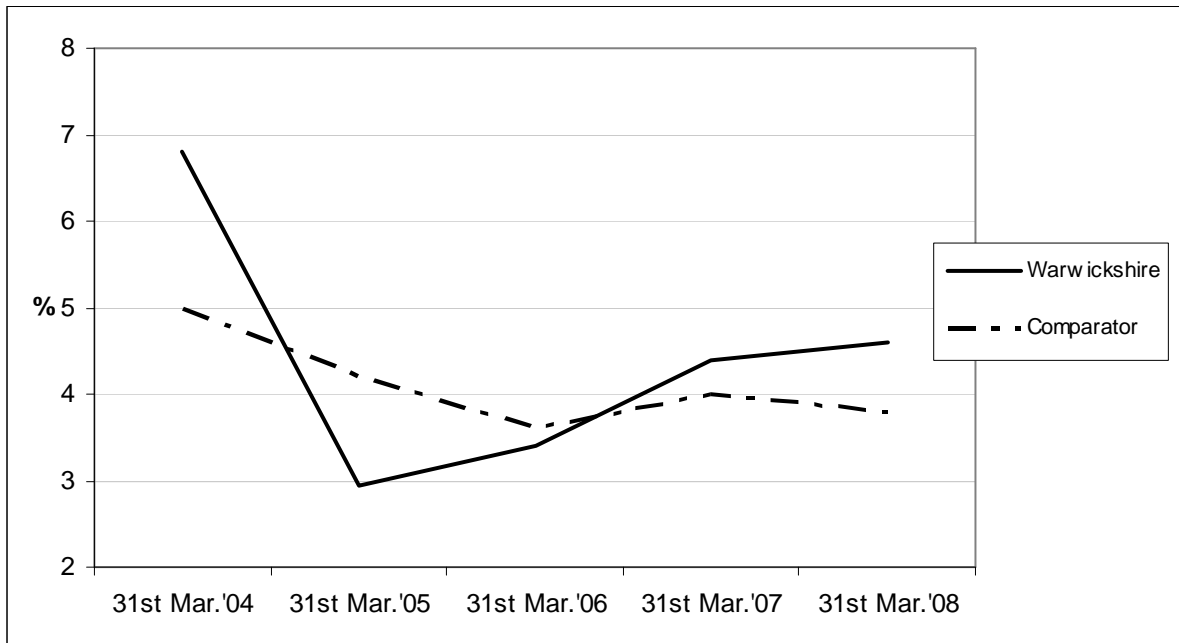
2.1 The table below shows:

- **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.

		2004	2005	2006	2007	2008
A	'Over-42 days' debt (£m)	3.4	1.7	2.4	2.8	3.0
B	Invoices issued in year (£m)	50.6	55.9	70.6	63.5	64.3
C	'Over-42 days' debts as a percentage of the value of invoices raised (%)	6.8	3.0	3.4	4.4	4.6

- 2.2 The value of invoices raised has increased substantially since 2004 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.
- 2.3 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 overleaf 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



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

3.1 The performance of individual Directorates since 31st March 2005 is indicated in figures 2 and 3 overleaf. Figure 2 summarises the annual position for each Directorate, whilst figure 3 shows a more detailed analysis of each Directorate's performance with time. It should 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

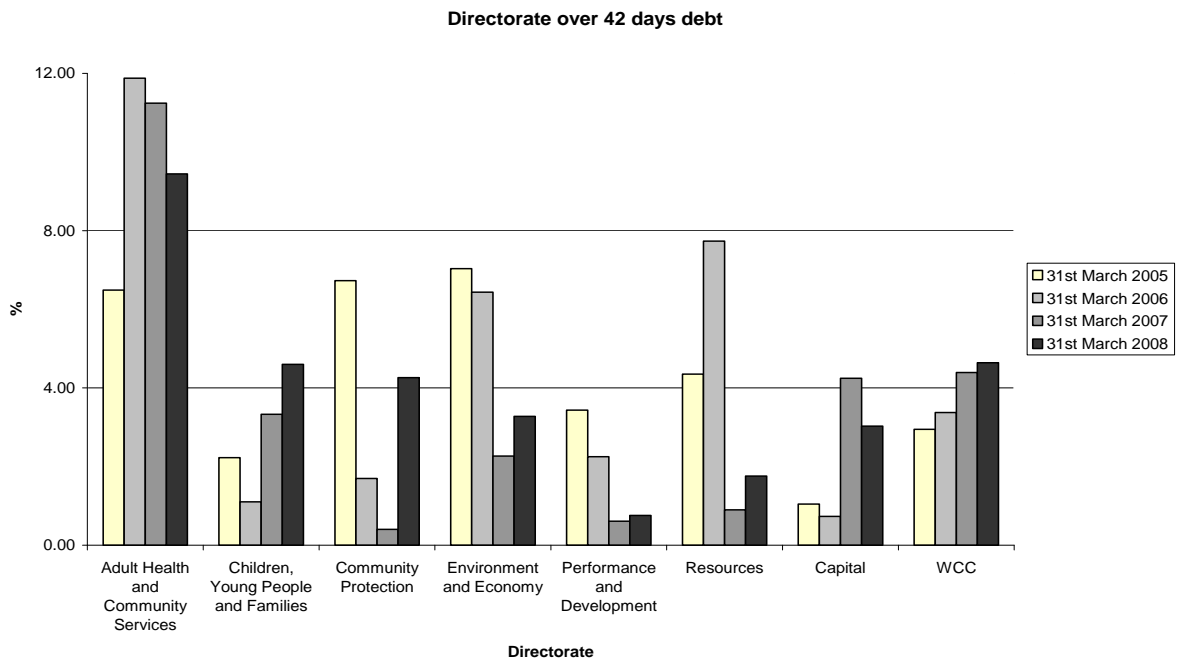
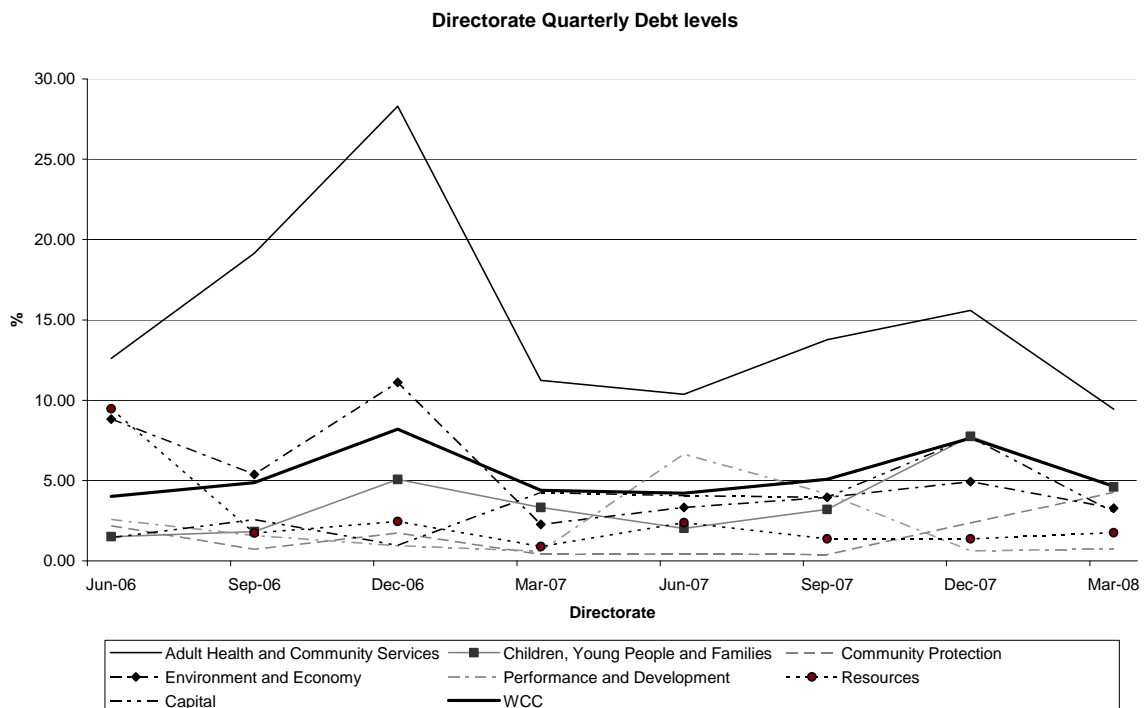


Figure 3: Over-42 days debts as a percentage of annual invoices raised for Directorates and Warwickshire as a whole: quarterly breakdown



4 Commentary on performance

- 4.1 The overall performance for Warwickshire County Council (WCC) for 2007/08 is 4.6%. This is above the 4% target and is marginally worse than last year (4.4%).
- 4.2 The performance of WCC in 2007/08 has not been as good as the comparator authority. However, the total value of invoices raised by Warwickshire has increased by approximately 1% in the last year, whilst in contrast the comparator authority's total value of invoices raised has increased by 10%. This increase in the number of invoices raised does have an impact on the percentage of invoices outstanding.
- 4.3 Adult, Health and Community Services (AHCS) is the only Directorate that has been consistently above the 4% target during the year 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, AHCS is hit especially hard by a few, relatively large, outstanding debts. In February 2008, Cabinet approved a report requesting the write off of over £200,000 of Primary Care Trust (PCT) debt that was considered irrecoverable. These debts related to the old PCT's and not the current Warwickshire Primary Care Trust (WPCT). WPCT also repaid a significant amount of debt at the end of the year.
- 4.4 Whilst approving the report, Cabinet requested that the Adult, Health and Community Services Overview and Scrutiny Committee should review the manner in which the debts accrued and should recommend any action to prevent similar situations occurring in the future.
- 4.5 The Children, Young People and Families (CYPF) directorate has seen a slight decline in performance towards the end of 2007/08 resulting in the directorate being over the 4% target. This is largely due to the same issues around PCT debt as experienced by the Adult, Health and Community Services Directorate. Approximately one fifth of the outstanding over 42 days debt relate to schools. Unfortunately the timing of the Easter holidays coupled with the half term break meant that some payments from schools were delayed allowing some debt to fall into the over 42 day category.
- 4.6 A point to note is that the CYPF directorate dominates the total value of invoices raised by the County Council overall, approximately 39% (compared with 19% for Environment and Economy and 17% for Adult, Health and Community Services). This means that any change to the CYPF debt performance has a significant impact upon the debt performance of the County Council as a whole.
- 4.7 The Community Protection directorate was the only other directorate to end the year over the 4% target. This was due to invoices for the Warwickshire Primary Care Trust that just fell into the over-42 category at the end of the year. Due to the relative small number of invoices issued by the directorate during the year any invoices that fall into the over 42 day category have a major impact on the directorates performance but have relatively little effect on the County Council's corporate target.

5 Debts written off

- 5.1 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 2007			31 st March 2008		
	(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	270	16.1	0.12	237	210.5	1.91
Children, Young People and Families	74	15.3	0.07	120	12.8	0.05
Community Protection	42	2.2	0.05	65	4.4	0.15
Environment and Economy	63	9.0	0.07	92	16.2	0.10
Performance and Development	1	1.6	0.10	3	2.5	0.10
Resources	18	2.5	0.05	13	3.3	0.09
TOTALS	468	46.6	0.07	530	249.7	0.39

- 5.2 The figures in columns (3) and (6) above demonstrate that the value of write-offs is, less than half of one per cent, very small compared with the annual value of debts raised. This level of write offs has increased from 2007 due to approximately £200,000 of Warwickshire Primary Care Trust debt that was written off in order to aid better partnership working with the Trust (Cabinet 21 February 2008).

6 Debts not included in figures above

- 6.1 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 following paragraphs.

6.2 Social Services – Residential Care

	31st March 2007	31st March 2008	Variation
Total 'over 56 days' debt	£2.047m	£2.646m	£0.599m
Total income collected in year	£14.329m	£16.249	£1.920m
'Over 56 days' debt as % of total income collected	14.30%	16.28%	1.98%

6.2.1 Part of the £2.646 million 'over 56 days' debt for Residential Care is secured debt and this is indicated below:

- £1.085 million is secured by legal charge on property. This compares to £0.719 million at 31st March 2007.
- £0.039 million relates to deceased persons, which are awaiting action by the estate. This compares to £0.044 million as at 31st March 2007.

This leaves unsecured debts of £1.522 million compared with £1.280 million at 31st March 2007.

6.3 Social Services – Domiciliary Care

	31st March 2007	31st March 2008	Variation
Total 'over 56 days' debt	£0.128m	£0.165m	£0.037m
Total income collected in year	£2.782m	£4.034m	£1.252m
'Over 56 days' debt as % of total income collected	4.6%	4.1%	-0.5%

6.4 Property – Rent Management

	31st March 2007	31st March 2008	Variation
Total 'over 42 days' debt	£0.213m	£0.158m	£-0.055m
Total amount invoiced in year	£2.344m	£2.549m	£0.205m
'Over 42 days' debt as % of total amount invoiced	9.1%	6.2%	-2.9%

Please note that £0.112m of the £0.158m outstanding 'over 42 days' debt relates to Smallholdings rent, due to the Environment and Economy Directorate.

6.5 Library & Information Service – Outstanding Book Invoices

6.5.1 During 2007/08 the Library invoicing system was upgraded. This has resulted in a more detailed monitoring approach to the collection of debts. For example, debts over £10 are now followed up by invoice where previously the threshold used to be

£40. Also CD and DVD debts are now consolidated into the system where previously they were held separately.

- 6.5.2 In order to accurately report on the 2007/08 performance the information is split between the old and new system.

Old System

Year	Number of Invoices Raised	Value (£)	Items returned/ paid for/ cancelled (£)	%	Write Offs (£)	%
2005/06*	1,672	99,511	54,456	55	45,055	45
2006/07+	1,289	87,025	43,535	50	43,489	50
2007/08^	502	34,262	12,996	38	21,266	62

* Debts under £30 not raised, followed up with client on next visit to library.

+ Debts under £40 not raised, followed up with client on next visit to library.

^ Due to the transfer to the new system, after consultation with Legal Services debts not paid by the end of 2007/08 were written off.

New System

	Stock Invoices Raised in 2007/08
Current Outstanding Debt	£31,193
Number of invoices to which debt relates	2,897
Number of invoices raised in the 6 monthly period	3,406

Note: This outstanding debt includes CD and DVD stock. This makes it difficult to compare to previous years balances. A review is about to take place where debt considered uncollectible will no longer be actively pursued (written off for financial purposes). The debt remains on the borrower record to enable collection should they visit a library in the future.

7 Comments from Community & Environment Legal Services, Law & Governance

- 7.1 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 very small number of debts need to be pursued through the Court.
- 7.2 Clients referred 235 debts to Law & Governance in the year 2007/08. The number of referrals was down by 228 in comparison to referrals for 2006/07. This is partly due to the fact that some clients are no longer referring smaller value debts under £500 and that more and more debts are being paid at the pre-referral stage because of earlier improvements in credit control made by the Directorates. A total of 145 debts were paid off in full, approximately 71% 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 £418,943.30, which is approximately 84%).

- 7.3 A small number of problematic debt matters were referred in the year 2007/08 initially for advice. Of these, 33 debts (totaling £46,587.36) resulted in cancellation of the invoices or charges as they were claimed in error and / or there was insufficient documentation to substantiate the debts. (The cancelled debts have been deducted from the referral figure when preparing statistics for paragraph 7.2)
- 7.4 The referral figure also includes 68 Community Care and Residential debts, which are not on the ASH debtors system. The majority of these were referred for monitoring where the service is ongoing or for advice on recovery / consideration for write off, where the service had ended.
- 7.5 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 high-quality debt recovery service can be offered to directorates. The overall debt recovery service includes the provision of general advice on individual debt matters at the pre-referral stage as well. It is important to seek advice at an early stage in the process should the debt become problematic. In order to ensure that earlier improvements to credit control and recovery of debt owed to the Council continue it is essential that all Directorates refer unpaid debts promptly to Law and Governance.

8 Cost of Debt Recovery

- 8.1 The 2007/08 staffing costs of administering debt recovery are estimated at £130,000 per year. The loss of interest incurred in failing to recover all Ash debts within 42 days is estimated at £96,000.