

Resources and Fire and Rescue Overview and Scrutiny Committee

15 December 2019

Debt Management Process

Recommendation(s)

1. Note current performance in relation to income management and debt recovery and the planned development of an income management strategy.
2. Note the developments that are underway to continue to improve the Council's collection of income and management of debt.

1.0 Background

1.1 Resources and Fire and Rescue Overview and Scrutiny Committee has requested a report on the Council's debt management process. This report provides the committee with:

- An overview of the Council's income and debt recovery policy;
- Information on the Council's performance in receiving payments due and recovering monies owed, including comparisons to other similar authorities; and
- Proposals for developing an Income Management Strategy and updated debt recovery policy along with a summary of the ongoing activities to manage income and debt effectively.

2.0 Income and Debt Recovery Overview

2.1 The effective management and collection of debt is an essential contributor to WCC's financial resources and an integral part of the wider resourcing of service provision. The corporate debt recovery policy has the following objective: *"In order to maximise income for the provision of good and services, Warwickshire County Council will collect all debt owing to it promptly, effectively, efficiently and economically."*

- 2.2 The debt recovery policy sets out the principles by which Services should raise charges for goods and services and manage the collection of income. It sets the framework under which the Council can claim interest on late payments, allow payment by instalments, and instigate debt recovery proceedings, including referral for legal action. The policy also describes the circumstances under which debts may be written off, and the approvals required to do so. In accordance with good accounting practice, the Council makes appropriate provision for bad debts, and this is determined by each Directorate based on an assessment of the type and age of debts outstanding.
- 2.3 WCC raises around 30,000 invoices to customers (“sundry debtors”) each year with a value of nearly £160m, and a further 65,000 invoices with a value of £35m for Adult Social Care services. The number of sundry debtor invoices has remained relatively stable over the past five years, although the value of invoices has increased significantly from c£80m to c£160m as a result of the increase in construction work taking place across the County under section 106 and section 278 agreements. Over the same period, adult social care income invoiced has increased by c. £11.5m, resulting in a further 20,000 transactions per annum. Given the complexity and the sensitivities around social care debt, separate processes and policies apply.
- 2.4 The increase in both the value and volume of income related transactions means that it is essential that income and debt recovery remains a highly visible activity that is managed and monitored effectively.

3.0 Income and Debt Recovery Performance – Sundry Debt

3.1 Summary of Sundry Debtors (excluding Social Care)

As at 30th September 2019, WCC had £10.1m of debt more than 35 days old. Of this, £2.7m (27%) related to third party developers; £2.3m (23%) to the NHS; £1.7m (17%) to WCC maintained schools (of which £1.3m related to schools in financial difficulty); and the remaining 33% related to a range of other sundry debtors¹.

¹ For comparison purposes, WCC currently pays 92% of supplier invoices within its standard payment terms of 30 days, compared to a target of 95%.

3.2 Comparative Performance

The latest CIPFA benchmarking data shows that the County Council performs well compared to other local authorities. The cost of debt recovery is lower than other authorities, while productivity is higher and a greater proportion of invoices is collected within a 90-day timeframe. In addition, WCC writes off less of its total debt than the average:

	Table 5: Sundry Debtors - Comparative Measures	WCC	Average
1	Cost per £'000 debit raised	£2.58	£3.24
2	Debtor days (the average days taken for a debt to be paid)	31.5 days	31.5 days
3	% invoices collected in 90 days	92%	83%
4	% debt (by value) collected in 90 days	87%	88%
5	Cost per invoice	£5.02	£6.45
6	Invoices processed per FTE	9,356 invoices	9,248 invoices
7	Write-offs as % of total debt	0.13%	0.38%

3.3 Third Party Developers

WCC invoices third party developers where the Council has carried out work on their behalf under a specific development agreement (e.g. S106 and S278 agreements). The potentially prolonged timescale between signing the agreement and the billing process can result in detailed negotiations before invoices are settled. In order to recognise this negotiation stage, WCC has introduced a practice of finalising and agreeing the invoice amount with the developer before the invoice is issued. There should therefore be no reason for developers not to pay within WCC's 21-day payment terms. Nevertheless, the authority does on occasion have some difficulty in recovering contributions on time and a review of the current processes is underway to ensure that these debts are being escalated quickly and a robust approach is being taken to recovering sums due.

3.4 WCC Maintained Schools

Of overdue debt relating to WCC maintained schools, 76% relates to schools in financial difficulty. These debts are not actively pursued but support is proactively provided through the Schools Finance Team to help schools put in place a robust financial recovery plan. Until schools are able to recover their deficits, this remains a financial risk for the council that needs to be managed through reserves, and it is important that the position is kept under review. When the school becomes financially stable then repayment of outstanding debts is pursued.

3.5 NHS

NHS debts are managed through an ongoing dialogue between the County Council and NHS partners regarding Joint Funding and Continuing Health Care. The Debt Recovery Team sends regular statements to the CCGs, and outstanding invoices are discussed directly with CCG representatives rather than escalating to Legal Services. There is clearly a balance to be achieved when working with partners. However, other levers are being pursued, including increased liaison between the County Council's and CCGs' finance services.

3.6 Sundry Debtors

For other sundry debts, the debt management processes are applied, involving reminder letters and ultimately a referral to legal services. In some instances, where debt is considered to be unrecoverable, debts are written off.

4.0 Income and Debt Recovery Performance – Social Care Debt

4.1 Of the total amount invoiced for Social Care costs, the County Council successfully collects around 93% in the first 12 months. There is some limited benchmarking information available from the CIPFA benchmarking results 2018 against which Warwickshire's performance can be compared:

Table 2: Adult Social Care: Comparative Measure	WCC	Average
Debtor days – Residential Care	131 days	93 days
Debtor Days – Non-residential Care	51 days	84 days
Write-offs as % of debt – Residential Care	0.14%	0.68%
Write-offs as % of debt – Non-residential Care	0.34%	2.43%

4.2 These statistics suggest that WCC is more successful in securing payment from clients and other parties than the comparator group for both residential and non-residential care, although it has to wait longer for payment in respect of Residential Care.

4.3 The level of social care debt has been increasing in recent years, and as a result the bad debt provision at the end of 2018/19 was increased to £1.3m, which represents c. 10% of total outstanding aged debt.

- 4.4 Social care debt will be pursued until it is deemed irrecoverable, at which point amounts under £2,000 are written off against the provision, while elected members are asked to approve the write-off of debts over this value. Debts are only deemed irrecoverable for one of the following reasons: a) Death: estate impecunious, b) Customer subject to a Debt Relief Order, c) No funds available: confirmation by Appointee, d) Charges incorrectly applied/communicated, e) Limitation period for recovery reached, or f) Further pursuit uneconomical.
- 4.5 The provision for adult social care bad debt was reviewed in April 2019 and amended to reflect more accurately the risk of unrecoverable debt. The provision is now calculated based on both the age of the debt, and whether it is secured (either on property or by instalments) or unsecured. The current provision is £1.037m, which represents c. 3% of the annual income raised.

5.0 Service Developments

- 5.1 A new Income Management Strategy with a refreshed debt recovery policy is being developed for implementation from April 2020. This will ensure the alignment of the Council's income collection and debt recovery policies and practices with the organisation's over-arching direction of travel. In particular, it will look at balancing the need to provide customers with appropriate mechanisms to make payments for goods and services (recognising the differing characteristics of the various customer and client groups) with the objective of placing digital at the heart of the relationship with customers.
- 5.3 The refreshed debt recovery policy will review the approach to setting the bad debt provision for sundry debts, as has already been done for adult social care. At present the adequacy of the provision is reviewed by each Directorate individually as part of the year-end accounting processes, based on the type and age of debt. At the end of 2018/19 the Council's total bad debt provision was £2.013m, as set out below:

Bad Debt Provision @ 31 March 2019	£m
Schools	0.036
People	1.472
Communities	0.337
Resources	0.166
Total Bad Debt Provision	2.013

The review will consider whether it is appropriate to introduce a standard approach to calculating the bad debt provision across all Directorates, and if so, what the basis of the calculation should be.

- 5.2 The adoption of an Income Management Strategy will be the catalyst for reviewing all of the channels of payment that are available to the Council's customers, looking particularly at changes that are needed to align current practices to the strategy, opportunities to take full advantage of digital technologies, and moving to an offer of a comprehensive and cohesive package of payment options to customers.
- 5.3 The Finance service is currently working with other WCC services to implement a facility for payment by direct debit. The facility has already been introduced in School Transport, with a view to rolling it out across other key services. To date, 3520 payments totalling over £290,000 have been made successfully by School Transport customers. Planning is underway for implementation in Adult Social Care, and opportunities for further rollouts are currently being assessed.

6.0 Financial Implications

- 6.1 The financial implications of the report are set out in the sections above.

7.0 Environmental Implications

- 7.1 The new Income Management Strategy will review how payment channels can be made available to customers which align with the Digital and Technology Strategy. Over time, there is the potential for the increased use of digital payment channels to reduce significantly the need for paper-based payment mechanisms.

Supporting Document

Warwickshire County Council Debt Management Policy

	Name	Contact Information
Report Author	Liz Firmstone	lizfirmstone@warwickshire.gov.uk Tel: 01926 412458
Assistant Director	Richard Ennis	richardennis@warwickshire.gov.uk Tel. 01926 412441
Strategic Director	Rob Powell	robpowell@warwickshire.gov.uk Tel. 01926 412045
Portfolio Holder - Deputy Leader (Finance & Property)	Cllr Peter Butlin	

The report was circulated to the following members prior to publication:

Local Member(s): none
Other members: none