

**DEBT MANAGEMENT UPDATE**

**To:** Audit and Accounts Committee

**Date:** 28<sup>th</sup> January 2020

**From:** LGSS Head of Revenues and Benefits

**Electoral Division(s):** All

**Purpose:** To update the Committee on actions being taken to control and manage debt.

**Key Issues:** *The levels of aged debt in Cambridgeshire had been increasing and the Committee were seeking re – assurance of management actions and that progress was being made in the management of debts owed to the Council.*

**Recommendation:** The Committee is asked:

- a) To note the actions and approach being taken to manage income collection and debt recovery
- b) Agree that a further update will be provided on 2019/20 position (Q4 outturn) in June 2020
- c) To confirm future reporting requirements

<b><i>Officer contact:</i></b>	
Name:	Robin Bates
Post:	LGSS Head of Revenues and Benefits
Email:	<a href="mailto:Robin.Bates@milton-keynes.gov.uk">Robin.Bates@milton-keynes.gov.uk</a>
Tel:	01908 25 2082

## **BACKGROUND**

- 1.1 Members have been monitoring the position with outstanding debt having noted that Cambridgeshire County Council (CCC) needed to lower the level of operational debt outstanding.
- 1.2 This report is an update following the previous report presented to both the Audit and Accounts and General Purpose Committee meetings in June 2019 and sets out the current position, the actions being taken to reduce debt as well as an update on progress made within Quarter 1(Q1) to Quarter 3 (Q3) of 2019/20.

## **2 ACTIVITY UPDATE**

- 2.1 For the purposes of like for like comparison this report provides an update against the tables and metrics provided as part of the report in January and June 2019.
- 2.2 A new reporting pack has been implemented, which provides a better visibility of balances across the Council by comparing and tracking collection rates as well as showing where overdue balances are in terms of resolution.
- 2.3 The month end reporting pack now reflects the Directorates that are reported directly out of the ERP system. The new pack also drills down into the detail to separate out Cambridgeshire and Peterborough NHS Clinical Commissioning Group (CCG) debt as this debt is low volume and high value which is classed as delayed payment and is managed directly by CCC Finance team.
- 2.4 Customer contact is now being managed directly into the Debt Team rather than fielded through the helpdesk. This allows a skilled recovery officer to speak directly to the customer on their first contact.
- 2.5 Highlights of the activity and progress over recent months to pursue overdue balances and debts are detailed below:
  - Recovery letters are now issued automatically as an invoice passes the due date for payment
    - 1<sup>st</sup> Reminder issued 7 days after due date for payment
    - Final Notice issued 17 days after due date for payment
    - Letter Before Action issued 28 days after due date for payment

Recovery letters Issued between 1st April 19 and 31<sup>st</sup> December 19

	<b>Number of notices</b>	<b>Value (£m)</b>
Reminder	8,580	41.19
Final Notice	6,011	25.52
Letter Before Action	2,636	20.17
<b>Total</b>	<b>17,227</b>	<b>86.88</b>

- The Collection Agents Bristow & Sutor are now supporting debt management in CCC based on 0% commission - which is a 15% saving on commission charge by previous collection agents used. Initial collection and contact rates are positive with just under £75k recovered between October and December.
- The data cleanse and case review has continued and has produced opportunities to escalate debts through the appropriate course of recovery by referral to collection agents, to regulated legal providers or recommended for write off. This followed resourcing issues within the service throughout 2018/19.
- Cases are regularly reviewed with LGSS Law and continue to be pursued through the courts where appropriate. Recovery through the courts does carry cost to CCC and therefore action is carefully considered before and during proceedings.
- The case review carried out by the debt team included some root cause analysis, which has identified some gaps in ASC processes. The Debt Team are liaising with relevant service areas in order to address and support a more consistent approach which will maximise collection and ensure accurate invoicing.
- Each month members from each debt team (CCC, Northamptonshire County Council (NCC) & Milton Keynes Council (MKC)) meet to discuss common issues and share knowledge and expertise at a debt working group. Ideas and suggestions put forward by the debt working group are reviewed and either internal processes revised or change requests are submitted to Business Systems when needed.
- High value invoices are monitored and individually managed.
- Uncollectable debts are being moved through to write off with £72,678 written off to date and further invoices totalling just under £144,000 due for write-off in January 2020. These debts are uncollectable on the

grounds that they are either uneconomical to pursue, the customer is deceased or that all methods of recovery available to the service have been considered. Further work continues on identifying uncollectable debts and passing for write-off by 31 March 2020.

- Regular meetings are being held with Finance Operations and wider teams that support debt management to review and improve the end to end process. Monthly Top Debtor meetings are being established to be proactive on large outstanding debts. This allows the Service to be actively involved if there are any billing discrepancies or if all outstanding debt recovery routes have been exhausted an action plan of the way forward can be agreed. This will increase the amount of time debt officers have to actively chase debt rather than resolving queries on the validity of a debt.

### 3. KEY PERFORMANCE INDICATORS

#### 3.1 Collection Rate

The Chartered Institute of Public Finance and Accountancy (CIPFA) benchmark standard is to measure % of invoices raised and debt collected within 90 days during the financial year. CCC results against the CIPFA benchmark average for 2018/19 are shown below:

% cleared in 90 Days	By Value	By Volume
CIPFA benchmarking average 2018/19	87%	87%
CCC 2018/19	95%	84%

In addition the service tracks the overall % of invoices raised and cleared over the life of the debt. The table below show the current % for invoices raised in current financial year as at 31<sup>st</sup> December 19:

Value	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Invoiced (£m)	22.55	7.27	18.38	9.17	6.18	8.32	20.49	20.12
Collected (£m)	22.02	7.06	17.99	8.41	5.12	7.48	18.93	8.19
In Year Collection Rate	98%	97%	98%	92%	83%	90%	92%	41%
Volume								
No. of invoices issued	4,391	5,017	5,314	5,206	4,079	4,717	4,351	6,465
No. of Invoices cleared	4,147	4,811	4,950	4,780	3,692	4,228	3,737	4,223
In Year Collection Rate by volume	94%	96%	93%	92%	91%	90%	86%	65%

This indicator demonstrates that the majority of invoices raised during the year are being collected, the % collected increasing the further an invoice moves through the initial recovery cycle.

### 3.2 Movement in Overall Debt

- 3.2.1 The debt recovery function moved into the LGSS Revenues & Benefits service at the end of February 2019. A high level comparison of the overall CCC debt movement through Q2 and Q3 indicates an £1.31m improvement in the overall debt position.

#### Movement in overall debt position since 1 March 2019

Overdue Debt £m							
	1-30 days	31-90 days	91-183 days	184-365 days	366-730 days	Over 730 days	Total
01/03/2019	12.01	2.72	3.05	4.97	3.63	1.77	<b>28.15</b>
01/10/2019	2.20	1.64	2.21	2.89	6.26	1.73	<b>16.93</b>
01/01/2020	12.22	2.42	2.19	2.60	5.53	1.88	<b>26.84</b>
<b>Movement</b>	<b>0.21</b>	<b>(0.3)</b>	<b>(0.86)</b>	<b>(2.37)</b>	<b>1.9</b>	<b>0.11</b>	<b>(1.31)</b>

The above table demonstrates that whilst aged debt is continually being cleared, evidenced by the reduction in overall debt at the end of Q2, there are always new invoices being raised so there will always be debt reported as outstanding. At the end of Q3 two invoices totalling £8.8m due for payment by Cambridgeshire & Peterborough NHS CCG on 14 December 2019 had become overdue thereby increasing 1-30 days from the amount reported at the end of Q2. Strong debt management is important to ensure that all future debt does not become problem debt. The focus in the last 6 months has been to ensure that new debt does not become old debt and the overall reduction in debt between 31 and 365 days evidences this. In Q4 we are now working on reviewing our oldest debts.

- 3.2.2. In order to examine further the movement in aged debt that has taken place an analysis has been undertaken of the debt that was outstanding at 1 March 2019 and the position of those debts at the end of Q2 and Q3.

#### Analysis of current position of invoices that were unpaid as at 1 March 2019

	Not Yet Due £m	Overdue Debt £m						
Balance at	0 days	1-30 days	31-90 days	91-183 days	184-365 days	366-730 days	Over- 730 days	Total
01/03/2019	7.38	12.01	2.72	3.05	4.97	3.63	1.77	35.53
01/10/2019	0.90	0.40	0.39	1.71	3.83	2.43	1.18	10.84
01/01/2020	0.51	0.26	0.33	1.54	3.60	2.30	1.04	9.58
<b>Movement</b>	<b>(6.87)</b>	<b>(11.75)</b>	<b>(2.39)</b>	<b>(1.51)</b>	<b>(1.37)</b>	<b>(1.33)</b>	<b>(0.73)</b>	<b>(25.95)</b>

Of the £35.53m total debt that was outstanding at 1 March 2019, (this included invoices that which were not yet due for payment at that time), only £10.84m remained unpaid at 1 October 2019 and by 31 December that had further reduced to £9.58m, a reduction in debt of £25.95m.

Again the most significant movement in the debt can currently be seen in the earlier stages of recovery demonstrating the effect of our focus on ensuring that new debt does not become aged debt and confirmed by the in year collection % figures earlier.

### 3.3 Classification of Overdue Debt to identify Debt Issue

The classification and analysis of debt is imperative in order to recognise from the total outstanding debt what should be considered as a “debt issue”. Through improved reporting we are now able to produce a simple table to show this transparently and this allows the debt team to focus resource on the recovery of ‘problem’ aged debt.

The table at 3.2.1 above provides an overall debt figure of £26.84m as at 31 December 2019. However within this figure £14.01m is due from Cambridge and Peterborough NHS CCG and £0.5m from LGSS Law. The collection from both of these is currently monitored and managed by CCC Finance team rather than the debt team. The overall debt under the management of the debt team is £12.33m. This can be further broken down to identify ‘problem debt’ or the actual debt where collection is or may be an issue and is currently under recovery by the debt team.

**01/01/2020**

	<b>Total Overdue £m</b>	<b>Pre 18/19 Overdue Debt £m</b>	<b>Post 18/19 Overdue Debt £m</b>
<b>Total Overdue Debt with Debt Team</b>	<b>12.33</b>	<b>2.25</b>	<b>10.08</b>
Already earmarked for write off	-0.14	-0.07	-0.07
Unallocated Credit Notes	-1.77	-0.45	-1.32
Secured via instalments	-1.73	-0.48	-1.25
Secured against a property	-0.23	-0.18	-0.05
Service area disputed - payment delay (a)	-1.09	-0.25	-0.84
<b>Total Debt Issue</b>	<b>7.37</b>	<b>0.82</b>	<b>6.55</b>

(a) These are invoices that have been disputed by the customer after being raised and are currently under investigation by the service area and debt recovery action is suspended until the review is completed. They will return to recovery if the dispute is dismissed.

A further analysis is undertaken to drill down into the overall debt to distinguish between Adult Social Care Debt and other Sundry Debts.

The overall debt managed by the debt team of £12.34m is split between £7.81m for ASC and £4.52m for Sundry. Of this, the total debt which is or may become an issue with regard to collection is split £5.94m for ASC and £ 1.43m for sundry.

## 01/01/2020

<b>Adult Social Care</b>	<b>Total Overdue £m</b>	<b>Pre 18/19 Overdue Debt £m</b>	<b>Post 18/19 Overdue Debt £m</b>
<b>Total Overdue Debt with Debt Team</b>	<b>7.81</b>	<b>1.92</b>	<b>5.89</b>
Already earmarked for write off	-0.12	-0.06	-0.06
Unallocated Credit Notes	-0.08	0.00	-0.08
Secured via instalments	-0.71	-0.41	-0.3
Secured against a property	-0.22	-0.17	-0.05
Service area disputed - payment delay (a)	-0.74	-0.16	-0.58
<b>Total Debt Issue</b>	<b>5.94</b>	<b>1.12</b>	<b>4.82</b>

## .01/01/2020

<b>Sundry Debt</b>	<b>Total Overdue £m</b>	<b>Pre 18/19 Overdue Debt £m</b>	<b>Post 18/19 Overdue Debt £m</b>
<b>Total Overdue Debt with Debt Team</b>	<b>4.52</b>	<b>0.33</b>	<b>4.19</b>
Already earmarked for write off	-0.02	-0.01	-0.01
Unallocated Credit Notes	-1.69	-0.45	-1.24
Secured via instalments	-1.02	-0.07	-0.95
Secured against a property	-0.01	-0.01	0.000
Service area disputed - payment delay (a)	-0.35	-0.09	-0.26
<b>Total Debt Issue</b>	<b>1.43</b>	<b>-0.3</b>	<b>1.73</b>

(a) The payment of these invoices is being managed by the CCC finance team and therefore is not considered problem debt or subject to recovery action at the present time

## 4. Summary

4.1 It was predicted in the June 2019 report that with stable resourcing of the team together with the improvement plan the service would deliver an expected reduction in overall outstanding debt (£) at CCC.

4.2 The % of invoices cleared after 90 days for 2018/19 was 95% of the value raised compared to a CIPFA benchmarking average of 87% (3.1).

- 4.3 The high level comparison of the overall CCC debt position at 1 March 2019 and 1 January 2020 shows an £1.3m improvement in the overall debt position (3.2.1)
- 4.4 With debt profiling now in place and reported on, it is possible to report excluding debt that is not managed by the Debt Team (NHS CCG & LGSS Law). Taking this into account the total overdue debt position at 1 January 2020 was £12.33m against a forecasted position of £12m of which £7.37m is currently under recovery by the Debt Team. (3.3)
- 4.5 Further work will continue until year end to improve review and cleanse aged debt and to review debt currently marked as in dispute with the service area. Work is to be undertaken to create a collectability matrix for overdue debt to assist in budgeting and forecasting of future bad debt provision requirements.
- 4.6 Future reporting of debt will be provided quarterly based on three key performance indicators identified:
- (a) Collection Rates
  - (b) Overall Debt Movement
  - (c) Classification of Overdue Debt to monitor 'Total Debt Issue'

Background Papers: None