

By: Cabinet Member for Finance
Director of Finance

To: Governance & Audit Committee – 30 June 2010

Subject: **DEBT RECOVERY**

Classification: Unrestricted

Summary: To report on the Council's debt recovery position.

FOR INFORMATION

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with a summary of the Council's debt recovery position.
2. This report concentrates mainly on debt over 6 months old.

MANAGEMENT SUMMARY

3. The overall outstanding debt as at 30 April 2010 as shown on Oracle Accounts Receivable is £52,587,839. This represents KASS social care debt from SWIFT of £12,768,860 and sundry debt (which includes some social care Health debt) of £39,818,979.

The difference between the £12,768,860 and the figure quoted in Section 10 of this report of £16,470,417 is £3,701,557. This is explained by a 4 weekly billing run of £3,933,070 which interfaced on the 4th May. The remaining balance of -£231,513 would be due to transactions in relation to income received and adjustments made between 1st and the 4th May 2010.

4. Since October 2009 the responsibility for the collection and monitoring of KASS social care debt returned to the Directorate and therefore this report focuses on sundry debt with a section provided by KASS on Social Care debt.
5. Please note that throughout this report Chief Executive will include the old Corporate debt, CFE will include the old Education debt, and EHW will include the old Strategic Planning and E&R debt. We are unable to retrospectively amend Oracle to reflect the new directorate structure. The debt reporting is calculated from the invoice due date and not the invoice date.

6. The table below is an analysis of the summary position as at 30 April 2010.

Directorate	Outstanding Debt (excluding debts not yet due) £	Over 6 Months £
Chief Executive	2,600,509	50,506
CFE	4,631,870	1,369,906
EHW	2,096,829	328,737
Communities	10,469,748	86,699
KASS (Sundry)	2,252,546	426,646
Total	22,051,502	2,262,494

The above figures do not include those debts which are not yet due, which total £17,767,477.

PERFORMANCE

7. There are two performance indicators that the Debt Recovery Team aims to achieve. The percentages are based on the total outstanding unsecured debt.
- Total outstanding sundry debt under 60 days old – greater than 65%
 - Total outstanding sundry debt over 6 months old – less than 20%
8. As at 30 April 2010 87% of the total sundry outstanding debt is under 60 days old and 6% is over 6 months old so these targets are being exceeded.

DEBT LEVELS OVER SIX MONTHS OF AGE

9. Below is an analysis of the categories of debt over 6 months old.

Directorate	Status of Debt	Amount Over 6 Months Old £
Chief Executive	Instalments	2,830
	Referred to legal services	23,650
	Referred for write off	0

	Referred to directorate for action	13,285
	Ongoing action	10,741
	Sub total	50,506

CED

- Of the £50k outstanding debt over 6 months old, there is one outstanding invoice of £10k for Kent Commercial Services (classed as internal debt) which they are disputing and discussions are on-going.
- A further £23k represents 2 invoices that Legal Services are reviewing.

		£
CFE	Instalments	13,791
	Referred to legal services	17,854
	Referred for write off	4,178
	Referred to directorate for action	1,112,189
	Ongoing action	10,713
	Internal school charges	211,181
	Sub total	1,369,906

CFE

- Of the £1.37 million outstanding debt over 6 months old, there is £1 million relating to an invoice to Folkestone Academy for the sale of land which is in dispute.
- There is £81k of Health debt.

		£
EHW	Instalments	700
	Referred for write-off	1,504
	Ongoing action	64,349
	Referred to directorate for action	149,733
	Insurance	23,484
	Referred to legal services	88,968
	Sub total	328,738

EH&W

- Of the £329k outstanding debt over 6 months old there is a large invoice of £146.8k to Interroute Ltd. This has since been paid..
- There is one invoice of £62k to Veolia ES (UK) Ltd for costs associated with emergency repairs.

		£
KASS (Sundry debt)	Instalments	17,611
	Referred to legal services	17,948

	Referred for write-off	24,929
	Ongoing action	33,967
	Health debt	286,110
	Referred to directorate for action	32,808
	Estate	1,833
	Secured	1,664
	Collect Opening balance	9,776
	Sub total	426,646

KASS

- Of the £426k outstanding debt over 6 months old there is £286.1k owing by the Health Authorities.
 - Of this debt, £53k is under 1 year old;
 - £186k is debt between 1 and 5 years old;
 - £24k is debt over 5 years old
 - £23k is debt over 6 years old.
- There is a total of £13.5k relating to overpayment of fees to residential/nursing homes for social care.
- The £10k of COLLECT closing balances refer to the transition of charging software from COLLECT to SWIFT.

		£
Communities	Instalments	6,818
	Referred for write-off	650
	Referred to directorate for action	58,567
	Ongoing action	11,075
	Referred to legal services	9,589
	Sub total	86,699

Communities

- Of the £87k outstanding debt over 6 months old, £52.8k relates to one invoice to West Kent Primary Care Trust raised by KDAAT for a joint commissioning manager for the year 08/09.

General comments

- Health Authorities have long term debts with 4 of the directorates. This income is difficult to collect and involves protracted discussions.
- Exchequer Services are making more use of the Small Claims Court which now accessible on-line.
- When items are referred to legal services the process can be protracted as it can involve negotiation and court processes.
- Direct Debits are encouraged for instalment arrangements and there is a process of regular review.

- Write off process for KASS is long and drawn out and therefore there are more debts for KASS tagged as referred to write off than other directorates.
- The Exchequer Services Manager reviews 100 cases per month (randomly by value, age or directorate). She is confident that every debt is continually monitored.

TRENDS

9. Listed below is the outstanding debt over 6 months old as the percentage of the total debt as at 30 April for the last 5 years

30 April 2010	30 April 2009	30 April 2008	30 April 07	30 April 06
6%	11%	12%	20%	22%

The authority is therefore reducing the level of outstanding debt that is over 6 months old as a percentage of the total debt.

SOCIAL CARE DEBT

10. **Client Charging**

- (1) Clients are financially assessed to determine their contribution towards either their residential or domiciliary care costs.
- (2) Residential Charging - this charging is distinct from non-residential (domiciliary) charging in that councils have a duty to charge for services under section 22 of the National Assistance Act 1948. Councils have no discretion in how they charge individuals, and all councils are required to do so.
- (3) Non-Residential Charging – Section 17 of the Health and Social Security and Social Services Adjudication Act 1983 gives councils the power to charge a person for non-residential services no more than it appears reasonable for them to pay. This means that each council has discretion in how they charge individuals for certain services and how much an individual has to contribute to the costs. In Kent we only charge for domiciliary type care.
- (4) In 2009-10 the total amount of income charged to clients was as follows:

Residential	£48,231K
Domiciliary	£ 9,410K
Total	£57,641K

11. Analysis of Client Related Debt

- (1) The £16,470K client related debt, the debt can be broken down as follows:

Residential	£13,810K
Domiciliary	£ 2,254K
Health Contributions	£ 406K
Total	<u>£16,470K</u>

- (2) Of the £16,470K only £12,064K is actually due for payment, invoices had only just been dispatched for the remaining £4,406K. The £12,064k is different from the figure in paragraph 3 because of a different month end. Clients and health have 28 days to pay their invoices.
- (3) The £12,064K can be broken down between secured and unsecured debt as follows:

• Unsecured – ongoing clients	£5,088K
• Unsecured – terminated/ deceased clients	<u>£ 1,028K</u>
Total Unsecured	<u>£6,116K</u>
• Secured with legal charges	£5,564K
• Health contributions	£ 384K
Overall Total of due debt	<u>£12,064K</u>

- (4) A long term presentation of all KASS debt is shown in the Appendix.

12. Aged Analysis of Unsecured Debt

	Under 6 months	Over 6 months	Total
Unsecured – ongoing client debt	£3127K	£1961K	£5088K
Unsecured deceased/terminated Client debt	£393K	£635K	£1028K
Total unsecured client debt	£3520K	£2596K	£6116K

Unsecured-Ongoing client debt over 6 months equates to 271 debtors

Unsecured –Deceased/Terminated Client Debt equates to 255 debtors for those with debts just over 6 months

Unsecured –Deceased/Terminated Client Debt equates to 80 debtors for those with debts both under/over 6 months

13. **Numbers of Unsecured Debtors**

	Numbers
Unsecured – ongoing debtors with debts	11404
Unsecured deceased/terminated debtors with debts	609
Total Unsecured Debtors	12013

14. **Secured Debt**

During 2009 KASS carried out a full review of all of the debts that we have been secured by legal charges on clients houses. This review has ensured that the estimated valuation of the properties are not less than the value of the deferred debts, and if so 100% provision has been allowed for.

15. **Bad Debt Provision-Client Related**

(1) The total bad debt provision that exists for client related debt is £3,972K. This is calculated by looking at the value of all of the debts under various debt categories of those secured and unsecured. It also takes into account the age of the debt.

(2) Generally the percentages for the main categories used are as follows:

Unsecured - ongoing (under 6 months) - 5%
Unsecured - ongoing (over 6 months) - 60%
Unsecured - terminated (under 6 months) - 33%
Unsecured – terminated (over 6 months) - 75%

(3) The general provision is £2,405K. This covers all debts, secured, unsecured and health. This provision is re-calculated on a monthly basis, and any required changes are forecast within the revenue monitoring.

(4) In addition to the general provision that is calculated as described above we have allowed for an additional £1,567K of specific provisions. These relate to individual named clients for which we believe there is a high risk of the debt not being paid. This is

reviewed during the course of the year to see if any payments have been made.

16. **Write Off's**

In 2009-10 £421K of client related debt was written off. The trend has been similar to previous years.

17. **Reasons for Debt**

- (1) Many of the clients who we are charging do not actually manage their own financial affairs, especially those in residential and nursing care. It is likely that a family member is managing their affairs on their behalf. However the debt must remain the responsibility of the client, and we can take not specific debt recovery action against the family member, only the client. In many debt cases, the client is not even aware that their relative is not paying the monies due. This makes debt recovery against vulnerable people very difficult.
- (2) When we are made aware that others may be misappropriating a client's finances, we can approach the Pension Service and ask that KCC becomes appointee for the client's benefit. This can be a complicated and lengthy process, and depends entirely on whether the client has mental capacity, and if so whether they agree to us becoming responsible for their finances. In cases such as this it is likely that any debt that has accrued before we take on appointeeship, will never be paid, and will probably end up being written off.

18. **Debt Recovery Structure**

- (1) Since October 2009 we have restructured and the debt recovery staff are now within KASS, they were previously within CED. As part of the restructure we have placed a debt recovery officer within each of the new localities within the KASS operational structure. They are however managed by the Area Finance Managers.
- (2) In total we have 6 Debt Recovery Officers, and 2 Senior Debt Recovery Officers. The posts have now all been recruited to.
- (3) The new posts are situated alongside the Finance & Benefit Assessment Officers. We have changed the emphasis of their roles to ensure that they follow up all financial assessments they undertake to ensure that the debt does not accrue at the outset, as we believe that a high proportion of the debt we end up writing off is due to it growing at an early stage. It will only be after their input that the debt is passed to the Debt Recovery Officers.

- (4) We believe that this approach will reduce new debt accruing, however as can be seen from the figures above, we have a significant amount of debt that is over a year old, which needs to be investigated. Although a significant amount of this is covered by the bad debt provision, we feel that some of these should continue to be pursued if necessary through Legal Services.
- (5) We have agreed to continue to employ 2 additional temporary staff members till September 2010 to focus purely on reducing the level of aged debt, so that our newly appointed debt recovery staff are able to focus more on new debts and the prevention strategy.

RECOMMENDATION

- 19. Members are asked to note this report.