

By: Cabinet Member for Finance  
Acting Director of Finance

To: Governance & Audit Committee – 30 November 2010

Subject: DEBT MANAGEMENT

Classification: Unrestricted

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Summary: To report on the Council's debt position

FOR INFORMATION

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## **INTRODUCTION**

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

## **MANAGEMENT SUMMARY**

3. The overall outstanding debt as at 31 October 2010 as shown on Oracle Accounts Receivable is £39,880,252.

This represents social care debt from SWIFT of £17,071,367 (29,014 invoices) and sundry debt (which includes some social care Health debt) of £22,808,884 (4,620 invoices).

4. Since October 2009 the responsibility for the collection and monitoring of KASS social care debt returned to the Directorate, the detail of which is reflected in sections 11 onwards, with sections 6 to 10 relating to sundry debt only. In section 12 the outstanding amount of debt is referred to as £17,311,131 which is different to the £17,071,367 mentioned above as it reflects the four weekly client billing run on 21<sup>st</sup> October rather than the month end position. The month end position would be lower as it allows for additional payments from clients to be processed.
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 for sundry debt as at 31 October 2010.

<b>Directorate</b>	<b>Outstanding Debt (excluding debts not yet due)</b>	<b>Over 6 Months</b>
<b>Chief Executive</b>	453,962	61,009
<b>CFE</b>	2,669,086	948,500
<b>EHW</b>	1,230,738	188,476
<b>Communities</b>	953,421	65,346
<b>KASS (Sundry)</b>	3,489,459	721,125
<b>Total</b>	<b>8,796,666</b>	<b>1,984,456</b>

The above figures do not include those debts which are not yet due, which total £14,012,218.

## **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 31 October 2010 73% of the total sundry outstanding debt is under 60 days old and 15% 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 by directorate.

Directorate	Status of Debt	Amount Over 6 Months Old
Chief Executive	Instalments	925
	Referred to legal services	3,021
	Referred for write off	2,066
	Referred to directorate for action	18,471
	Ongoing action	28,498
	Secured	8,028
	<b>Sub total</b>	<b>61,009</b>

- The £18.5k of debt referred to directorate for action refers to 12 invoices with nothing significant outstanding.
- The £28,498 of debt tagged as ongoing action refers to 32 invoices with no invoice being over £5k in value.
- The £8k is on a debt that has been secured by a charge on a property.

CFE	Instalments	17,113
	Referred to legal services	8,040
	Referred for write off	1,580
	Referred to directorate for action	178,009
	Ongoing action	532,180
	Internal school charges	211,579
	<b>Sub total</b>	<b>948,501</b>

- The £532.2k of debt tagged as ongoing action refers to 58 invoices of which one invoice to the value of £507.4k is for a land transfer fee in respect of an academy where the school is waiting for transfer of monies from DFS.
- The £178k of debt referred to directorate for action refers to 45 invoices. There are 3 invoices totalling £15.6k to fostering agencies and one invoice of £19.4k to a training agency.

EHW	Instalments	4,278
	Referred for write-off	1,955
	Ongoing action	93,625
	Referred to directorate for action	65,269
	Insurance	12,099
	Referred to legal services	11,249
	<b>Sub total</b>	<b>188,475</b>

- The £93.6k of debt tagged as ongoing action refers to 27 invoices. One invoice to the value of £21.3k is to a utility company for an annual fee under Section 75 of the Highways Act. One invoice to the value of £5k is to a contractor for a Ramsgate development. One invoice to the

value of £50.5k is for a developer in respect of a Section 278 agreement of the Highways Act.

KASS (Sundry debt)	Instalments	25,615
	Instalments – Small Claims	247
	Referred to legal services	26,134
	Referred for write-off	12,513
	Ongoing action	27,254
	Health debt	586,515
	Referred to directorate for action	40,014
	Small Claims Court	2,785
	Automatic Write Back	47
	<b>Sub total</b>	<b>721,124</b>

- Of the £586.5k of Health debt
  - £301.4k is under 1 year old;
  - £235.6k is debt between 1 and 5 years old;
  - £17.7k is debt over 5 years old
  - £31.8k is debt over 6 years old.

Communities	Instalments	5,526
	Referred for write-off	2,272
	Referred to directorate for action	4,955
	Ongoing action	45,565
	Referred to legal services	7,028
	<b>Sub total</b>	<b>65,346</b>

- The £45.6k of debt tagged as ongoing refers to 42 invoices. One invoice to the value of £15.1k is to a Borough Council for the provision of an emergency planning service. All other outstanding invoices are less than £5k each.

#### General comments

- Health Authorities have long term debts with KASS. 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

10. 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.

11. The numbers and values of invoices raised for the last 4 years are:

	09-10	08-09	07-08	06-07
Number of invoices raised	30,369	34,097	34,270	35,818
Value of invoices raised	£165,961,032	£183,804,045	£183,656,212	£122,957,342

## Social Care Debt

### 12. 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 through the client billing system was as follows:

Residential	£45,859k
Domiciliary	£9,889k
<b>Total</b>	<b>£55,748k</b>

### Analysis of Client Related Debt

13. (1) As at the 21<sup>st</sup> October the overall client related social care debt stood at £17,311k, the debt can be broken down as follows:

Residential	£14,801k
Domiciliary	£2,441k
Health Contributions	£69k
<b>Total</b>	<b>£17,311k</b>

(2) Of the £17,311k only £12,711k is actually due for payment, invoices had only just been dispatched for the remaining £4,600k. The £12,711k is different from the figure of £17,071k quoted in section 3 of the Management Summary as it reflects the last four weekly client billing run rather than the calendar month end position. Clients and Health have 28 days to pay their invoices.

(3) The £12,711k can be broken down between secured and unsecured debt as follows:

• Unsecured – ongoing clients	£5,519k
• Unsecured – terminated/deceased clients	<u>£901k</u>
• Total Unsecured	<u>£6,420k</u>
• Secured with legal charges	£6,214k
• Health contributions	£77k
Overall total of due debt	<u>£12,711k</u>

### Aged Analysis of Unsecured Debt

14. The following table shows an analysis of unsecured debt that is due for payment:

	Under 6 months	Over 6 months	Over One Year	Total
<b>Unsecured – ongoing client debt</b>	£2,921k	£1,003k	£1,595k	£5,519k
<b>Unsecured - Deceased/terminated client debt</b>	£158k	£259k	£484k	£901k

<b>Total unsecured client debt</b>	£3,079k	£1,262k	£2,079k	£6,420k
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Unsecured – Ongoing client debt over 6 months equates to 355 debtors  
Unsecured – Deceased/Terminated Client Debt equates to 314 debts for those with debts just over 6 months.  
Unsecured – Ongoing client debt both over/under 6 months only equates to 745 debtors.  
Unsecured - Deceased/ Terminated Client Debt equates to 60 debtors for those with debts both under/over 6 months.

### **Numbers of Unsecured Debtors**

**15.** The table below analyses the number of debtors with an unsecured debt, both due and not yet due.

	<b>Numbers</b>
Unsecured – ongoing debtors with debts	11,930
Unsecured deceased/terminated debtors with debts	546
<b>Total Unsecured Debtors</b>	<b>12, 476</b>

### **Secured Debt**

**16.** 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 continued throughout 2010 to ensure that the estimated valuations of the properties are not less than the values of the deferred debts, and if so 100% provision has been allowed for.

### **Bad Debt Provision – Client Related**

**17.** (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 recalculated 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.

### **Write Offs**

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

### **Reasons for Debt**

19. (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 cannot take 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.

### **Recommendation**

20. Members are asked to note this report.