

By: Cabinet Member for Finance
Director of Finance

To: Governance & Audit Committee – June 2011

Subject: DEBT MANAGEMENT

Classification: Unrestricted

Summary: To report on the Council's debt position

FOR INFORMATION

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with assurance re 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 May 2011 as shown on Oracle Accounts Receivable is £45,020,549.

This represents Social Care debt from SWIFT of £13,883,392 (12,602 debtors) (21,120 invoices) and sundry debt (which includes some social care Health debt) of £31,137,157 (4,817 invoices).

4. The detail around the Social Care element of debt can be found in sections 13-19, with earlier sections referring to AR sundry debt only. The Social Care debt reflects the four weekly client billing process run on the 1st June 2011, rather than the month end position.
5. Please note that throughout this report Business Strategy and Support (BSS) will include the old Chief Executive debt; Education Learning & Skills (ELS) will include the old CFE debt; Enterprise & Environment (E&E) will include the old EHW debt; Customers & Communities (C&C) will include old Communities debt; and Families & Social Care (FSC) will include the old KASS 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 31 May 2011.

Directorate	Outstanding Debt (excluding debts not yet due)	Over 6 Months
BSS	2,224,427	122,057
ELS	4,819,963	337,184
E&E	3,535,518	537,544
C&C	758,332	70,949
FSC (Sundry)	11,755,084	1,988,393
Total	23,093,324	3,066,127

The above figures do not include those debts which are not yet due, which total £8,043,833.

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%

As at 31 May 2011 55% of the total sundry outstanding debt is under 60 days old and 17% is over 6 months old.

The main reason that we have not achieved the target for the under 60 days old debt is that a member of staff left suddenly and there was a time gap before a replacement was in post. Since the implementation of R12 in Oracle we have experienced major problems with slow running of the system and this has adversely impacted on the collection of debt as a whole. A recent patch installation has considerably improved performance.

DEBT LEVELS OVER SIX MONTHS OF AGE

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

Directorate	Status of Debt	Amount Over 6 Months Old
BSS	Instalments	1,298
	Referred to legal services	3,021
	Referred for write off	4,811
	Referred to directorate for action	1,687
	Ongoing action	103,212
	Secured on property	8,028
	Sub total	122,057

BSS

- Of the £103k of ongoing action the largest single invoice is for £28,572 which was raised in September 2010 to Kier Build to pay for the provision of a LAN/WAN Network in St Georges Technology College and Northfleet Technology College. This invoice is in dispute as the company state that they have paid BT Openreach direct. An investigation is on-going.
- There are 3 invoices, raised between August and October 2010, to the Kent Police Authority totalling £23.3k where they have recently asked copies to be provided before payment.
- The rest of the £103k is made up of 65 invoices, with an average invoice value of £780.

ELS	Instalments	14,918
	Referred to legal services	18,495
	Referred for write off	2,861
	Referred to directorate for action	149,537
	Ongoing action	112,278
	Internal school charges	39,095
	Sub total	337,184

ELS

- Of the £149k referred to Directorate for action £112k relates to 2 invoices raised to Maidstone & Tunbridge Wells NHS Trust for charges for Kent Portage scheme for the period September 08 – March 2010. Health Authority debt is notoriously difficult to recover, especially once it is over one year old.
- Of the £112k which is ongoing action there is an invoice for £22.4k to the old West Kent College for road improvements and a pelican crossing. This is to be cancelled and re-raised in their new name of K College.
- There is also one invoice to the value of £14.5k raised October 2010 to the London Borough of Sutton to recoup placement costs for the year 09/10 for a child at Foreland School. The contact at

Sutton took maternity leave but we are in contact with her replacement.

- The balance of £75k is made up of 79 invoices with an average invoice value of £949.

E&E	Instalments	3,353
	Referred for write-off	1,769
	Ongoing action	367,216
	Referred to directorate for action	86,899
	Insurance	27,807
	Referred to legal services	50,500
	Sub total	537,544

E&E

- Of the £367k of debt that is ongoing, there is one invoice raised in October 2010 to Balfour Beatty Mott Macdonald to the value of £101k. This is in respect of work carried out on tactical diversion routes. There has been difficulty in recovering this debt as the original invoice was incorrectly addressed and the company had re-branded. This has now been resolved and a copy invoice was issued earlier this month.
- There is also another large invoice of £98k raised in September 2010 to Ward Homes for work done at Fulston Manor. Ward Homes are disputing the responsibility of payment and negotiations are on-going.
- There are 2 invoices totalling £66k outstanding from Barratt Homes and we have been assured that these will be paid this month.

Property Developers can be 'slow' payers and we have noticed increasing difficulty in obtaining payment from some, reflecting the market for new homes.

FSC (Sundry debt)	Instalments	27,515
	Referred to legal services	1,457,804
	Referred for write-off	1,228
	Ongoing action	54,345
	Health debt	357,608
	Referred to directorate for action	98,759
	Small Claims Court	1,134
	Sub total	1,988,393

FSC

- The £1.6 million referred to legal services is largely made up on one invoice raised in August 2010 to Lambeth Primary Care Trust for £1.4 million in respect of continuing health care funding for a service user from April 04 to June 10.
- Of the £99k referred to the Directorate there is one invoice to the value of £24k raised in March 2010 to The Learning Skills Council. The Council no longer exists and has been replaced by the Young

People Learning Association. Therefore this debt may be difficult to collect

- There is also an invoice to the value of £17k to the estate of a deceased service user for overpayment of Direct Payments. This invoice is in dispute with the executor but we believe that there are enough funds and that this matter will be settled.
- There are a further 25 invoices with a total value of £58k with an average invoice value of £2.3k.

C&C	Instalments	4,676
	Referred for write-off	2,547
	Referred to directorate for action	3,745
	Ongoing action	54,781
	Referred to legal services	5,200
	Sub total	70,949

C&C

- Of the £55k with ongoing action there are no very large value invoices outstanding. The largest being £4.3k raised in March 2010 to Weightron-Bilanciali Ltd in respect of equipment hire which is in dispute, and is being investigated.
- The balance of £51.7k is made up of 59 invoices, with an average invoice value of £880.

General comments

- Health Authorities have long term debts with FSC. This income is difficult to collect and involves protracted discussions. This has recently been compounded by yet another restructuring of the Health Service.
- Exchequer Services continues to make 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.
- 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 2011	30 April 2010	30 April 2009	30 April 2008	30 April 2007
7.8%	6%	11%	12%	20%

We have noted the percentage of debt over 6 months old has increased slightly over the past year so we are concentrating our efforts to ensure debt does not reach that level of 'maturity'.

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

	10-11	09-10	08-09	07-08
Number of invoices raised	29,336	30,369	34,097	34,270
Value of invoices raised	£176,597,554	£165,961,032	£183,804,045	£183,656,212

WRITE OFFS

11. The table below shows the sum written off per Directorate for the period April 2010 – March 2011. Please note that the old directorate titles apply as they are figures prior to the restructure.

Directorate	Amount written off yr 10-11
Adult Services (Sundry only)	£18,151
Chief Executives	£43,625
Children Families & Education	£19,040
Communities	£21,340
Environment & Regeneration	£27,032
Total	£129,188

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.

- (4) In 2010-11 the total amount of income charged to clients through the client billing system was as follows:

Residential	£ 46,885k
Domiciliary	£ 10,731k
Total	£ 57,616k

13. Analysis of Client Related Debt

- (1) As at the 1st June the 2011-12 overall client related social care debt stood at £18,317k, the debt can be broken down as follows:

Residential	£15,897k
Domiciliary	£2,382k
Health Contributions	£38k
Total	£18,317k

- (2) Of the £18,317k only £13,781k is actually due for payment, invoices had only just been dispatched for the remaining £4,536k.

- (3) The £13,781k can be broken down between secured and unsecured debt as follows:

• Unsecured – ongoing clients	£5,661k
• Unsecured – terminated/deceased clients	<u>£957k</u>
• Total Unsecured	<u>£6,618k</u>
• Secured with legal charges	£7,136k
• Health contributions	£27k
Overall total of due debt	<u>£13,781k</u>

14. Aged Analysis of Unsecured Debt

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

	Under 6 months	Over 6 months	Over One Year	Total
Unsecured – ongoing client debt	£2,843k	£1,153k	£1,665k	£5,661k
Unsecured - Deceased/terminated client debt	£119k	£245k	£593k	£957k
Total unsecured client debt	£2,962k	£1,398k	£2,258k	£6,618k

- Unsecured – Ongoing client debt over 6 months equates to 471 debtors
- Unsecured – Deceased/Terminated Client Debt equates to 320 debts for those with debts just over 6 months.
- Unsecured – Ongoing client debt both over/under 6 months only equates to 891 debtors.
- Unsecured - Deceased/ Terminated Client Debt equates to 56 debtors for those with debts both under/over 6 months.

15. Numbers of unsecured debtors

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

	Numbers
Unsecured – ongoing debtors with debts	11,794
Unsecured deceased/terminated debtors with debts	527
Total Unsecured Debtors	12, 321

16. Bad Debt Provision – Client Related

- (1) The total bad debt provision that exists for client related debt at the end of 2010-11 was £3,981k. 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 £1,960k. 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 £2,021k of specific provisions. This relates 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.

17. **Write Offs**

In 2010-11 £351k of client related debt was written off.

18. **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 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.

19. **Benchmarking**

We will provide benchmarking data based on 31 March 2011 balance sheets to the next Committee meeting once it is available. It is anticipated that this will be November 2011.

RECOMMENDATION

20. Members are asked to note this report.

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