Audit and Governance Committee

Dorset County Council

Date of Meeting	24 July 2017
Officer	Chief Financial Officer
Subject of Report	**Debt Recovery Performance for year 2016/17**
Executive Summary	During 2016/17, a two-pronged approach was taken to overhauling our income collection and management processes. It had become evident that changes to the debt policy were required to ensure customers were grouped properly, so that we could apply the correct regulations and processes for collection and management activity between those groups rather than across them. A simultaneous, detailed examination of all debt on the system also revealed legacy issues that had not been effectively dealt with due to fragmentation of processes, inconsistency between teams and on occasions, simple lack of structure, discipline and a business-like approach to pursuing debt. This iterative approach - where intuitive policy change informed collection practice, and failed practice informed better policy - resulted in a new debt policy being developed and launched on 1 April 2017. The policy is attached at Appendix 1 and the results achieved during the year are set out in this report.
Impact Assessment:	Equalities Impact Assessment: No direct implications, though equality issues were borne in mind when developing and applying debt recovery procedures.

<table>
<tr><td></td><td>Use of Evidence:

The report is based on information obtained from the DES financial system used during 2016/17 and debt recovery records maintained by the Accounts Receivable Team.</td></tr>
<tr><td></td><td>Budget:

Debt recovery performance has direct cash flow implications. All debt is effectively financed by the organisation. Slow debt recovery penalises cash flow and investment opportunities and increases the risk of debts going bad and the consequences this will have on service budgets.</td></tr>
<tr><td></td><td>Risk Assessment:

Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as:

Current Risk: MEDIUM

Residual Risk MEDIUM

As a monitoring report, the level of Residual Risk is effectively unchanged from the Current Risk. The report identifies that there is some financial risk to the authority that debts will not be recovered, and the levels of debt involved identify the Current Risk as Medium.</td></tr>
<tr><td></td><td>Other Implications:

None.</td></tr>
<tr><td>Recommendation</td><td>Members of the committee are asked to note:

(i) the revised policy and the approach taken to its development and suggest any other factors that they may wish to contribute to the debt policy;

(ii) the reduction in the total debt in 2016/17 and in the first quarter of 2017/18;

(iii) the write-off made in 2016/17 and the reasons for this;

(iv) the changes to the bad debt provision calculations from 2017/18;

(v) and support the policy on payment in advance, direct debit and electronic payment and communication (digital by default).</td></tr>
<tr><td>Reason for Recommendation</td><td>Efficient debt recovery procedures ensure the County Council collects all money rightfully due to the organisation which in turn supports the funding of all the Authority's services.</td></tr>
</table>

Appendices	1. Debt policy from 1 April 2017 2. Accounts Receivable Team performance statistics (June 2017)
Background Papers	None
Report Originator and Contact	Name: Jim McManus Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk

1. Introduction and purpose

1.1 The Audit & Governance Committee receives a report at the end of each financial year, setting out information about the balance of debt, bad debt provision, debts written off during the year and the effectiveness of the debt management process. This report covers that information for the year ended 31 March 2017.

1.2 2016/17 saw an increase in the amount of debt that was written-off during the year and because of this peak it is important that members understand the contextual and policy shifts during the year, so that there is a clear understanding of the reasons causing the increase.

2. Contexts

2.1 Across Dorset County Council there have always been inconsistencies around the recording, processing and management of debt. Some of these inconsistencies were legitimate – for example it is not possible or appropriate to have the same income collection processes/methods for Adult Services clients' contributions to care, and trade waste income collected by Dorset Waste Partnership.

2.2 Different regulations apply to different customer segments/arrangements and different policies and practices therefore need to be adopted to ensure customer relationships are managed differently, yet effectively. However, these legitimate differences were not clearly defined or understood and it was therefore necessary to invest a significant amount of time and effort in redefining customer groups and strategies for dealing with them. This was done iteratively, over the course of the year as part of a process of working not just on the policy itself but also reviewing old debt, line-by-line and assessing its recoverability. Evolving policy affected the view taken on some of the old debt - and policy itself was shaped by an understanding of how some of the debt had been processed and managed the way that it had.

2.3 Simultaneous policy and individual debt review were tackled as part of the Financial Services restructure project that took place in 2016/17. Our policy now clearly defines different customer groups, how we deal with them and the approaches that we can and should take to the recovery of income from these groups. The policy is attached as Appendix 1.

2.4 Successive SWAP reports have also indicated that the fragmentation of the income management and collection process, with no single team or individual responsible for the end-to-end process means that even where there should be consistency and continuity, there have been weaknesses. Whilst this is true, part of the Financial Services restructure involved a significant amount of work going into improving relationships and interfaces between teams involved in the income collection and management process.

2.5 There was early recognition that there were weaknesses in the existing policy and practices and these were strengthened during the year. We have also incorporated debt management information into monthly CPMI reporting and Group Finance Managers alert Directorate Leadership Teams to debt performance and risks at monthly performance meetings. Debt information is also to be reported more frequently to the Audit & Governance Committee and there are monthly review meetings, across all teams involved in the income management process, to ensure more effective and timely governance of debt management.

3. Data and policy review - outcomes and changes

3.1 Without descending into too much detail, it is necessary to identify some of the areas where examination of debtor data has led to policy change. These include:

- situations where invoices were raised but not chased under the assumption that the debt would be settled

- hand-offs within and between teams meant there was no clear responsibility for the debt
- lack of clear lines of responsibility meant that insufficient information was available/retained to validate the charge
- invoices were raised when payment in advance should have been made
- the reminder/legal processes were weak and not enforced
- the approach for different customer groups and service provisions were the same and did not consider specific entitlements or obligations meaning debt was not recovered.

3.2 The policy now sets out clear responsibilities for debt management and refreshes procedures for collecting debt across all major customer groups. Reporting is also much more prominent, as already noted and we have set clear targets, which we are transitioning to, for end-to-end timelines for customer payment. The Chief Accountant is also personally involved in monthly debt monitoring meetings to ensure we are making effective arrangements for securing all income due to the Authority in a timely manner.

3.3 We have also made tactical changes to accounting arrangements – such as calculating our bad debt provision on a quarterly basis, rather than doing this annually, at year-end. We are also taking a more prudent approach to the bad debt provision calculation – in that we will be making 100% provision for all debts over six months old. This is intended to ensure that officers responsible for collecting income do so within the six months target timeline or the income will no longer be realised in their service accounts. We are already transitioning towards these arrangements and more detail on the provisions made at 31 March 2017 and 30 June 2017 is set out later in this report.

4. Other policy changes

4.1 As well as policy changes influenced by review of the data, other improvements were already evident and overdue for action.

<u>Digital by default</u>

4.2 Although the organisation's policy has been *digital by default* for many years, we have still spent significant time, effort and resource communicating with people on paper and by post. A significant amount of correspondence is still undertaken on paper but we have made improvements and continue to target efficiencies in the same way as were delivered through the changes to our payments procedures in recent years. We now have 2,891 of our active customers (8%) that we communicate with electronically rather than in paper. But this is not enough and we are currently reviewing customer groups and characteristics to see what changes we can make to generate greatest impact on improving electronic communications.

<u>Payment in advance</u>

4.3 Direct Debit – which was historically only available for certain services - is now available to all customers across all services and is promoted as our preferred payment method. Our policy states clearly that staff should secure payment in advance/at the time of order so that we can eliminate the debt recovery process. Clearly, we will never move all customers to direct debit or electronic forms of payment or communication but each successful customer shifted to the prepayment/electronic comms channel represents a continuing saving to the Council. We currently have 43% of our customers set up to collect their charges by Direct Debit and 60% of our transactions are collected this way. We are active in promoting direct debit wherever we can and are also improving the rate of collection by card over the phone.

Performance measurement

4.4 2016/17 saw the introduction of much clearer performance statistics for the income function. It is difficult to produce a single, "compact" set of statistics that gives an effective measure of performance right across the organisation – especially as different customer groups will have different measures of effectiveness. Nevertheless, the development of this single suite of performance measures is a good baseline for us which we can develop over time. An example of the current performance statistics (for June 2017) is attached at Appendix 2.

Legal remedy

4.5 Our policy has always included the pursuit of debt through the courts. However, there is little evidence that we routinely pursue legal remedy for unpaid debts, mainly for reasons quoted in the bullet points at paragraph 3.1 but also because we simply appear to have lacked the appetite for legal action. The new policy sets out a less onerous and less confrontational approach to legal remedy – through the money claims online facility. This route is already used by colleagues in Insurance and in Highways and we will be pursuing action in due course with legitimate debts which remain unpaid.

5. Outstanding Debt

5.1 Total outstanding debt managed through DES at 31 March 2017 was £13.66m, analysed according to the table, below, shown with comparative figures from 31 March 2016.

Financial year	**Less than 30 Days**	**30 - 60 Days**	**60 - 90 Days**	**90 Days - 1 Year**	**Over 1 Year**	**Total**
2015-16	7,924	4,102	1,526	1,854	1,639	**17,045**
	46%	24%	9%	11%	10%	
2016-17	9,565	604	475	1,423	1,595	**13,662**
	71%	4%	3%	10%	12%	
Year-on-year £ Change	1,641	-3,498	-1,051	-431	-44	**3,383**
Year-on-year % Change	20%	-85%	-69%	-23%	2%	**-20%**

£'000's

5.2 There has been a significant reduction (20%) in total debt between 2015/16 and 2016/17, especially in the bands between 30 days and one year. There is a small increase in debt over twelve months and this is the next target for 2017/18 – to deal with all debt over twelve months old by the end of the year if at all possible.

5.3 The table below shows the debt profile by age and by directorate. The aged debt profile for Adult and Community Services is a significant concern, particularly in the categories beyond 90 days. We already know that some of this debt will be irrecoverable and it will be the subject of a write-off proposal shortly. Provision has already been made for much of this. The remainder that is currently considered to be recoverable is higher than normal for three main reasons:

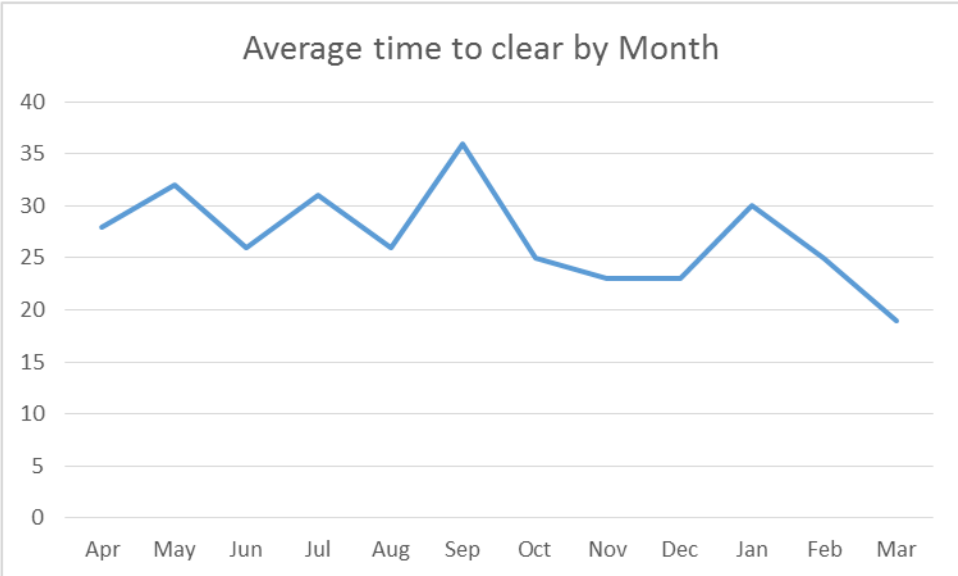
- the increase in the number of people receiving services
- the increase in fees and charges for those services
- recent capacity issues in the Directorate's credit control team - as a consequence of which, resources have been focussed on preventing new debts from ageing rather than attempting to collect debts which have already aged beyond likely recovery.

Debt Recovery Performance for year 2016-17

Directorate	< 30 Days	30–60 Days	60–90 Days	90 Days – 1 Year	> 1 Year	Total
Adult & Community Services	3,899	306	338	1,003	1,239	6,785
Children's Services	675	49	3	101	29	857
Economy & Environment	4,245	137	52	162	189	4,785
Chief Executives	462	25	4	34		525
Partnerships	29	6	3	40	57	135
Other	255	81	75	83	81	575
Total	**9,565**	**604**	**475**	**1,423**	**1,595**	**13,662**

£'000's

5.4 The average payment time for 2015/16 was 36 days, this has reduced to 25 days for 2016/17. The following chart shows the average per month for the year just ended.



6. Debts Written Off

6.1 Debts can only be written-off if the relevant manager in the business certifies that they have taken all reasonable and proportionate steps to recover payment in line with the scheme of financial management. Requests for debts to be written-off must then be countersigned by the Chief Accountant. Once write-off is approved, a debtor's account is blocked and no further business can be carried on with that customer.

6.2 During 2016/17, an intensive, centrally managed process supported by key staff within the Authority was completed to focus on relatively older debt – and especially where debt was more than 12 months old. This process was designed to remove debt from the system where the likelihood of recovery was extremely unlikely and provision had already been made through the revenue account. In most cases, the Service provided a written explanation to support the write-off request (in line with the process described above), together with an explanation process changes to prevent similar write-offs being requested in future.

6.3 As a result of the review of old debt – and a number of older debts crystallising as irrecoverable (eg estates settled with no assets) the level of debt written-off during 2016/17 was £471k. As noted, this was significantly higher than the preceding year (£103k). The following table shows the write off values by directorate for both 2015/16 and 2016/17.

Debt Recovery Performance for year 2016-17

Directorate	2015/16 Write Off	2016/17 Write Off
Adult & Community Services	2	310
Children's Services		50
DWP	1	26
Environment and the Economy	25	28
Chief Executive's Department	75	57
Total	**103**	**471**

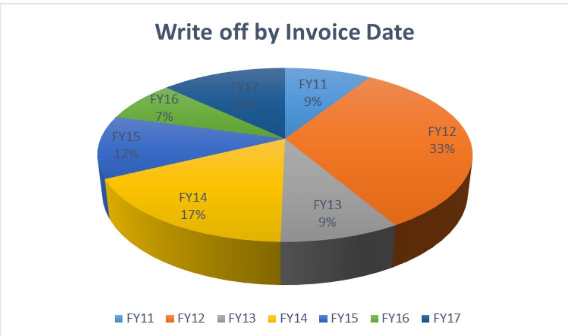
£'000's

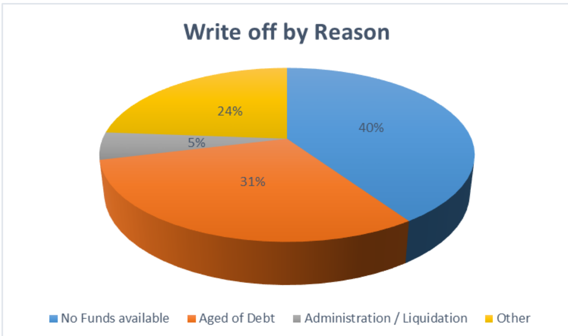
6.4 Of the £471k that was written-off, £375k was provided for in the revenue account in 2015/16. So despite the 2016/17 figure being higher than in preceding years we can demonstrate that we were clear before 16/17 that a significant amount of the debt would not be recovered. However, we could not actually write the debt off until requests to do so came forward from directorates in many cases this was because active debt recovery processes were still in place.

6.5 The following table breaks down the 2016/17 write off value into the respective ages of the debt and the reasons given for the debt being written off;

Reason	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Total
No funds	24	24	18	37	23	11	54	191
Age/de minimis	5	72	12	33	19	3		144
Admin/Liquidtn	1	4	5	5	3	5	1	24
Other	12	54	6	7	10	17	6	112
Total	**42**	**154**	**41**	**82**	**55**	**36**	**61**	**471**

£'000's





6.6 95% of cases described as 'no funds relate to Adult and Community Services and materially all of these are where the County Council has an obligation to provide care irrespective of the ability/willingness to pay. The Care Act 2014 introduced a modern, legal framework for the recovery of debts that accrue as a result of a local authority meeting a person's eligible needs for care and support. Powers are granted under the Act that provide protection both to the council and to people receiving care. Consequently there is a Care Act compliant debt policy in Adult and Community

Services that complements the corporate policy and reflects the principles underpinning the recovery of debt that are set out in the Department of Health's statutory guidance. The principles reflect that people receiving care are not typical of the wider population - and that much debt arises from a move into care homes of very frail elderly people, many of whom have dementia. Whilst that Care Act policy is sound, more work is needed to embed it into practice across the Directorate.

6.7 60% of 'aged/de minimis' is where a decision has been taken by the business that either too much time has passed since the last action to recover the debt was taken, or the amount is not economic to pursue. Almost all of this should have been dealt with as part of the intensive exercise during 2016/17 and the new approach to prepayment and faster chasing of debt should mean that this situation is avoided in future if we stick to the procedure. The remaining 40% is where the debt was beyond the statutory period allowed for recovery. Again, the new approach to monitoring and chasing should prevent this in future.

6.8 Reasons given for the £112k of other write-offs included lack of information to support the charge and inability to trace debtor after the charge was raised.

7. Looking forward

7.1 The revised Debt Policy places the emphasis firmly on ensuring all relevant people are aware of and adopt the principles outlined in the policy document in their business practices. An overview of the new policy was provided to Finance staff to familiarise them with the policy and to enable them actively to engage with the managers they support. There has been a noticeable increase in interaction between the credit controller and colleagues in the business and support and guidance has been provided to key business areas. Ongoing support is also being provided. Monthly monitoring meetings are also an arena to provide further guidance on practical application of the policy and procedures.

7.2 There is a clear policy objective that debt should not remain on the system for more than six months unless legal action is ongoing or the customer's entitlement and obligation dictates that it must remain. Debts which are older than six months are very rarely recovered and to reflect this fact, the Corporate Finance team will be calculating the bad debt provision quarterly from 2017/18. There will be a transition period whereby at 30th June, everything older than nine months attracted 100% provision whilst from 30th September, all debts older than six months will attract 100% provision. 100% provision effectively means that the service does not benefit from the income it has been credited with until payment is received. This should help managers focus on securing payment in a more timely and efficient manner.

7.3 The provision made for bad debt made at 30th June was £1.3m. If the 100%/six months policy had been applied in June, the calculated provision would have been just under £2m. This would have represented an increase of more than £0.5m since the March provision.

7.4 Aged debt profile reports are available to all managers via DES self-service and as noted elsewhere, corporate debt reporting is carried out through the CPMI process and Group Finance Managers brief Directorate leadership Teams on a monthly basis.

7.5 The following shows the debt profile as at 30th June 2017

Financial year	Less than 30 Days	30 - 60 Days	60 - 90 Days	90 Days - 1 Year	Over 1 Year	Total
2016-17	9,565	604	475	1,423	1,595	**13,662**
	71%	4%	3%	10%	12%	
2017-18	2,185	741	1,036	1,765	1,623	**7,350**
	30%	10%	14%	24%	22%	
Year-on-year £ Change	-7,380	137	561	342	28	**6,312**
Year-on-year % Change	-77%	23%	118%	24%	2%	**-46%**

£'000's

7.6 There has been a very pleasing overall reduction in the value of debt in the most recent quarter. Contextually, it is important to note that significant amounts of the 31 March 2017 debt relate to annual invoices that are contractually raised at year-end and discharged shortly afterwards and over which there is minimal/no risk – such as Tricuro or the Dorset County Pension Fund. However, this should not dilute the good work that has been done to reduce debt total.

7.7 It is concerning, however, that there have been increases in the value of outstanding debt across all age bands above thirty days. We are continuing to work across teams to understand and analyse this debt better and ensure our recovery processes align with our policy and are supplied successfully.

7.8 Our principal line of attack is to continue to shift customers – whenever possible – away from manual payment in arrears to electronic payment in advance, either through direct debit or other medium. We will report progress on total debt and improvements in channel shift to electronic payment during the year.

7.9 £235k of our debt is currently going through a form of recovery (Legal, Money Claims online etc). This value is likely to increase in coming months as the legal route is embedded and more of our debts fall into the process.

7.10 It is envisaged that improvements will continue to be evident in future reporting to this committee as new processes become more embedded

Richard Bates
Chief Financial Officer
July 2017