

**AGENDA ITEM: 10** Pages nos. 197 - 213

Meeting	Cabinet Resources Committee
Date	16 January 2012
<b>Subject</b>	<b>Debt Management Strategy</b>
Report of	Cabinet Member for Resources and Performance
Summary	To consider the Debt Management Strategy and instruct officers to take appropriate action.
Officer Contributors	David Rowe – Acting Income Manager Maria G. Christofi – Assistant Director, Financial Services
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Debt Management Strategy
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in	Not applicable
Contact for further information: David Rowe, Head of Exchequer Services, 020 8359 7242	

## **1. RECOMMENDATIONS**

**1.1 That Cabinet Resources Committee approves the attached debt management strategy.**

**1.2 That officers take appropriate action to ensure that the recommendations contained within the strategy are followed to enable income targets to be achieved.**

## **2. RELEVANT PREVIOUS DECISIONS**

2.1 None

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

3.1 Robust debt collection and performance monitoring are essential to ensuring that there are adequate and appropriately directed resources to support delivery and achievement of Council priorities and targets as set out in the Corporate Plan.

3.2 'Ensure our support services effectively serve the organisation through high quality, high value services and 'Manage resources and assets effectively and sustainably' represent two of the seven key objectives underlying the corporate priority 'Better services with less money' and the strategic objectives.

## **4. RISK MANAGEMENT ISSUES**

4.1 Failure to approve this corporate debt management strategy may lead to debts owing to the authority not being collected in a structured, measurable way.

4.2 Elements of the debt collection process will not be measured and performance not fully achieved.

4.3 There is an increased risk of failure in identifying areas where there is slippage in performance in order that corrective action can be taken.

## **5. EQUALITIES AND DIVERSITY ISSUES**

5.1 Successful debt collection is important to ensure resources are maximised and available to deliver equitable services to all members of the community.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance and Value for Money, Staffing, ICT, Property, Sustainability)**

6.1 A robust debt collection strategy plays an essential part in enabling an organisation to deliver its objectives efficiently and effectively.

## **7. LEGAL ISSUES**

7.1 Section 151 of the Local Government Act 1972 states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

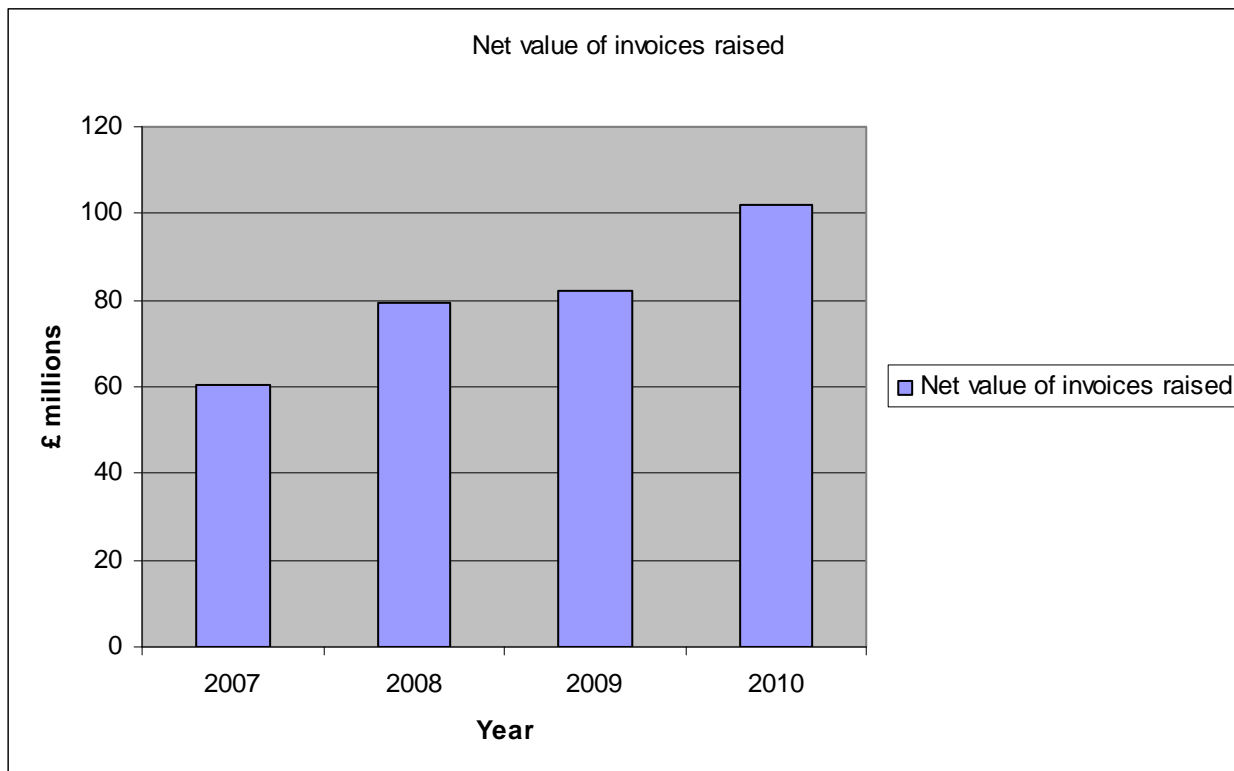
- 7.2 Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor during the financial year its income and expenditure against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation.

## **8. CONSTITUTIONAL POWERS**

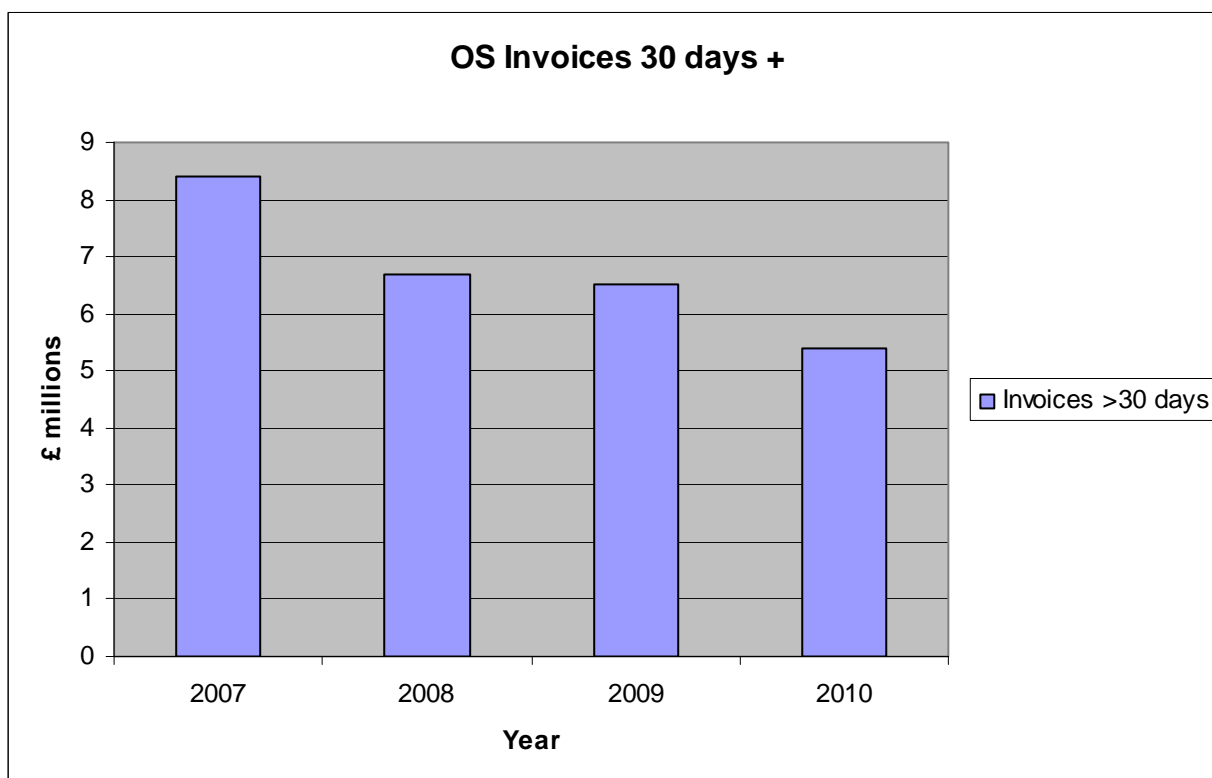
- 8.1 The Council's Constitution, in Part 3, Responsibility for Functions, states in paragraph 3.6 the functions of the Cabinet Resources Committee including:
- (a) Monitor the trading position of appropriate Council services, carry out debt analysis and look at income sources and charging policies;
  - (b) To write off debt;
  - (c) To determine external or cross-boundary trading limit; and
  - (d) Approval of schemes not in performance management plans but not outside the Council's budget or policy framework.
- 8.2 The Council's Constitution, Part 4, Financial Regulations Part 1 section 4.17 states the Chief Finance Officer will report in detail to Cabinet Resources Committee at least four times a year on the revenue and capital budgets and wider financial standing in addition to two summary reports at the beginning and end of the financial year.

## **9. BACKGROUND INFORMATION**

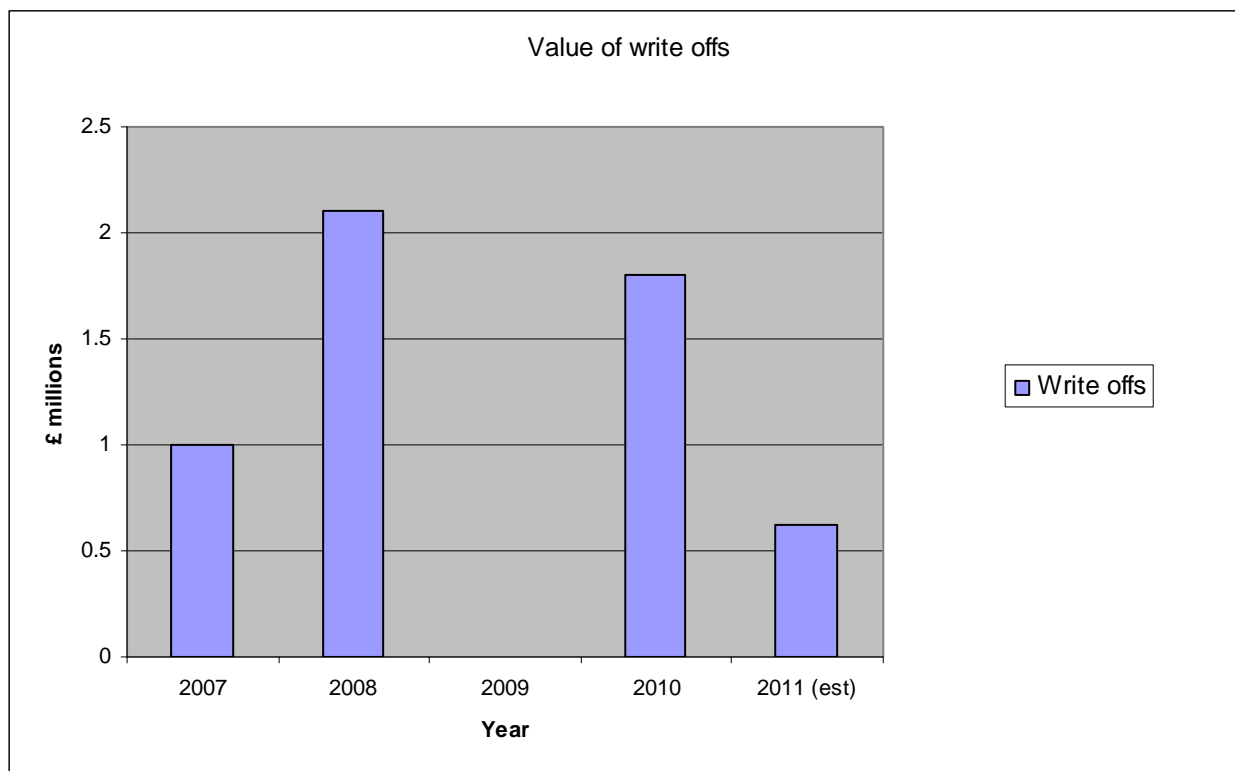
- 9.1.1 The existing 'Debt Management Policy' and the 'Income Collection and Debt Management Guidance' documents both require updating.
- 9.1.2 Both these documents contain a good deal on the how-to process but require more emphasis on the identification and measurement of performance.
- 9.1.3 Combining the best parts of these documents together with more focussed measuring will provide clear guidance on debt management within a single document.
- 9.1.4 Performance is currently measured holistically, comparing elements of the current outstanding debt with the position in the previous period.
- 9.1.5 The introduction of performance measures, in addition to those already in place, that target specific areas will provide further assurance that the key metrics in the debt collection process are being appropriately measured.
- 9.1.6 These specific local performance indicators will better enable the performance of the Accounts Receivable team to be measured and assessed.
- 9.1.7 **Current performance statistics**
- 9.1.8 The net value of invoices raised each financial year has been steadily rising with this chart indicating that between 2007 and 2010 an increase of 69% in the 'net value of invoices raised' has taken place.



9.1.6 The value of invoices remaining unpaid after 30 days has decreased in this same period indicating an improvement of 35%.



9.1.7 To maintain transparency all sundry debts that have not been collected prior to, or at the point of sale, will have an invoice raised. However, the authority has a statutory charge to provide some elements of social care regardless of whether the individual has the means to pay for this care and these and other debts that cannot be collected will be written-off.



9.1.8 An analysis of the last two full years Accounts Receivable data and how the various elements of the debt have been reconciled are shown in the table below:

		2009/10		2010/11
	£	£	£	£
Total value of invoices raised		89,172,734.53		111,745,664.56
Total value of credit notes		<u>-6,531,963.29</u>		<u>-9,465,628.42</u>
Net value of invoices raised		82,640,771.24		102,280,036.14
Less: Open items	-862,863.72		-1,729,113.78	
Write offs*	<u>-207,735.04</u>	<u>-1,070,598.70</u>	<u>-293.01</u>	<u>-1,729,406.79</u>
Value collected		<u>81,570,172.54</u>		<u>100,550,629.35</u>
		<b>2009/10</b>		<b>2010/11</b>
Current recovery percentage		<b>98.7%</b>		<b>98.3%</b>

\*The items written off in 2010 contained items from all previous years of which £207,735.04 related to 2009/10

9.1.9 The total value of all sundry debt brought forward from 2010 was £31.69m of which £24m related to general debtors.

9.1.10 The value of general debtors included invoices raised in March 2010 of £17.3m which was inflated compared to prior months by the inclusion of a large single debt of £4m and increased activity during the last week of the financial year when £9m of invoices were raised.

9.1.11 At December 2011 £22.91m of all sundry debt had been collected.

9.1.12 The details of the remaining balance of £8.78m are:

Debt type	Value £'000	Recovery action
Penalty charge notices	492	Warrants of execution issued for recovery by bailiffs
HB rent deposits	46	Recovery expected by year end
Regeneration projects	2146	To be recovered in-line with individual regeneration projects
Children's service	5	Provision made to return to service
Election overpayment	13	Debt recovery passed to Accounts Receivable

General debtors	2578	See recovery profile below
Empty property grant	73	Recovery expected by year end
Housing Revenue Account	<u>3426</u>	Payment due in February 2012
Balance remaining	<u>8779</u>	

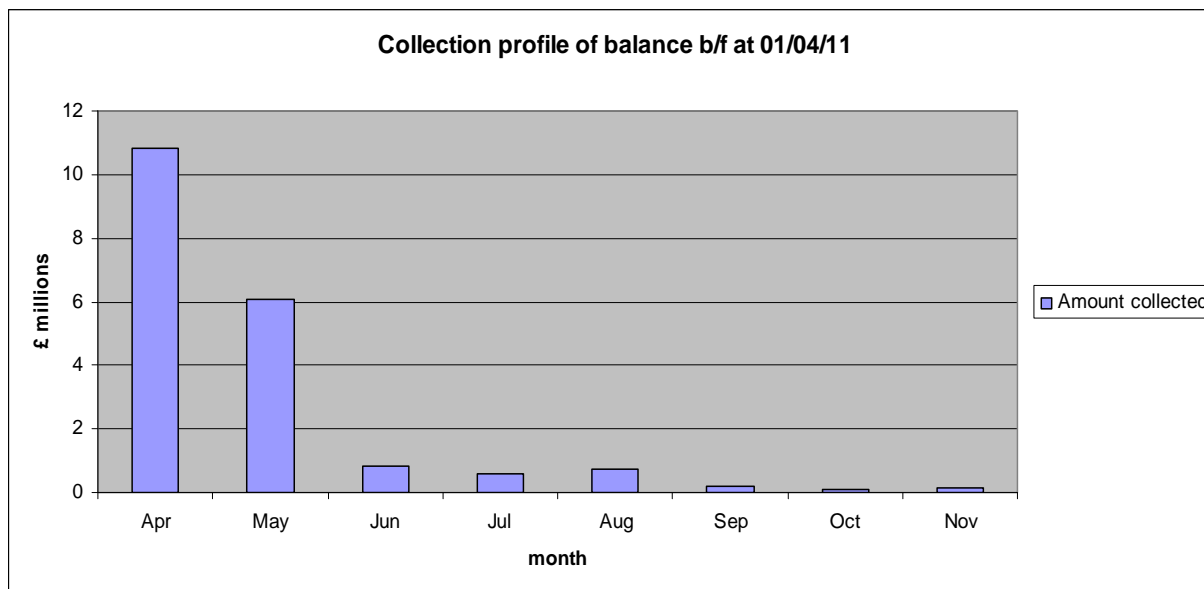
9.1.13 The value of sundry debt brought forward from 2010 and to be carried forward at year end is:

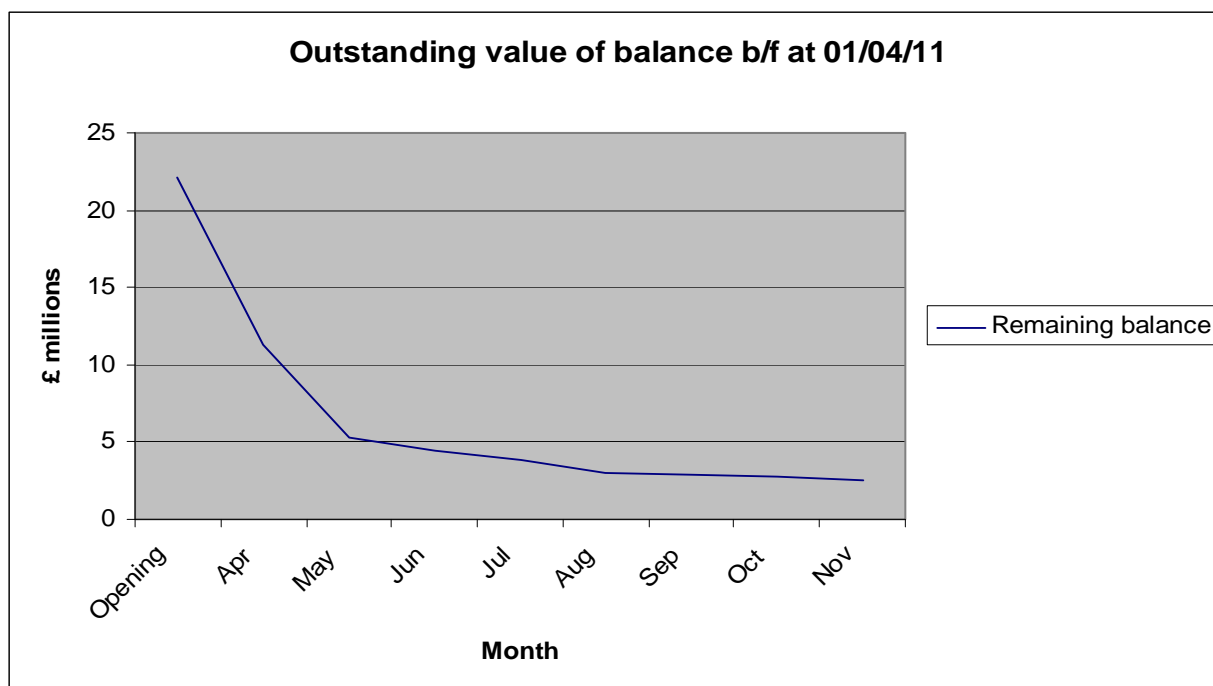
Debt type	£'000	Recovery action
Penalty charge notices	393	Estimated collection rate of 20% will raise £99k
Regeneration projects	2146	To be recovered in-line with individual regeneration projects
Additional regeneration costs	574	To be recovered in-line with individual regeneration projects
General debtors	<u>1498</u>	Estimated further recovery 430k plus 663k write off
Balance remaining	<u>4611</u>	

9.1.14 Based on current projections the carried forward balance at the end of 2011 is expected to be £24.6m, comprising of:

Debt	Value £'000
Outstanding 2010 balance b/f	4611
Balance outstanding from 2011	7000
Increased year end activity	<u>13000</u>
	<u>24611</u>

9.1.15 The largest class of debtor relates to general debt and the tables below demonstrate the typical debt recovery profile by value collected based on the brought forward general debt balance of £24m at 1 April 2011 and the balance remaining at 30 November 2011 of £2.5m.





## 9.2 Targets

9.2.1 The introduction of performance targets will enable the Council to more closely monitor the levels of debt collection and the performance of the Accounts Receivable team.

9.2.2 The targets enable the full range of the debt collection process to be monitored and measured, from the raising of the initial sales invoice through to the successful collection, or should the collection be unsuccessful, the write-off.

9.2.3 The achievement of these targets relies on all services adopting, and adhering to, the debt management strategy.

9.2.4 The performance targets and the benefits in achieving these are summarised below:

Target	Benefit
Invoice request to be raised in advance where possible, but no later than 7 days after the supply of the related goods or services.	If the debt is not recovered at point of sale as preferred, then the earlier that the debt is available to the collection team the greater the chance of recovery.
Invoice to be raised within 1 day of the sales order being received.	The prompt production and despatch of the invoice enables the collection process to commence.
Cheques or cash to be processed within 24 hours of receipt.	This allows the authority to benefit from increased cash flow, to concentrate on outstanding debts and not to pursue debts that have been settled.
Payment suspense items to be cleared within 3 days	As above
Aged debt KPI's	The KPI's measure and indicate where the debt recovery process can be improved, identifying where resources should be allocated.
Irrecoverable debt to be written off on a yearly basis.	Good accounting practice requires that debit balances accurately reflect realisable income.
To increase the number that pay by direct debit by 5% per annum.	Increasing the number of debtors paying by direct debit reduces collection costs and increases successful debt collection.

## **10. LIST OF BACKGROUND PAPERS**

10.1 None.



London Borough of Barnet

## Debt Management Strategy

30 September 2011

## **Introduction and objectives**

The Council has a statutory and fiduciary responsibility to protect public funds for the benefit of all who live and work in the borough.

This document sets out the Council's policy and procedures in relation to the billing, collection and recovery of monies owed to the Council and is to be adopted across all services within the London Borough of Barnet.

The Council is responsible for the collection of local taxes but also provides a range of chargeable services. Whilst the majority of this income is collected in a timely manner, there are occasions when debtors do not make payments on time. This gives rise to a requirement to actively manage Council debt, and to set out clearly how the Council will enforce payment of monies owed.

Methods for the billing and recovery of statutory debt are defined within the relevant statute. Methods for the billing and recovery of non-statutory debt are designed to comply with best practice.

The Council's objectives in relation to debt are:

- To minimise the amount of debt held at any one time;
- To pursue all debts, ensuring that those with the means to pay actually do so;
- To provide a corporate approach to the billing, recovery and collection of debt that encompasses the following core principles and is proportional, consistent and transparent.

## **Core Principles**

Responsibility for maximising income to the council for the services it charges for is shared by the Chief Finance Officer and Heads of Services.

The primary objective is to obtain payment in advance of services being provided. Where this is not possible, services should determine their arrangements for allowing credit in consultation with the Income Team, on behalf of the Chief Finance Officer. This document sets out arrangements for doing this.

Services are responsible for controlling the issue of credit in line with pre-determined arrangements and adhering to the arrangements for blocked customers.

Services are responsible for collecting and banking income collected in advance and for raising invoices promptly where credit has been allowed.

Consistent and transparent debt management arrangements will be applied to all sums owed to the council, with the objective of maximising income and cash flow, but taking account of the cost of collection and recovery. Arrangements for dealing with hardship are also addressed by this document.

The Central Income Team is responsible for recovering debts that have been raised by services, for advising them on debts that are uneconomic to pursue and where debts should be written-off, and for maintaining master data (client details, including blocked customer status etc.).

Provision for bad debts will be determined by the Chief Finance Officer, in conjunction with services and the Head of Revenue Services;

This document is not concerned with the Council's policy for charging for services. It is only concerned with the arrangements for collecting income on debts where the Council has made a policy decision on charging for services.

### **Definition of a debtor**

A debtor is any body, (whether an individual or organisation), who has received goods or services from the Council, or is liable for a statutory debt, and who has not yet paid the full amount owed.

To reduce the number of debtors, service providers must attempt to obtain payment in advance or at the point of service delivery wherever possible. Invoices should only be raised where payment in advance for a service is inappropriate.

### **Performance management**

Prompt recovery action is key in managing debt and maximising income. The Council therefore aims to:

- Regularly monitor the level and age of debt.
- Set clear targets for the recovery of debt.
- Have clear written recovery procedures.
- Set priorities for specific areas of debt and assess recovery methods to ensure maximum recovery.
- Regularly review irrecoverable debts for write-off.

### **Monitoring and reporting of debt**

The following table sets out the frequency and type of debt reporting, the responsibilities associated with monitoring debt levels, and responsibilities for monitoring this policy:

Type of Debt	Activity	Report to:	Responsible Officer	Frequency
Sundry	Aged Debt report	All services	Income Manager	Monthly
Sundry	Barnet Major Debtors		Income Manager	Monthly
Revenues, Benefits and NNDR	Ctax Percentage collected in year	CLG	Head of Revenues and Benefits	Yearly
All Debt	Review of Strategy	Chief Finance Officer	Income Manager	Yearly

Performance targets for debt invoicing, collection and debt recovery:

Type of Debt	Activity	Target	Responsible Officer
Sundry	Invoicing	Invoice request to be raised in advance where possible, but no later than 7 days after the supply of the related goods or services.	Income Manager
Sundry	Invoicing	Invoice to be raised within 1 day of the sales order being received.	Income manager
Sundry	Collection	Cheques or cash to be processed within 24 hours of receipt.	Income Manager
Sundry	Collection	Payment suspense items to be cleared within 3 days.	Head of Finance
Sundry	Aged Debt KPI	% of debt over 6 months but less than 1 year to be less than 3% of total debt.**	Income Manager
Sundry	Aged Debt KPI	% of debt over 1 year but less than 2 years to be less than 2% of total debt.**	Income Manager
Sundry	Aged Debt KPI	% of debt over 2 years to be less than 1% of total debt.**	Income Manager
Sundry	Aged Debt KPI	Irrecoverable debt to be written	Income Manager

		off on a yearly basis.	
Sundry	Payment method	To increase the number that pay by direct debit by 5% per annum.	Income Manager
Council Tax	To maximise the level of collection.	That 96% of 2011/12 Council Tax will be collected.	Head of Revenues and Benefits
NNDR	To maximise the level of collection.	That 96% of this years charge will be collected.	Head of Revenues and Benefits
Benefit Overpayments	To maximise the level of collection.	That at least £1m of this years debt will be collected	Head of Revenues and Benefits

\*\* Excludes Adult residential care costs

## Collection and Recovery

Except in the case of an invoice payable by instalments, or as otherwise contractually agreed, the settlement period for all invoices will be within 28 days.

After the settlement period, and where legislation permits, the Council may seek to recover interest and any costs that are legitimately due from the debtor to the Council or its agents.

Recovery action will commence no later than 14 days after the demand has fallen due. Escalations processes up to and including litigation, are to be agreed between the Income Team and the service departments.

The Council will attempt at all times to use the most appropriate and cost-effective method of debt recovery in order to maximise income.

Before enforcement action is taken, the council will utilise, correspondence and telephone contact with the debtor, visits to the debtor's home by designated Council officers, and where cost effective to do so, external collection agents as an alternative means of recovering sundry debts.

Where an external agency is utilised to assist with collection the flow of information between the Council and the agent must be in a secure electronic format.

All statutory methods of enforcement of debts shall be available for use. These include:

- Attachments of Earnings
- Warrants of Execution
- Third Party Orders
- Insolvency
- Possession proceedings

Where legally permissible, the provision of future services to the debtor will be suspended until outstanding debts are settled.

## **Dispute resolution**

In case of a dispute all recovery action will be suspended and the dispute referred back to the originating department for resolution within one week. If no response after 1 week a reminder will be sent to the originating department for instructions. If no response after a further week the debt will be transferred back to the originating department.

A dispute is not resolved unless it meets one of the following conditions:

- The customer is correct and gets full credit
- The customer is partly correct and gets partial credit and agreed charge.
- The customer is incorrect and accepts the charge
- The customer is not correct and does not accept the situation but the service is prepared to pursue the debt

## **Write off procedures**

***3.1 Whilst the Council will make every effort to pursue debts owed by debtors, it recognizes that in some circumstances debt will become irrecoverable.***

Debt may be regarded as uncollectable where:

- The debt is uneconomic to collect i.e. the cost of collection is greater than the value of the debt.
- The debt is time barred, where the statute of limitation applies. Generally this means that if a period of six years has elapsed since the debt was last demanded, the debt cannot be enforced by legal action.
- The debtor cannot be found or communicated with despite all reasonable attempts to trace.
- The debtor is deceased and there is no likely settlement from the estate or next of kin and where there is written confirmation from the Receiver.
- Hardship, where permitted, on the grounds that recovery of the debt is likely to cause the debtor serious financial difficulty.
- Insolvency where there is no likelihood of settlement and written confirmation from the Official Receiver or Administrator.

Good practice dictates that, when all methods of debt recovery have been exhausted, any debts that remain irrecoverable are written off promptly in accordance with the Council's

## Constitution and Financial Regulations.

Under the Council's Constitution, the Chief Finance Officer may, subject to that officer being satisfied that all avenues to recover the funds have been investigated, write off bad debts up to the value of £5000.00

Bad debt that is to be written off and is in excess of £5000.00 must be referred to the Cabinet Resources Committee for write off.

**3.2 *The CIPFA Code of Practice on Local Authority Accounting, (The Code) requires the council's statement of accounts to include sufficient provision for bad debts. This provision will be determined by the Chief Finance Officer, in consultation with the Head of Exchequer Services, the Head of Revenue Services and other Services. The External Auditor will subsequently review this provision for appropriateness.***

**3.3 *Generally, the older a debt is, the greater the requirement for a bad debt provision. Provisions are always reviewed as part of closing of the accounts, but should also be reviewed on a regular basis throughout the year, and any likely requirement to increase the provision at the year end should be identified and reported through regular budget monitoring.***

## Customer Care

**3.4** The Council will:

Collect debts in an efficient way, taking account of personal circumstances.

Deal with debtors in a professional manner at all times treating individuals consistently and fairly and displaying courtesy and respect in accordance with departmental Customer Care directives

Provide facilities to enable customers to discuss their debts in a confidential environment offering assistance wherever possible.

All debtors seeking help due to financial difficulties will:

- Be invited to provide details of their means by listing their income and expenditure. (Evidence will be requested if necessary)
- If they have other debts owing to the Council then these will also be considered when agreeing a recovery plan.
- Be encouraged to use the money advice services available from the Citizens Advice Bureau and other debt advice providers.

## Advice and assistance

The Council will seek to provide information about debt advice and potential statutory

benefits and discounts to those debtors who cannot pay.

Officers will remind debtors of the importance of paying priority debts. Priority debts include Council Tax arrears. Non-payment of Council Tax arrears can result in the seizure of debtors goods, or in the debtor being sent to prison.

Debtors who are in financial difficulty may find it beneficial to obtain specialist advice from one of the following agencies:

#### Citizens Advice Bureau

The Citizens Advice Bureau offer advice about simple debt problems, and will be able to refer debtors to a specialist advisor if the debt problem is complicated.

Website: <http://www.citizensadvice.org.uk>

Local branches:

New Barnet Citizens Advice Bureau 30 Station Road New Barnet Barnet Hertfordshire Tel: 0844 826 9336 Email: <a href="mailto:newbarnet@barnetcab.org.uk">newbarnet@barnetcab.org.uk</a>	Finchley Citizens Advice Bureau 23 Hendon Lane London N3 1RT Tel: 0844 826 9336 Email: <a href="mailto:finchley@barnetcab.org.uk">finchley@barnetcab.org.uk</a>
Grahame Park Citizens Advice Bureau The Concourse Grahame Park London NW9 5XA Tel: 0844 826 9336 Web: <a href="http://www.barnetcab.org.uk">www.barnetcab.org.uk</a>	Hendon Citizens Advice Bureau 40-42 Church End Hendon London NW4 4JT Tel: 0844 826 9336 Web: <a href="http://www.barnetcab.org.uk">www.barnetcab.org.uk</a>

### **3.5 Money Advice Centres**

Money Advice Centres can also provide help with debt problems. Details of the nearest centres may be found by accessing the DirectGov website: [www.direct.gov.uk](http://www.direct.gov.uk) and following the link to Community Legal Advice or by telephoning the helpline on 0845 345 4345



### National Debtline

The National Debtline provides free debt management information to people living in England and Wales. Debtors can contact National Debtline by calling them on 0808 808 4000 or via their website at [www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk)

### Business Debtline

The Business Debtline provides advice for small business in England and Wales. Debtors can contact them by telephone on 0800 197 6026 or via their website: [www.bdl.org.uk](http://www.bdl.org.uk)