Executive Summary

In November 2009 the first part of the phased implementation of the Oracle Income Management System will occur. The new system offers improved functionality around debt management and it is intended that debt collection performance will be significantly improved once the new system is fully operational across the County Council.

To fully utilise the enhanced functionality Oracle offers, and to thereby improve debt collection performance, a new Income and Debt Team is to be created within the Resources Directorate. The new team will provide a debt management function across the whole council and it is anticipated that an increase in income, due to improved debt collection performance, will more than offset the cost of new staff.

In preparation for the implementation, a review of debt management policies, procedures and processes has been undertaken as part of the Business Transformation Programme. The new updated debt management policy follows this review and will underpin debt management practice into the future.

Recommendation

To approve the updated debt management policy at Appendix 'A'.

Background and Advice

Lancashire County Council issues over £200m worth of invoices each year relating to both the recovery of monies expended and income in respect of fees and charges.

Whilst the County Council performs comparatively well in overall debt collection performance, room for improvement exists in terms of both collection rate and the time taken to collect debts.
The Oracle Financials (OF) suite of software has been implemented on a phased basis commencing April 2007. Oracle Financials is the primary accounting system for the County Council, and is maintained by the County Council for the use of Lancashire Constabulary and Lancashire Fire Authority. In 2009/10, as part of the phased introduction of OF, the Oracle Income management System (IMS) is to be implemented; IMS offers new functionality around the proactive management and collection of debt.

Business Transformation Programme – The Income and Debt Project

In anticipation of the introduction of IMS, a small project team was created in November 2008. The team's brief was to ensure a successful move to IMS by identifying and integrating business needs with the functionality of IMS. The 'Income and Debt' project has identified, amongst other things, that bad debt and the time taken to collect debts has a significant impact upon the County Council's finances.

The project team's work to date has identified the need to raise the profile of debt management across the County Council, and its recommendations include:

- The creation of a defined income and debt management team within the Resources Directorate which will oversee and manage debt collection activities up to the stage of formal Court action;
- Updating and better enforcing of the County Council's debt management policy;
- The retention of two legal recovery officers within the Office of the Chief Executive to manage County Court applications;
- The nomination of senior finance staff within Combined Finance Teams to assist with query resolution and general debt issues;
- Reporting on debt at Executive Leadership Team and Senior Management Team level;
- Clear allocation of responsibilities to support debt collection activity across the County Council; and
- The introduction of clear targets around collection and time to pay, with associated performance management.

To fully utilise the enhanced functionality Oracle offers, and to thereby improve debt collection performance, a new Income and Debt Team is to be created within the Resources Directorate. The new team will provide a debt management function across the whole council.

To underpin the work of the new debt team, a revised debt management policy has been drawn up and once approved will be available to users within and outside the County Council. Efforts have therefore been made to reduce the policy's contents with the use of web-links to direct County Council staff to further documentation covering good practice, performance management and detailed documents which specify roles and responsibilities for all County Council staff involved in the wider income and debt management process.
Changes to Existing Debt Management Policy

The revised policy to some extent codifies existing best practice, some of which has not previously been formally set out within a policy document. In terms of formal policy, the following represent proposed changes:

• The County Council does not provide credit as a matter of course and thus all debts are due to be paid immediately (rather than within 30 days);
• Goods and Services will not be provided (unless statute requires the provision of a service) to debtors who owe monies to the council, where any outstanding debt is over 30 days old;
• Member approval for the write-off of debts applies only to debts above £10,000 (previously the limit was set at £5,000).

Next Steps

Implementation work for Oracle IMS continues with a planned 'go live' date of November 2009 for the Adult and Community Services Directorate (care charges only), with other directorates (and non-care ACSD charges) to follow in 2010.

Consultations

N/A.

Implications:

This item has the following implications, as indicated:

Risk management

The new debt management process built into the Oracle system introduces a more proactive and faster debt collection process. This may lead to an increase in complaints, at least in the short term. It is imperative that all internal delays in processing payments from customers are minimised to ensure that customers are not contacted inappropriately.

Financial

It is intended that by clarifying the County Council's approach to debt management issues, together with the provisions described above, the revised policy will lead to improved debt management performance, which will ultimately provide more resource to fund service provision. The lack of a robust policy which will underpin the approach to debt management will adversely affect performance.

Equality and Diversity

The consistent application, by well trained specialist staff, of a fair and transparent policy will ensure that all customers regardless of age, disability, ethnic origin, faith, gender or sexual orientation are treated equally.
Any representations made to the Cabinet Member prior to the issue being considered in accordance with the Public Notice of Forward Plans

Name: 
Organisation: 
Comments: 
N/A

Local Government (Access to Information) Act 1985
List of Background Papers

<table>
<thead>
<tr>
<th>Paper</th>
<th>Date</th>
<th>Contact/Directorate/Tel</th>
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<tbody>
<tr>
<td>Detailed Service Description</td>
<td>24/3/09</td>
<td>Andy Brown, ACSD 07769 880051</td>
</tr>
<tr>
<td>Income and Debt 'To Be' final report</td>
<td>3/7/09</td>
<td>Andy Brown, ACSD 07769 880051</td>
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</tbody>
</table>

Reason for inclusion in Part II, if appropriate
N/A.
## Decision Taken: Declarations

### Leader of the County Council

**Updated County Council Debt Management Policy**

Original recommendation, as set out in the report, approved without amendment. Yes

Original recommendation amended and decision as follows: No

I have a personal/prejudicial interest in this matter. No

If an interest is declared please give details below:

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<th>G Driver</th>
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<tr>
<td>Leader</td>
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<td>7 December 2009</td>
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**Chief Officer**

I certify that this is an appropriate and accurate record within the terms of Standing Order 35(2) and (3) of the decision taken by the Cabinet Member.

<table>
<thead>
<tr>
<th>Stuart Benson</th>
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<td>For Executive Director for Resources</td>
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<td>7 December 2009</td>
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Lancashire County Council

Debt Management Policy – November 2009

Introduction

Lancashire County Council provides numerous services and aims to do so in a cost-effective and efficient manner. In some instances chargeable services are provided, whilst in other cases income accrues to the county council for a number of reasons.

This policy sets out the County Council's approach to debt management and is not a 'how to' guide. The policy applies to the entire County Council, with the exception of some schools. See the 'schools' section of this policy shown below.

This policy will be reviewed periodically.

Detailed operating procedures and other information is available to County Council employees at the Income and Debt Management Team's (IDMT) intranet site. (hyperlink to be added – IDMT home page).

The overarching philosophy covering the County Council's approach to debt management is based upon the following key principles:

- The County Council does not provide credit as a matter of course;
- Those involved in the provision of chargeable services should attempt to obtain payment in advance wherever possible;
- Charges for the provision of regular, ongoing chargeable services should be collected via Direct Debit;
- Goods and Services will not be provided (unless statute requires the provision of a service) to debtors that owe monies to the County Council where any outstanding debt is over 30 days old;
- All debts due to the County Council are payable immediately;
- The ultimate responsibility for debt management lies with the directorate that engages in the giving of credit; and
- All credit income due to the County Council should be invoiced at the point of agreement or as soon as is practicable (subject to a maximum of two weeks after goods or services have been provided).

Responsibility for Effective Debt Management

Many teams within the County Council support the income and debt management function, and need to work together to support the work of colleagues, according to agreed processes and timescales that are available at (hyperlink to be added – Roles and Responsibilities).

Debt management and invoicing is carried out only by using Oracle Financials software: all credit income due is managed via this system.
Service teams within directorates are primarily responsible for those aspects of effective debt management that occur prior to, and shortly after, invoicing. Service team staff involved with the provision of chargeable services will be granted access to the Oracle debtors system only after full training has been given and confirmation of completion of relevant e-learning packages made. Further information about best practice is available at (hyperlink to be added – good practice and training guide).

The Income and Debt Management Team (IDMT) within the Resources Directorate provides a service to the County Council; it is responsible for day-to-day collection activities and the achievement of performance targets agreed between the Director of Finance and directorate management teams. The IDMT uses collection strategies that are agreed with directorates and is accountable for the successful collection of debt unless queries are raised by debtors that cannot be resolved by the IDMT.

When this type of query is received the IDMT’s responsibility for collection ends, and resumes only when any outstanding query has been resolved by the directorate. For the sake of clarity, any debt queried as above will be labelled within Oracle Financials as 'disputed'.

The costs of the IDMT are recovered from directorates according to the volume of collection team activity in chasing overdue debt; it is therefore incumbent upon directorates to comply with all relevant guidance and good practice as defined in the invoicing good practice guide (hyperlink to be added – good practice and training guide), to ensure that all prior steps are taken to increase the likelihood of early payment of debts. Invoices paid before a reminder is issued by the IDMT will attract no charge from the IDMT.

**Schools**

Under the Scheme for Financing Schools in Lancashire, a school has the power to issue its own invoices and determine its own policy for debt recovery including the issue of reminders, authorisation for write-off of debt etc.

Schools may use the SIMS Finance 6 Accounts Receivable module to raise their own invoices. Any school requiring training should contact the Westfield Centre.

Schools may request the Area Finance Teams to raise invoices on their behalf if they have purchased the Level 1 Financial Services package. This debt management policy is applied to any invoices raised on behalf of schools by the Area Finance Teams.

Schools may raise invoices locally by using alternative computerised/manual systems. If a school elects to set up its own system it needs to be aware of the key controls that need to be established with any system of debt management.

For further details see (hyperlink to be added – CYP-specific document)
Credit Checking

Prior to allowing credit for provision of goods or services credit checks should be made, where appropriate, to establish the purchaser’s ability to pay.

The County Council has access to a credit-checking agent's database and Income Champions within directorates can provide further advice about when credit checks are deemed to be necessary. A list of Income Champions is shown at (hyperlink to be added – Income Champions).

Charging of Interest – the Late Payment of Commercial Debts (Interest) Act 1998

On certain types of debt directorates are entitled to charge additional interest for late payment under the above Act. The Act allows creditors to charge interest at 8% above base rate from the date the debt became due for payment where no valid reason for non-payment has been provided. The Act is referred to on all Lancashire County Council reminder stationery. The calculation and charging of such interest is the responsibility of the originating service department. Directorates wishing to charge interest should consult the IDMT in the first instance (hyperlink to be added – IDMT contacts). Any directorate entering into any commercial transaction should do so only after agreeing terms and conditions with the potential debtor, with implicit reference made to the above Act.

Additionally, interest is charged on those cases subject to legal action as allowed by relevant legislation.

Invoice Issue

Where the charge is for a one-off service, an invoice must be raised within seven days of service delivery.

Where a charge is for a low value (i.e. below £20 per service/item), repeated service an invoice must be raised at a maximum interval of one month, or a similar practical and timely alternative adopted.

Interim invoices will be issued where full costs are unclear at a maximum interval of one month from service delivery.

No invoice shall be raised for a sum of less than £20 unless to do so would be necessary for logistical reasons (for example to finalise an account for adult care charges).

No invoice will be raised without full and accurate debtor information and supporting documentation. To avoid the creation of multiple debtor accounts, the IDMT must be contacted to set up new debtors. If necessary the team will perform credit checks prior to the setting up of a new debtor, if such a check has not already been carried out by directorate staff.
See the full list of invoicing good practice notes at the Income and Debt Management Team's intranet site (hyperlink to be added – good practice and training guide).

Payment Methods

The County Council promotes payment by the following methods:

- Direct Debit
- Debit/Credit Card payment via telephone or internet
- Direct to the County Council's bank account (e.g. BACS).

Payments will be accepted by cheque and cash where customers do not have the facility or means to pay by the above preferred methods.

Collection and Enforcement of Debt

The County Council collects overdue debt primarily through the efforts of the IDMT. The team uses Oracle Financials software to manage debt, and its primary means of communication is by telephone. The IDMT will follow good practice in its dealings with debtors; when collection difficulties occur a number of alternative means of collection will be used, including debt collection agencies and legal action.

Debtors who Experience Difficulties in Paying

The County Council will deal with all debts in a reasonable and sensitive manner. If debtors experience difficulties in paying debts due to the County Council contact will be made, by the IDMT, and payment strategies agreed. Any arrangement to pay by instalment is subject to a maximum repayment period of twelve months, unless exceptional circumstances warrant a longer payment period. Any proposal to pay an outstanding debt over a period exceeding twelve months (from the date of agreement) will only be agreed once the relevant directorate has been consulted.

The County Council will offer instalment plans but for debts of less than £240 will not accept a payment period of more than one year.

Legal Action

The County Council will take legal action against debtors once the standard collection procedure has been exhausted. Successful legal action will normally be followed by enforcement action. Decisions to proceed with legal action and any subsequent enforcement will be taken by directorates, having taken into account advice about risks, costs and other salient issues.

No debt under £500 will be passed to the County Council’s Legal Services Department unless the debtor is a consistent defaulter or exceptional circumstances exist.
Limitation

Under the Limitation Act 1980 no legal recovery action can take place six years after the date the debt became known to the claimant; for practical purposes this is translated as six years from the date of the invoice. Directorates are therefore required to retain all documentation relating to the debtor for six years from date of invoice.

Dispute Resolution

Debtors who wish to query or challenge an outstanding debt must do so, in writing, by contacting the person or team shown on the relevant invoice. The person named on the invoice must record all dispute details on Oracle Income Management System (IMS). Failure to maintain adequate records (both locally and within Oracle) will hinder or prohibit further debt collection activity.

Invoice Cancellation

Invoices must only be cancelled (in part or fully) when the original invoice is subsequently found to be incorrect or should not have been raised. Cancellations must not be made to invoices due to the debt not being collected – in such instances invoices should be written off. Controls within Oracle IMS allow only certain designated users to cancel debt.

Note that the decision to write off any debt above £10,000 will be taken by the appropriate cabinet member for the service to which the debt relates.

Invoice Write Off

Invoices are written off only once a decision has been reached that it is not cost-effective to continue to pursue a debt. The authority of any officer to write off an invoice depends upon the value of that invoice or set of invoices. Write-offs will be processed via Oracle, which will use pre-defined user limits to ensure that write-offs occur only in line with the County Council's financial regulations.

Review of Aged Debt

Aged-debt analysis will be carried out on a monthly basis to ensure that potential bad debt is identified and managed effectively. Directorates will need to provide reasons for keeping an aged debt 'live', with a presumption that aged debt should not exist beyond a period of one year.

The outcome of an aged-debt review will lead to one of the following decisions from directorates regarding any aged debt:

- Instruction to IDMT to continue to pursue;
- Pass to a debt collection agency;
Commence litigation;

Cancellation; or

Write-off.

Should insufficient feedback be received from directorates in respect of aged-debt reviews instigated by the IDMT, the IDMT manager will arrange for the relevant debts to be written off. Any such action by the IDMT will be reported via the performance management framework.

**Accounting Arrangements**

Invoices are credited to the relevant accounting code at the point of creation. If an invoice remains unpaid after 90 days the original credit is reversed and will only be re-credited with the value of any subsequent payments received.

VAT due on any chargeable service/goods/outputs must be recorded at invoice creation stage. For VAT queries contact the VAT team (hyperlink to be added – VAT team).

**Performance Management and Reporting**

Annual targets surrounding debt collection performance will be set by the Director of Finance in consultation with directorates. Reporting against these targets will be provided for directorate management teams, combined finance teams and other parties with responsibilities for income generation and collection.

Regular debt management meetings will occur between directorates and the Income and Debt Management Team and will be chaired by the Head of Pensions and Payments.

**Complaints**

The County Council operates a complaints policy that is available at (hyperlink to be added – County Council complaints policy).