Regulatory and Audit Committee

Title:	Effectiveness of Debt Management Strategy Update
Date:	Thursday 28 July 2016
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Local members affected:	All

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Summary

Since the effectiveness of the Debt Management Strategy was last reviewed by the committee in February 2016 there has been a significant volume of work undertaken to better understand our debt position. All Business Unit Finance Directors have been consulted with and asked to provide an understanding of the specific issues of debt within the Business Units, and as a result of this a revised set of processes and metrics for reporting of aged debt have been agreed upon. The most significant part of the reporting improvements being delivered are aimed at supporting Business Units in understanding their debt position, and facilitating the onwards reporting of that position to both One Council Board and Cabinet.

In addition corporate and system process improvements continue to be developed to better meet the needs of budget holders, who are fundamentally responsible for the debts within their cost centres, and for management teams, who hold the wider responsibility to ensure debts are appropriately managed within their Business Units.

Having reviewed the newly developed metrics, which are reported in Appendix I, it is apparent that it will take some time to address our current position, and that these measures will shine a spotlight onto matters which will then require action from Business Units. In CSCL the level of provision for bad debt is currently only 6% of the value of debt aged more than 90 days. Viewed corporately the total provision held represents 18% of debts aged over 90 days. There may be valid reasons for this, but as this has not previously been visible little or no challenge to this position has been made. Additionally when comparing the proportion of unsecured aged debt to the annual value of sales invoices this ratio is significantly higher in CSCL that other Business Units. Again a local understanding of the underlying issues is required in this case.

Update on developments and Improvements

Corporate reporting of aged debt

We are currently producing a new set of reports to One Council Board to bring a greater understanding of aged debt. Key changes to the reporting are as follows;

- Reporting aged debt for Business units by the following timeframes;
  - 1-30 days overdue
  - 31-90 days overdue
  - 90 days to 1 year overdue
  - More than 1 year overdue
- The classification and reporting of debt on a risk profile, which will allow us to recognise the differences in debts and the debt management process across the Business Units
- The value of written off debt by Business Unit and the level of provision for bad debt to be reported alongside the level of aged debt
- Measures of debt as a percentage of sales are being trialled, and will form a part of the One Council Board report when completed

The intention of the changes above is to ensure that the focus of corporate management is on reducing the risk of debts becoming bad, ensuring that write-offs are appropriate, and that the costs of writing debt off are considered as part of their management.

It remains the responsibility of the Managing Directors and their Finance Directors to ensure that debt is managed effectively within the Business Units, and the expectation is that each Managing Director will be able to discuss their aged debt position at One Council Board.

The reporting of aged debt to Cabinet will be based upon the revised One Council Board format, although it will be reported at a corporate level.

Reporting of aged debt to Business Units

It has been agreed that Finance Directors will, on a monthly basis, receive the following information regarding aged debt;

- A full list of debts overdue, including the value, due date and cost centre to which it relates
- A full list of all debts written off in the last month
- The latest value of the Business Units provision for bad debt after any in-year write-offs
- The latest Business Unit aged debt position in the same format as the corporate report

The intention is that this information will allow each Business Unit to understand its debt position and to challenge its managers to manage the debts efficiently and effectively, to identify opportunities to change the method of charging to reduce the risk of debt going bad, and to support discussions and decision-making in relation to aged debt at Business Unit Boards.

Review of historic aged debt and unallocated income

There is currently a significant balance of unallocated income from before April 2015, and a similarly sized balance of outstanding debt. Activity is currently in place to review these debts and unallocated income and to match them off where possible. Due to the agedness of the debts and the fact they were not matched in the first instance it is likely that only a portion of these can be matched off, however once the position is understood a proposal will be developed, taking account the risk of future challenge, to write off the debts against the remaining unallocated income. Where these historic debts are clearly attributable and unpaid the Business Unit will be consulted as to how to proceed.

Corporate process improvements to support effective debt management

1. Management of aged debt by BSP

   The Finance Operations Team within BSP continues to work with Business Units to manage debts aged to over 90 days. They have recently improved their processes to ensure they are able to report back to Business Units on the effectiveness of debt recovery action, and to advise on the potential need to write off unrecoverable debts. To date a significant number of debts have been retained by Business Units as they feel they either understand the debt better or have an ongoing relationship they are managing alongside the debt.

2. Automated reminder messages to Budget holders

   There have been some unforeseen issues with this development, alongside resource constraints within ICT, which have meant that this is not been progressed as originally planned. An alternative method has been developed, and Finance Directors have been asked to engage with this process to ensure their budget holders are fully aware when their debts become aged.

3. Changes to aged debt reminder letters

   The proposed changes to the process of issuing reminder invoices have also been delayed due to resource constraints.

4. Clarification of roles and responsibilities

   Within discussions with Finance Directors relating to improvements in debt management the topic of roles and responsibilities was raised. The proposals for improved visibility of debt to Finance Directors is in part intended to ensure that they are able to provide a greater level of assurance to Strategic Finance that debt is being properly managed within their respective Business Units. A revised Budget Holder training package has been commissioned and should be launched as a mandatory training course by September, and this will include linkages to the Debt Management Strategy and emphasise the role which Budget Holders have in ensuring that debt is both raised appropriately and chased to ensure payment is received for services rendered.

5. Updating of the Finance Intranet

   The updating of the Finance intranet is a key activity in ensuring those involved in the debt management process are clear of their responsibilities and can practically deliver them. A number of the documents relating to debt management (including the Debt Management Strategy, Financial Instructions and the SAP user guide) have been reviewed for consistency, and updated where necessary, however the wider review which will bring more focus and clarity to the tasks has not been possible due to resource constrains over the period of closing the accounts. This work remains a priority and has recently been re-invigorated, however resourcing the whole piece of work remains an issue.

6. Improvements to reporting of debt

   Appendix I contains examples of the proposed reporting changes to support the Debt Management strategy. The intention is to focus on higher risk debt, and also to understand whether the level of debt is appropriate for the nature and volume of activity undertaken commercially. When defining risk to debt, consideration has been given both to the nature of the debt, and the age of the debt, such that older debt that is not being actively pursued is classified as high risk, whilst secured debt is classed as low risk regardless of agedness.

Recommendation

That the changes and improvements within this report are endorsed and given time to 'bed-in'.

That Business Units are invited to present their local debt management approaches and performance to the committee once this 'bedding-in' period has been completed.

Supporting information to include the following if a decision is being requested:

Resource implications

There are currently resource constraints which are inhibiting our ability to implement changes to SAP in order to improve our reporting of debt management. It may be necessary to consider alternative options to take this work with the desired pace, and this may either have cost implications or result in the de-prioritisation of current activities being delivered.

Current resource levels within Finance to undertake the improvements to the Finance Intranet and to develop and deliver the corporate Budget Holder training also present potential constraints. Delivering these may require the re-prioritisation of other tasks with consequential impacts on service standards to customers.

Legal implications

None

Other implications/issues

None

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

None

Background Papers

Appendix I contains examples of the debt performance data which has been developed to support our understanding and active management of aged debt.
