

Regulatory and Audit Committee

Title:	Effectiveness of Debt Management Strategy Update
Date:	Wednesday 8 February 2017
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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 July 2016 the profile of outstanding debt has been significantly raised within the organisation. The revised reporting format, showing outstanding unsecured debt as a percentage of annual sales has raised management's awareness of the high levels of debt, and a greater focus has been applied to this area at both Business Unit Boards and at One Council Board.

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.

At the request of One Council Board a Task and Finish Group has recently been set up to drive the improvements in this area with more pace. Terms of Reference have been agreed (see appendix 1) and the project team is currently being formed. This group will be reporting on progress to One Council Board in March.

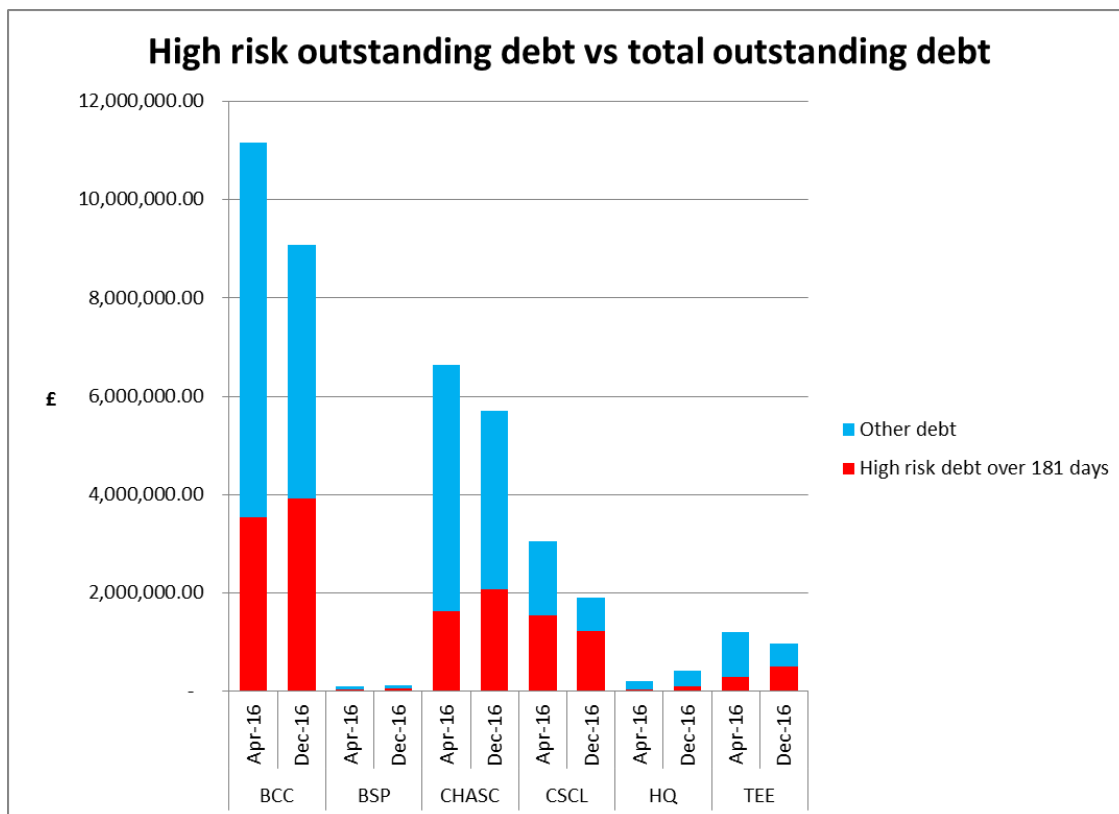
There is evidence that current practice in relation to recent debts is improving, and that fewer debts are becoming significantly overdue, however there is also significant evidence that the more historic debts are not being addressed either through effective recovery action or recognition that they are uncollectable and writing them off.

Current outstanding debt levels

The table below shows the total outstanding debt both for the organisation and for each Business Unit, and the proportion which is over 180 overdue and considered high risk (i.e. not secured). It is clear that the total level of outstanding debt has reduced between April 2016 and December 2016, however the level of high risk debt overdue by more than 180 days has increase in this timeframe.

Further investigation of the underlying data has identified that the level of very old debt (> 2 years overdue) within the high risk category has hardly changed, however the overall reduction in debt appears to be due to more recent debts being collected either by the service or by the Finance Operations Team in a more timely fashion.

Whilst this suggests that current behaviour regarding collection of outstanding amounts is reflective of the desired position, it also identifies that very old debt is not being addressed, either by effectively pursuing payment where possible, or in recognising that payment is unlikely and writing-off these debts.



Outstanding Debt Task and Finish Group

The Outstanding Debt Task & Finish Group is being overseen by the BSP Director of Operations, who has responsibility for both the Finance Operations Team and Corporate Business Support, and the Corporate Finance Business Partner.

- To reduce the levels of outstanding debt to an appropriate level for each Business Unit
- The organisation is confident that all outstanding debt is valid for collection
- All Business Units clearly understand their roles and responsibilities within the process
- Business Units are suitably supported to deliver their roles and responsibilities
- All new debts are created with the best possible chance of recovering them
- The systems and processes supporting the process are fit for purpose and reflect best practice in line with all relevant policies, strategies and guidance
- Management information is provided / available for Business Units to understand their outstanding debt and make appropriate decisions in relation to this debt

The full Terms of Reference for this group, including a comprehensive list of deliverables, can be found in Appendix 1.

Update on developments and Improvements

Corporate reporting of aged debt

The revised management reporting of Outstanding Debt reported to the committee in July is now fully embedded within both Business Units and One Council Board reports.

Reporting of aged debt to Business Units

All Business Unit Finance teams receive a monthly download of all outstanding debt for their Business Unit. This is then used to target budget holders who hold significant or particularly old debts to ensure action is being taken to pursue and recover the outstanding amounts.

3 of the 5 Business Units are currently using the outstanding debt data provided to them to automatically e-mail budget holders with outstanding debts, detailing the debts outstanding and requiring an update on progress. This will be superseded by SAP automated workflow messaging in February.

In addition to this the Finance Operations Team are providing a monthly report to each Business Unit Finance Director on the progress they are making in recovering outstanding debts. This includes recommendations to continue their pursuit of the debt, instigate Legal recovery processes or write-off the debt which is deemed unrecoverable.

Review of historic aged debt and unallocated income

A review of unallocated income and customer account's has identified that the current levels of outstanding debt are overstated, as payments have been received from the customer, and applied to the customer's account without matching the payment to the invoice. As such the individual invoices report as outstanding despite having been paid.

The Finance Operations Team, who are responsible for the matching of payments to both customer accounts and invoices, are currently reviewing all accounts with unapplied payments to ensure these are matched to invoices as appropriate. This action should result in a reduction in the levels of outstanding debt reported.

As part of the Task and Finish Group remit Business Units have been tasked with reviewing all the outstanding debt under their management which relates to the period prior to the implementation of the current Debt Management Strategy. There is an expectation that this will identify significantly overdue debt of which there is little likelihood of recovery action being successful, and that it will be necessary to write this debt off. Within this review it will also be necessary to ensure that all debt recoded as secured actually has a legal basis securing it, and that the likelihood of eventual recovery remains high.

Corporate process improvements to support effective debt management

The Finance Operations Team within BSP continues to work with Business Units to improve their processes to ensure debt more than 90 days overdue is recovered. A number of relevant debts are still retained by Business Units for a number of justifiable reasons.

Since July 2015 the BSP Finance Operations Team has recovered £2.2m of outstanding debt which had become more than 90 days overdue. This has been at a cost of approximately £69k.

The Finance Operations Team has identified the opportunity to convert Adult Social Care clients who pay by invoice to move to Direct Debit payment. To date the percentage paying by Direct Debit has increased from 39.7% in April 2016 to 58.2% in December 2016. Work

continues to engage with the remainder of clients who do not pay by Direct Debit in order to increase this percentage further.

Previously the Finance Operations Team were unable to take payments directly when they contacted a customer with an outstanding debt. They now have this facility and are taking a significant number of payments at the first point of contact with customers with outstanding debt.

There is currently a SAP development in process to produce invoices and reminder letters via e-mail. This has been proposed as research suggests that this is both a cheaper option for us, but that it also results in a slight increase in the payment of invoices.

Recommendations

That the Committee invites Business Units to present their local debt management issues, approaches and performance.

That a further report is brought to this Committee after the completion of the Task & Finish group project.

Resource implications

The Task and Finish groups work plan will place burdens across Business Units in reviewing and checking all outstanding debt, and both the Finance Operations Team and the SAP support team in order to deliver process, documentation and system improvements. This activity has been prioritised by One Council Board and resource constraints are currently being identified.

Activity to review outstanding debt may result in significant write-offs of outstanding debt. This may impact on the currently forecast outturn position reported to Cabinet, but it is not expected that this would move the authority into an overspend position.

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 the Terms of reference for the Outstanding Debt Task & Finish Group.
