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Regulatory and Audit Committee

Title:	Effectiveness of Debt Management Strategy
Date:	Wednesday 26 July 2017
Author:	Richard Ambrose, Director of Finance & Assets
Contact officer:	Matt Strevens, Corporate Finance Business Partner (ext. 3181)
Local members affected:	

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Summary

As reported to the Committee in February 2017, the profile of outstanding debt has been significantly raised throughout the organisation and a Task and Finish project focussing on outstanding debt was instigated at the request of the Corporate Management Team.

The improvements already presented to the Committee have become a part of this Task and Finish project, along with a number of other initiatives and activities identified to improve both the management and processes relating to sales invoicing and debt management.

Significant progress has been made by the Task and Finish group, both in further identifying issues within the process and developing and implementing solutions to the identified issues. The Task and Finish group is currently nearing the completion of its remit. There has been significant progress in addressing outstanding debt, and a proposal has recently been made to Corporate Management Team to bring consistency and focus to debt management through the creation of a central Debt Management Team.

Providing for Bed Debt

With the stronger organisational focus on outstanding debt, there has been a significant change in the level of provision for bad debt. All Business Units have undertaken a thorough review of their outstanding debt and levels of provision are now based on the outcomes of this exercise.

The Debt Management Strategy proposes the following as the default position on providing for bad debt, and allows for alternative proposals to be made where the Business Unit can provide evidence to support an alternative provision level.

Age of Debt	Provision
Up to 6 months	No provision
6 months – 12 months	25% of outstanding debt
12 months – 18 months	50% of outstanding debt
Over 18 months	100% of outstanding debt

The table below presents a comparison between the provision for bad debt and the default position from the Debt Management Strategy at the closure of accounts in 2015/16 and 2016/17.

	2016/17			2015/16		
Business Unit	**Provision per DMS**	**Actual provision**	**Provision as %age of DMS provision**	**Provision per DMS**	**Actual provision**	**Provision as %age of DMS provision**
BSP	£ 26,019	£ 29,647	114%	£ 69,610	£ 42,178	61%
CHACS	£ 1,106,405	£ 998,020	90%	£ 1,167,412	£ 471,119	40%
CSCL	£ 694,060	£ 93,902	14%	£ 1,075,310	£ 93,902	9%
HQ	£ 53,495	£ 12,846	24%	£ 76,292	£ 19,088	25%
TEE	£ 273,429	£ 126,578	46%	£ 237,099	£ 126,578	53%
TOTAL	**£ 2,153,408**	**£ 1,260,993**	**59%**	**£ 2,625,723**	**£ 752,865**	**29%**

As can be seen, the default provision figure has reduced between 21015/16 and 2016/17 (reflecting the work undertaken to address outstanding debt), and the level of provision made has increased. In percentage terms the provision made as a percentage of the default figure has more than doubled.

In CSCL, TEE and HQ there were large outstanding debts for which the likelihood of collection was very high (as they relate to other public sector bodies), but which required a significant provision under the default position. This explains why the provision made as a percentage of the default position is lower in these Business Units.

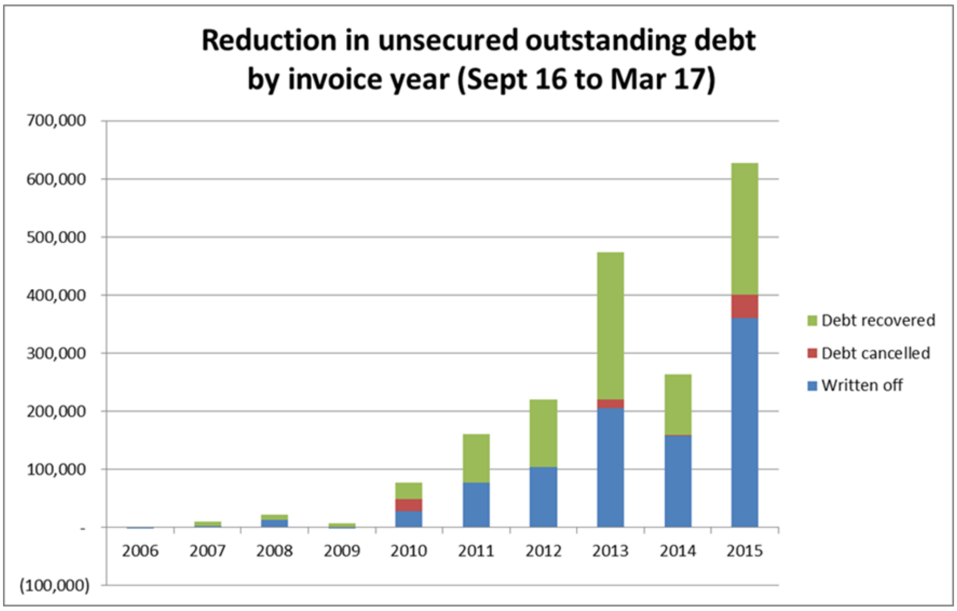
Outstanding Debt Task and Finish Group

Progress against the key deliverables of the Task and Finish group is reported below;

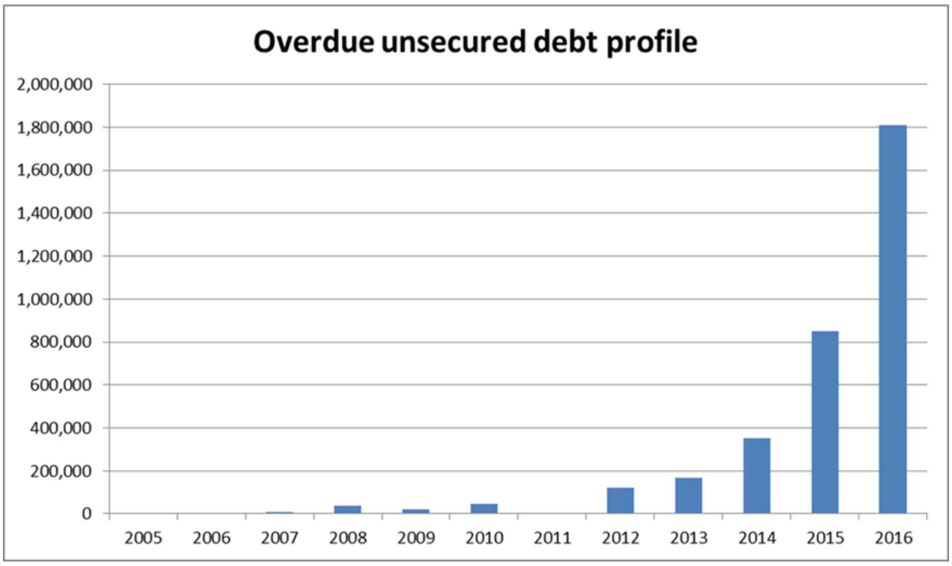
To reduce the levels of outstanding debt to an appropriate level for each Business Unit

A review of outstanding debt was undertaken to support the year end closure of accounts. As a result of this review £1.12m of uncollectable debt was written off, £76k of incorrectly billed debt was cancelled and £835k of debt relating to invoices raised prior to 2016 was collected. This has significantly reduced the 'tail' of outstanding debt, however there is still further work to be undertaken to address this matter. There is currently a recruitment process to bring additional resource into the organisation for a fixed-term 6 month period to bring this work to conclusion.

The table below shows the reduction in unsecured debt as a result of the actions above by the year to which the invoice relates;



The following table shows the level of unsecured debt remaining by the year to which the invoice relates;



Clearly a tail of debt remains, however the values have reduces significantly, and further work is planned to reduce this further.

The organisation is confident that all outstanding debt is valid for collection
The actions above have moved this matter forward significantly, and the temporary resource currently being recruited is intended to bring this matter to conclusion. In addition improvements in the process of raising invoices should reduce the number of invoices raised in error, or which are uncollectable due to the quality and content of the invoice.

All Business Units clearly understand their roles and responsibilities within the process
As we have consulted with budget holders and their financial support staff, and understood the processes they operate to deliver the Debt Management Strategy it has become apparent that there is a significant degree of variation into the understanding of their roles and responsibilities, and consequentially in the delivery of their responsibilities. Generally the chasing of overdue debt has a low priority for service managers, and often activity in the pursuit of debt does not begin until the Finance Operations Team take over conduct of the debt at 90 days overdue.

Clearly this delay in beginning to pursue debt is not best practice, and both reduces the likelihood of recovery of the debt and delays the identification of debt raised in error. This both increases the likely level of write-offs required and misstates the financial position since income is reported as soon as invoices are raised.

In response to these issues a proposal to create a central Debt Management team is being considered at Corporate Management Team on 20th July. If accepted, this will change the roles and responsibilities of those involved in the process, and will require an update to the current Debt Management Strategy. This update will be accompanied by extensive communication with those involved in the process.

In addition a newly developed Corporate Budget Holder training package contains the current roles and responsibilities, and this will be rolled out to all budget holders shortly. This will require an immediate update if the proposal for the central Debt Management team is accepted.

Business Units are suitably supported to deliver their roles and responsibilities
Under the proposal to create a central Debt Management Team, this team would provide professional advice to the organisation on the management of debt, and would produce KPI's and other monitoring information to ensure that the Debt Management Strategy and the processes supporting it were operating efficiently and effectively. This performance information will also be made available to Business Unit Boards and Corporate Management Team to flag any specific issues which require action.

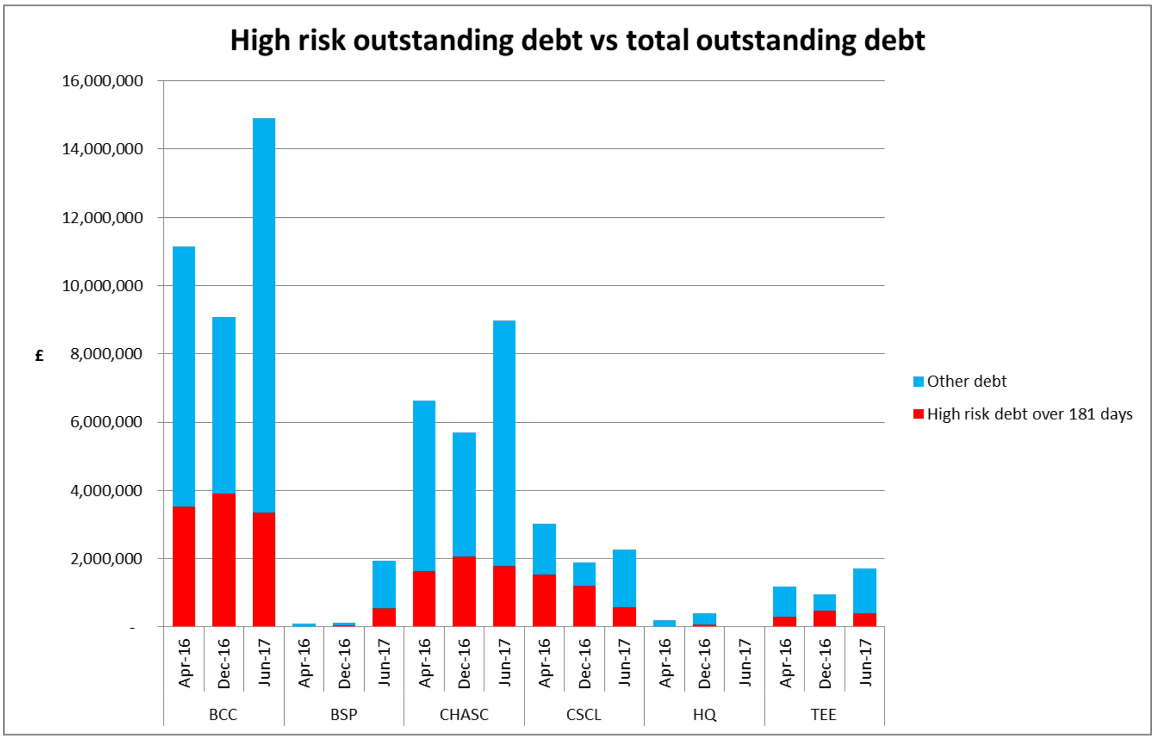
All new debts are created with the best possible chance of recovering them
The Finance Operations Team, who currently take over conduct of debts when they are 90 days overdue have run a number of workshops which the user population who create sales invoices. These have been well attended, and have highlighted a lack of understanding and training of end users of the process. There are a number of causes behind this position, which are currently being addressed through improvements to the Intranet and user guides, further workshops with this community, and targeted communications.

The systems and processes supporting the process are fit for purpose and reflect best practice in line with all relevant policies, strategies and guidance
As mentioned above, the Debt Management Strategy (and supporting policies and guidance) will require revision if the proposal to create a central Debt Management Team are accepted. The systems and processes, as currently defined, are fit for purpose, however there are improvements to be made in terms of user-friendliness, and there are likely to be a number of further changes required to meet the requirements of a future operating model.

Management information is provided / available for Business Units to understand their outstanding debt and make appropriate decisions in relation to this debt
Management reporting has already been enhanced, to focus on risk, rather than purely on agedness, and also to develop measures of appropriate levels of debt for each service area. We are currently implementing a new process to allow the recording of the stage of debt recovery for each outstanding debt. This will support a greater level of understanding within service areas of the likelihood of recovery, and highlight debts where there is a service decision as to how to proceed with the recovery process. In addition a central Debt Management team model will create additional expertise within the organisation, which is better able to advise and support the service areas and inform their decision-making processes.

Current outstanding debt levels

The table below compares the levels of high-risk outstanding debt to the total outstanding debt (including secured debt) over the past 14 months.



Looking at both service areas and BCC in total the following is apparent;

- Total debt has increased against both April 16 and Dec 16 levels
- High risk debt has not increased in comparison to April 16 and has fallen compared to Dec 16
- All other business areas have seen a reduction in high risk debt and an increase in overall debt
- BSP debt has increased significantly

These changes are as a result of the following;

- The increase in total debt is reflective of a number of significant invoices raised at the start of the year which are only a small period overdue, and an increased level of invoicing due both to increased charging activity and timelier charging following engagement with those billing for service provision.
- High risk debt has fallen due to the review of debt and subsequent write-offs
- BSP debt has increased as additional functions have transferred into this are from other areas of the Council.

Remaining actions for the Task & Finish Group

The following actions remain outstanding for the Debt Task and Finish Group;

- Review content and format of sales invoices (due for completion in August)
- Implementation of debt recovery status process & reporting (due for completion in August)
- Update to supporting information on the Intranet (due for completion in September)
- Communication of roles & responsibilities to service areas (due for completion in September)
- Implementation of Corporate Management Team decision on creation of central Debt Management team

- Implement reporting of average debtor repayment period (delayed due to lack of resource within Task & Finish group)

Recommendation

That regular updates to the Committee should continue until new processes have fully embedded, especially focussing on the development and future reporting of performance measures.

That the revisions to the Debt Management Strategy be brought back to the Committee in November for comment / review if the decision is made by the Corporate Management Team (due 20th July) to implement a central Debt Management Team.

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

Appendix 1 – CHASC Finance Directors debt report
Appendix 2 – CSCL Finance Directors debt report

Resource implications

The tail of debt dating back to invoices from 2015 is likely to result in the need to write-off further unrecoverable debt. Whilst we have increased provisions for bad debt, these may not be sufficient if significant values of debt require to be written-off.

It is currently believed that the implementation of a central Debt Management team will not require any additional resource beyond its initial implementation as there are opportunities to automate the initial process if managed centrally and this will reduce the current levels of resource required in Finance Operations to pursue debts overdue by more than 90 days.

The recruitment of a temporary resource to chase old outstanding debts will be an additional cost to the organisation. The Director of Finance & Assets has agreed to fund this post for a 6 month period.

Legal implications

None

Other implications/issues

None

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

None

Background Papers
