

Regulatory and Audit Committee

Title:	Effectiveness of Debt Management Strategy Update
Date:	Wednesday 31 January 2018
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Local members affected:	All

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

Since the effectiveness of the Debt Management Strategy was last reviewed by the committee in July 2017 the profile of outstanding debt has continued to be high both within Business Units and at the Corporate Management Team.

The Task and Finish Group has continued to work on both Corporate and Business Unit specific approaches to addressing outstanding debt and improving the systems, processes, training and supporting information available on this important financial matter.

In January a session on Outstanding Debt was held with the Risk Management Group where both corporate progress and Business Unit specific progress was checked and challenged.

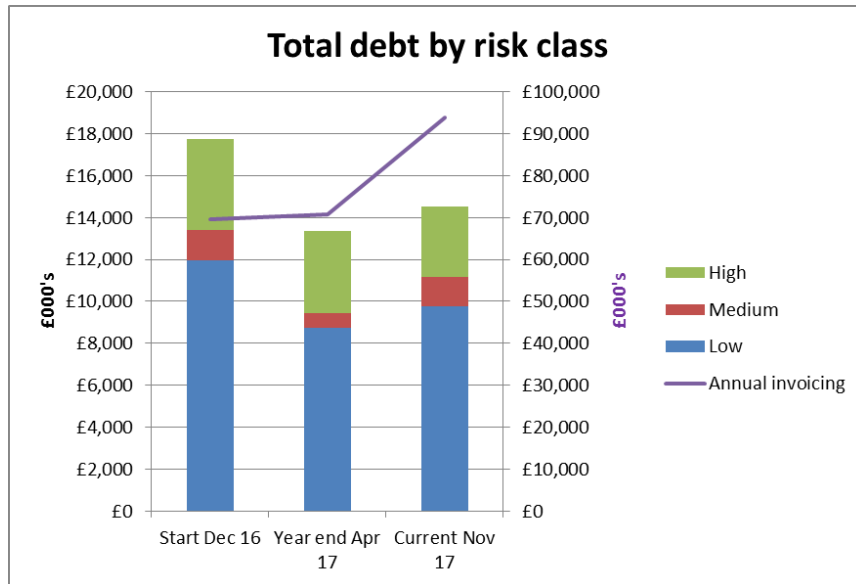
Current outstanding debt levels

Debt vs Sales

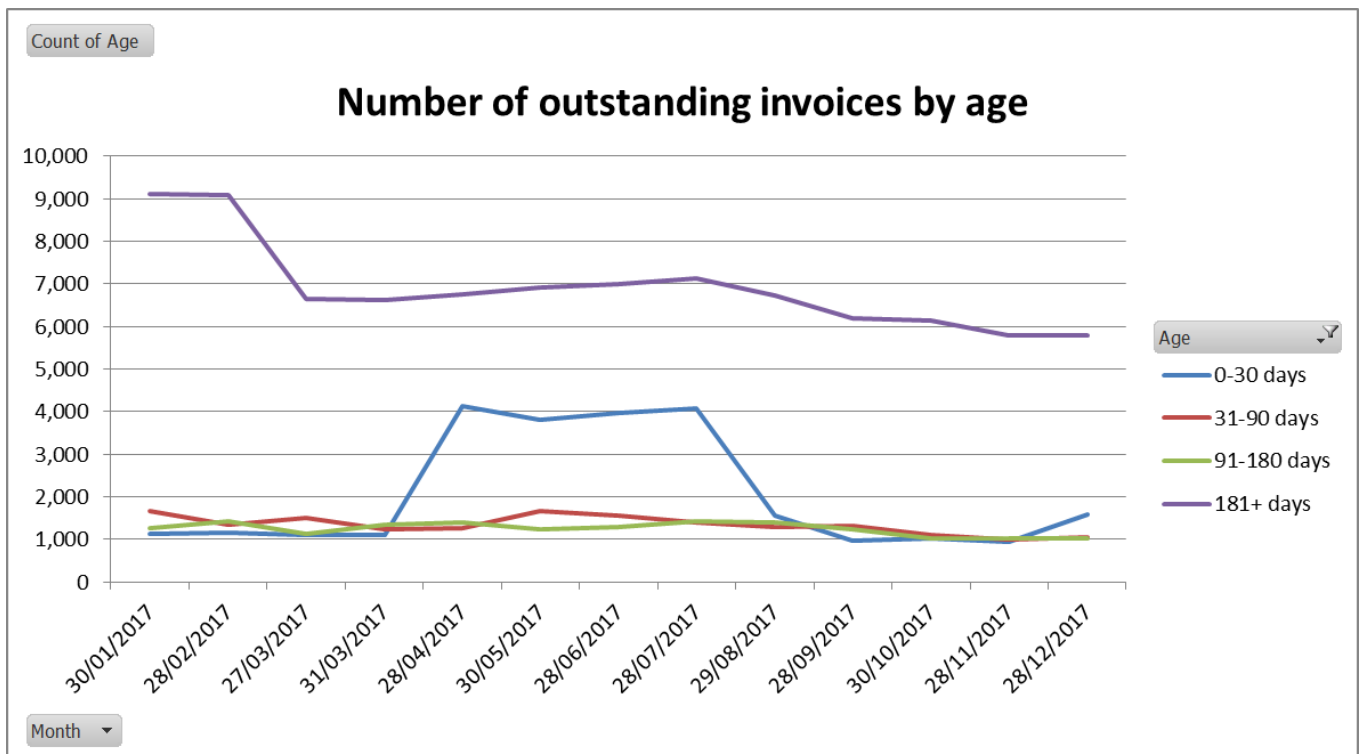
Clearly there should be a relationship between the levels of debt and the value of sales orders raised. We would expect that a greater value of sales would give rise to a greater level of debt. The tables below report all debt (including secured debt), and classify debt by risk, with secured debt and debt less than 90 days overdue being low risk, unsecured debt over 90 days being medium risk and unsecured debt over 180 days being deemed high risk.

We continue to see the levels of annual invoicing increasing as the council becomes more commercial and raise charges both for more services to customers and sell central services to other organisations. Annual billing has increased by 33% from £70.4m in December 16 to £93.7m in November 17. Over the same period **total debt has fallen from £17.7m (25.5% of annual sales) to £14.5m (15.5% of annual sales)**. Looking solely at unsecured debt this has **fallen from 8.3% of annual sales to 5.1%**.





Delving deeper into this position it can be seen (see table below) that there has been a significant reduction in the number of invoices progressing into the oldest grouping of debt. A significant proportion of this is due to the work undertaken at year end to review and address very old debt. It is also apparent that there is a significant peak in debt becoming slightly overdue around April. This is believed to be due to invoicing that is conducted annually and billed in March, and early annual billing being processed in April, May and June however this requires confirmation.



Over the course of the project the levels of debt due from before April 2015, when the current Debt Management Strategy was introduced, has reduced **from £2.1m to less than £0.8m**. £0.9m of this reduction came from the year end work undertaken, which saw debt collected, written off, or cancelled as appropriate.

A further £0.4m of debt has been collected or cancelled as a result of the investment of £20k in a temporary post to address this debt. The final recommendations from this post are awaited at the end of December. It is expected that this debt will reduce significantly after completion, as a result of further debt being written-off or cancelled, and some being referred to Legal for recovery. Any balance remaining here will have been deemed and agreed as recoverable.

Outstanding Debt Task and Finish Group

The Outstanding Debt Task & Finish Group, instigated in December 2016, has been overseen by the Corporate Finance Business Partner, with the engagement of Business Units and the wider Finance community. The objectives of the group are as follows;

- 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

Update on developments and Improvements

To date the following actions have been undertaken to deliver improvements in the management of outstanding debt;

- Reporting processes have been improved such that debt is categorised by risk of non-payment. This is based largely on age, and whether the debt is to be secured.
- Reports are produced centrally by finance on a monthly basis and should be included in all Business Unit Board budget monitoring reports.
- Detailed information on all outstanding debts is made available to all Business Unit finance teams.
- SAP processes have been introduced so that when a debt becomes 90 days overdue a message is sent to the budget holder asking them to either confirm they are managing the debt, or to transfer it to the management of the finance debt management team.
- New 'Dunning codes' have been introduced to bring additional visibility to the status of debt recovery action, and to enhance the reporting on debt both corporately and at Business Unit level.
- Access to payment systems has been given to staff pursuing debts so that they can take payment immediately, and avoid having to sign-post customers elsewhere to make payment.
- Adults Social Care client take-up of Direct Debit payment plans has increased by over 20%, which removes the risk of these debts becoming overdue.
- Intranet content supporting the raising of Sales Orders (customer Invoices) has been reviewed and updated.
- The Finance intranet has been restructured to make it more user friendly, and the information more accessible.
- Workshops have been held with those raising invoices to understand their challenges and develop their understanding of best practice.
- A significant review of outstanding debt was undertaken as part of the closing of the accounts for 2016/17.
- A robust review of the provisions for bad debt was conducted as part of the close of the accounts for the financial year 2016/17.

- A temporary post has been funded for a 6 month period (ending in December 2017) to address the tail of debts which fell due before April 2015 (the start date of the current Debt Management Strategy).

Planned further improvements to support effective debt management

A revised model of operation for the central debt management team has been created, which will see them manage all debt once it becomes overdue. Services will still retain the right to manage debt themselves where the circumstances are appropriate. This team has been created from the existing team, which used to take over the management of debt at 90 days overdue. This team has supported the Task and Finish Groups work to date, developing best practice and implementing many of the actions already delivered. In future this team will actively manage debts as they become overdue (rather than at the 90 days overdue threshold as at present), reporting to and advising Business Units on the likelihood of recovery, and recommend courses of action to Business Units where they are unable to recover the debt themselves.

Further changes are required to the SAP workflow to support this change in process. This work is currently with our external development partners. It is intended that this revised process goes live in February 2018, after testing and deployment is completed.

In addition to managing debts, this team will have processes in place to capture areas of failure, and identify where practice within those entering sales orders falls below the 'best practice' standards expected. They will be empowered to raise concerns back to the Business Unit, and will support the re-training of those involved to ensure best practice is actively delivered across the organisation. They will also provide the key interface with Legal services wherever debts are escalated for recovery through Legal Services. It should however be noted that responsibility for the debt remains with the Business Unit and decision relating to write-offs or referral to legal, and any associated costs, remain the responsibility of the originating Business Unit.

Concerns have been raised that the process of cancelling debt is different to that of formally writing off debt. A formal write-off requires Executive Director and Business Unit Finance Director agreement for debts below £10,000, and Director of Finance and Assets approval for debts over £10,000. It is proposed to review the incidence of cancellation of debt and propose a process whereby similar control and authorisations are required to cancel a debt.

A review of the current Debt Management Strategy to ensure it aligns fully to the proposed new operating model, and supports the Debt Recovery Strategies currently under consideration. Changes are likely to be minor in nature, and the proposed changes to process and practice have been presented to the Committee in this and previous reports on this matter.

Recommendations

That progress on debt continues to be monitored and reported to the committee on an ongoing basis.

That the revised and updated Debt Management Strategy is brought before the committee for consideration and approval prior to implementation.

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

Resource implications

The Task and Finish groups work plan will continue to place additional burdens across Business Units, and on 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 Corporate Management Team and resource constraints are considered deliverable. The process, systems and practice improvement work should deliver some efficiencies which should be re-invested in continuously improving the system of debt management.

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 either now or in future years, as provisions for bad debt are considered adequate and are reviewed annually as part of the closing of the accounts.

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.
