

CORPORATE RESOURCES OVERVIEW AND SCRUTINY

CARLISLE
CITY COUNCIL



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Committee Report

Public

Date of Meeting: 20 February 2003

Title: RE: SUNDRY DEBTORS AND PERIODIC INCOME PERFORMANCE REVIEW

Report of: Head of Revenues & Benefits Services

Report reference: RB10/02

Recommendations:

Corporate Resources Overview and Scrutiny Committee is asked to scrutinise and comment on the action plan targets and timetable as set out in Appendix 2 of this report.

CITY OF CARLISLE

To: Overview & Scrutiny Committee RB 10/02

Date: 20 February 2003

RE: SUNDRY DEBTORS AND PERIODIC INCOME PERFORMANCE REVIEW

1. SUMMARY

Members at their meeting of 28 November 2002 scrutinised a performance review study on Sundry Debtors administration.

2. A copy of the Executive summary is attached at Appendix 1 identifying the main issues brought to members attention on 28 November 2002.

3. Noted at Appendix 2 is an action plan to address key findings which I have agreed in liaison with the Revenues Manager (responsible for administration of the Service) and the Senior Auditor.

4. RECOMMENDATION

Corporate Resources Overview and Scrutiny Committee is asked to scrutinise and comment on the action plan targets and timetable as set out in Appendix 2 of this report.

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Head of Revenues & Benefits Services

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Revenues & Benefits

Carlisle, 11 February 2003, PM/EL/RB10-02

Appendix 1

Executive Summary

A comprehensive study of the corporate Sundry Debtors function and debt recovery performance to determine efficiency and effectiveness and to establish methods of best practice amongst other authorities has been carried out. Nine recommendations/options for change have arisen from this review, full details of which are provided in section 7 of the main report.

Sundry Debtors is a central invoicing function, to administer and collect miscellaneous revenue owed to the Authority in accordance with statutory or locally agreed charges. Although Sundry Debtors is not a statutory service, many of the functions of service departments, which utilise and rely on the central Sundry Debtors function, are statutory services.

To illustrate the size and scope of the Sundry Debtor function, for 2001-2002 there were 18,228 invoices raised on the system to the value of £10.7m. The average value of these accounts was £585. The total cost of providing a central debtors service was £129,990 (amended figure), which equates to £7.13 per invoice, which although is higher than the figure of £5.94 which was quoted by the CIPFA benchmarking club, it is considered to more accurately reflect current service charges.

Whilst Carlisle City's performance and procedures are similar other authorities contacted, due to staff changes, long term sickness and the fact that historically the Sundry Debtor's function seems to get low priority compared to other revenues related services, adherence to in-house systems and procedures over the last couple of years were allowed to deteriorate. This resulted in a backlog of outstanding debts, some of which were difficult to pursue due to the age of the debt, lack of background information and supporting documentation available from service departments.

Since the commencement of this review, debt recovery procedures have been reviewed and positive action has been made to re-analysis and progress outstanding debts to recovery. A dedicated member of staff has been employed to review the backlog of all outstanding claims and these have now been re-analysed and recovery action progressed. The use of external debt recovery agents and legal action through the Courts has recommenced although it is too early to measure the effectiveness of these procedures. These are positive debt recovery processes which have been effectively enforced, however, the situation in regards to dealing with poor payers who continue to receive Councils services and encouraging service departments to

take more ownership of their debts still needs to be addressed at a corporate level. The 3 key areas for recommended address are as follows:

1. Debtor System and Procedures

- There is no corporate policy or defined procedures in regards to Sundry Debtors - why and when we raise debtor accounts, the responsibilities of service departments in the debtor process and the role of the central debtor team etc. From the comments and interpretation of current procedures made by service users, it was evident that there is confusion over debt ownership and the central debtors role.
- Thought should be given to existing practices surrounding crediting service departments and the administration of bad debts. The value of debtor accounts are credited to service department income codes when the account is raised, not when the debtor has actually paid. This is an historic approach to debt administration in local authorities. Likewise, written off debts are charged to a central bad debt provision and are not recharged back to initiating departments. Due to these circumstances, service departments can become unconcerned about debt levels and avoid taking ownership of debts in terms of monitoring which debts outstanding, ceasing services to poor payers and providing accurate and complete information to support further recovery action. This could be addressed by crediting service departments only when the debtor had actually settled their account(s). Recharging initiating service departments with debt write offs would have a similar effect. Both instances would help ensure service departments take a more proactive role in debt recovery and encourage prepayments.
- All debtor processes would benefit from enhanced IT support. The current IT system is antiquated and does not serve the debtor function well. Various problems associated with general data input, the adequacy of system output, management reporting and statistics were found. It is recommended that as part of the financial ledger replacement (scheduled by April 2004), a new debtor system should be incorporated into the system specification.

2. Improvement to Team Performance

- In order to maintain an effective and efficient debtor recovery function, knowledge and expertise in pursuing unpaid debts is a fundamental requirement of the job. Due to staff changes, long term sickness and temporary contracts in the Sundry Debtor team over the last 2 years, this has not been possible. A permanent team structure that employs specifically trained staff on debt administration and recovery is needed.
- The Council should adopt a policy to encourage prepayments. A minimum invoice value would reduce the number of accounts raised and managed through the debtors system and encourage income into the Authority more quickly. The CIPFA benchmarking statistics suggest that our minimum cost of raising a debtor account is estimated in the region of £6.00. However, as a result of amendments to the budget allocations for the Sundry Debtors section, the revised cost per invoice for 2001-02 is thought to be more in the region of £7.00 (neither of these costs include enhanced recovery action or the cost of service departments' time into the process). If a minimum invoice value is to be supported, for ease of processing and assurance that all costs are covered, a minimum value of at least £10.00 is suggested – based on 2001/02 transactions this would reduce the number of debtor accounts raised by 13%. More convenient and accessible ways to pay prior to or on receipt of service would also aid this recommendation.
- Challenging and meaningful performance measures are needed in order to track progress on system changes and debtor recovery. There are no national performance indicators associated with sundry debt recovery – further suggesting that low priority has been given to the debtor function. The current local performance indicators are considered to be unchallenging and have not, in the past, been

rigorously monitored.

3. Improvements to Customer Services

- To encourage debtors to settle their accounts promptly, efforts should be made to draw their attention to the amount owed and make it as convenient as possible to pay. A review of the debtor stationery noted various omissions in regards to information about the debt, how to pay and how to query outstanding accounts. The format / presentation of accounts was also found to be mundane. Whilst some of these factors are due to the limitations of the current system, improvements could be made by simply updating wording and re-emphasising on accounts where payments are overdue.
- Compared to other authorities, Carlisle City is limited to the types of payment accepted and the payment methods available to customers. Payments by credit and debit card are not currently accepted, nor is there means to pay by telephone, at all Council establishments and the Internet. The new cash receipting system, of which the first phase of implementation is planned for late 2002, is in line to address these issues. The debtor's section should promote these service improvements to aid debt recovery.

An action plan, based on the recommendations and options for change which have been outlined in section 7 of the main report, can be determined once Members have considered/agreed the report findings and suggested improvements.

APPENDIX 2

Sundry Debtors and Periodic Income Performance Review Study

Action Plan To Address Key Findings

1. Corporate Debtor Recovery Procedures

Debt administration and recovery is the mixed responsibility of both individual service departments and the Central Debtor's team. Whilst the Authority's Financial Procedure Rules outline the key controls and responsibilities of Chief Officers to ensure service departments fulfil their obligations for recovering income due, there is some disparity between the interpretation of service departments' debt administration and recovery responsibilities and debt ownership in general. It is thought that this "grey area" has developed due to the lack of a clear policy framework for corporate debt recovery. This is considered to be a key area for address arising from this study.

Agreed Action and Timescale for Implementation:

A procedure manual is currently being written by the Revenues Manager, which on completion will be issued to all Heads of Business Unit. The manual will cover corporate responsibilities on timely invoice raising, progression of queries and credit control good practice.

It is expected that the procedure manual will be available October 2003.

2. Enhanced IT Support

The restrictions of the current system clearly indicate that a replacement is needed. Consideration should be given to fully reviewing the suitability of the existing debtors system, with a view to replacing it with more effective and efficient software at a future date (as per the Corporate Plan the target date is 1st April 2004).

Agreed Action and Timescale for Implementation:

A new Sundry Debtors/Periodic Income legacy system to be specified as part of the ledger replacement project currently being programmed by the Head of Finance.

3. Comprehensive Performance Monitoring

There are no national Best Value performance indicators against which to compare the performance of Carlisle City's Sundry Debtors service and the local indicators have been deleted. In house indicators as detailed in the Service Plan have been developed but these are not religiously monitored and are considered to be unchallenging in areas, as there are no targets for collection and no monitoring of whether invoices are raised promptly. It is considered that performance indicators should concentrate on the core debtors function and focusing on key factors such as the cost of service, age of outstanding debts, value of debts raised, recovery arrangements and the levels of write off.

Agreed Action and Timescale for Implementation:

The current Sundry Debtors system does not include a management information module to allow access/collation of performance data for performance monitoring purposes.

In the circumstances the specification for the replacement Sundry Debtors system (see 2 above) will include the requirement for the system to provide the required management information to evidence performance in the areas identified in the Audit.

In the meantime a challenging performance target of recovering 90% of Sundry Debtors liability within 6 months has been agreed with Audit.

4. Location and Staffing Arrangements of the Central Debtor's Team

Sundry Debtors is revenue into the Authority and as a recovery function, the service should logically remain with other revenue related services and therefore be located within the Revenues and Benefits Services Business Unit of the proposed new structure. The Central Debtors staffing resources to cover debtor administration and recovery have been temporary arrangements for some time. In order to improve permanency to the service and build on staff's experience and skills, a permanent team structure is required.

Agreed Action and Timescale for Implementation:

The Sundry Debtors team consists of 1 permanent Revenues Team Leader, covering Sundry Debtors

administration as part of their duties, 2 permanent part time Revenues Officers, 1 permanent part time Revenues Assistant and 1 temporary part time Revenues Assistant.

The Revenues Manager, in conjunction with the Head of Revenues and Benefits Services, will be looking at all temporary posts at the end of February 2003, with a view to making as many permanent appointments as possible.

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5. Crediting in Advance of Payment

The controls over crediting service departments with their debtor accounts in advance of payment actually being received should be reviewed with a view to redefining the issue of debt ownership and provision of bad debt within the Authority. By crediting in advance, service departments may be less concerned about the actual debtor recovery performance for accounts which their department have created e.g. whether a debt has been paid and whether services should be suspended until debts owed by an particular debtor have been cleared, or whether an alternative method of paying such as prepayments, should be imposed to bad debtors.

Consideration should therefore be given to introducing a system that gives the budget holder the income from sundry debts only when the income is received, thus making the relationship between sundry debts and budgets much clearer. It is appreciated, however, that the current IT systems in operation may not be able to facilitate such a change and this option may be more appropriately considered when the sundry debtors system and nominal ledgers are to be replaced.

Agreed Action and Timescale for Implementation:

The current software does not allow the above recommendation to be implemented. The Head of Finance is currently looking at the implications of introducing such a policy on service units. It is likely that a compromise solution of re-debiting income allowed in advance on an exception basis if service units are lax in dealing with queries inhibiting recovery of outstanding accounts.

6. **Bad Debt Provision**

Under the current arrangements for bad debt provision, unrecoverable debts are written off to a general provision. The written off amounts are not recharged back to the initiating departments, therefore departments with a high percentage of unrecoverable debts are not financially penalised as costs are absorbed centrally.

The correct method of accounting, as advised by CIPFA, would have the provision charged directly to services, thus ensuring they stand the cost for their own unrecoverable debts. This would also make service departments more aware of debt recovery and continuing services to bad debtors.

Agreed Action and Timescale for Implementation:

The implication of this recommendation is being investigated. All Authorities currently have a bad debt provision which allows for risk of a large scale bankruptcy to be absorbed corporately rather than have a major impact on one service provider.

7. Standard Debtor's Stationery

It was concluded that Carlisle City's payment reminders lack visual impact, particularly the first reminder, which may be easily overlooked, as there is nothing to draw the recipient's attention to the document. Whilst it is appreciated that issuing reminders in the form of duplicate accounts would be more costly, the impact on the debtor when receiving such a document would be greatly enhanced and would be an aid to improving recovery rates. It is also noted, however, that the such a change in standard documentation produced by the existing debtors system may not be feasible as the current debtors system may not be able to accommodate major changes in system documentation. This option may be more appropriately considered when the

sundry debtor's system and nominal ledgers are replaced in the future.

Agreed Action and Timescale for Implementation:

Some changes have been made to the wording of the standard documentation.

However, because of the limitations of the current Sundry Debtors software, significant changes are not an option. As with the recommendations at 2 above, before a new system is purchased it will be a requirement that the user can create and amend standard documents.