

## **Aged Debt - Management and Reporting**

### **Statistical information taken from *G3 West Ox Aged Debt 31<sup>st</sup> March 2023***

#### **Introduction**

The Section 151 officer at West Oxfordshire District Council identified some time ago that aged debt was a growing concern and brought a credit control specialist in to not only work on the aged balances but to review processes in an attempt to stop new balances remaining uncollected and perpetuating the problem. A root and branch review has been undertaken of the way Aged Debt is both managed and reported at West Oxfordshire District Council. This review has identified weaknesses in both internal control systems and the management reporting of debt.

This paper does not include any analysis or commentary relating to Council Tax, Business Rates or Housing Benefit overpayments as these debts are raised and managed in the OpenRevs system rather than through the Finance system and will be the subject of separate recommendations.

#### **Overview**

The main issue in the effective management and therefore reduction of aged debt is a lack of accepted and widely understood accountability for the process and clear reporting visibility for procedural outliers which often attract the greatest levels of risk. Whilst documented policies and procedures have not been formally reviewed and updated in some time, they remain relevant and consistent with expected industry standards but while it was agreed several years ago that the responsibility for credit control would sit with the service areas, structural team changes have resulted in the lines of accountability becoming ambiguous over time and the policies and procedures have not been followed.

The introduction of the Agresso Business World ERP system in 2012 moved the responsibility for the raising invoices and managing debt to service area managers and their teams. Previously this function was carried out by the Finance team. Over time as resources and the demands on service areas have changed, there has been a lessening of focus on the management of debt. Monthly system generated reports are sent out to Budget Managers detailing debt in their area of responsibility but these reports are not user friendly. Coding changes to the Agresso bad debt reporting would provide a more streamlined set of data to be sent out that would allow Budget Managers to more easily and quickly identify customers that need to be contacted regarding outstanding invoices, before those invoices move from being overdue to aged i.e. over 30 days past due. This would also simplify and therefore improve reporting to Senior Management and Elected Members.

Where an invoice has been raised for a legitimate charge to a customer, the intention of the Council is to collect payment for that invoice. System generated reminders are sent out after 14 and 28 days and ideally customer contact should be made at the reminder stage to discuss payment and find out if there are any issues that are preventing the invoice from being settled. All avenues, including the offer of setting up a payment plan should be made before the debt is handed to the Legal team to pursue with a request to write off the debt being the last resort. Currently there is no obvious consistency of process or documentation when staff are submitting legal referral requests or escalating a debt to Write Off, making both processes inefficient and often causing the case to hang in limbo between the two services. Moving the debt to Legal recovery or raising it as a write off request can be seen as a way to move the responsibility on and while Finance report aged debt as an

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organisation wide figure, there is no clear evidence that while the resolution of it sits with Service areas that this is a KPI metric that is measured and emphasised in those areas.

Accounts Receivable do not have a role within the Aged Debt and Write Off process that is either clearly defined or widely understood. This has led to confusion in both the team and the wider Council service areas about who has responsibility to manage Write Off requests resulting in some requests being submitted erroneously which have then been left unresolved over a period of years while queries remain unresolved.

One of the biggest enablers to ensuring that all customer accounts are handled appropriately relates to the consistent updating of customer records, which is heavily reliant upon resource capacity (including activity such as retrospective quality sampling) and IT systems capability or access.

It is essential that all customer contact activity and records of all customer communications are updated onto our finance system, but staff resourcing challenges have contributed to customer record keeping being patchy and inconsistent. This issue prevents efficient handling of escalated case referrals but also has the potential to cause breaches in GDPR requirements, centred on governance, responsibility and accuracy.

### **Aged Debt position**

The total aged debt position at 31.03.23 is £5.7m made up of 2,145 invoice entries, where the average age of the invoice is 437 days. However, this figure includes £3.4m of invoices currently 'Not Due' and £0.2m of invoices relating to Business Support Grants.

<b>Invoice Category</b>	<b>Number</b>	<b>Days</b>
Greater than 1 yr	260	>365
Pending write off	74	1,407
Legal Referrals >1yr	93	1,211
Legal Referrals <1yr	5	<365
Halted Recovery >1yr	33	890
Halted Recovery <1yr	16	<365
Credits	269	338
GLL	2	157
Time Barred	116	2,190+
	868	

### **Credits**

The total aged debt position is being underreported, due to credit entries that are waiting for some form of procedural action to take place.

The average time lapsed from the original credit entry being made is 136 days which would indicate that there are general processing delays due to the confusion around roles and responsibilities. Invoices can be raised, without approval, by most people across the Council service areas. Credit Notes, which reduce our income by netting off against invoices, must be approved by Budget

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Managers who have the responsibility to assess the legitimacy of the credit note before signing it off. Raising credit notes to eradicate aged debt is not appropriate as it denies the Council the opportunity to recover money owed to it.

Other credits of £13,065 represent potential overpayments where a refund may be due back to the customer. There are currently 108 customer credits linked to invoices that are on average 345 days old. Further investigation is needed to establish what proportion of these credits do need to be refunded and a resolution found for the remainder.

### **Write Offs**

Write off decisions of up to £5,000 are delegated to the S151 Officer, with amounts in excess of that needing the approval of Members. A halt was put on S151 write off request approvals in 21/22 because of a lack of background information being available on which to make the decision. Following investigation, the credit controller has subsequently obtained S151 Officer Write Off approval for 11 customer balances, totalling £36,191.58 since December 2022.

The process for submitting, monitoring, and obtaining Write Off approval has become blurred over time, with unclear roles and responsibilities being assigned informally on a case by case basis. Appropriate interpretation of what constitutes a 'Write Off situation' is occasionally lacking as a result, and where the request is rejected due to lack of information or because the S151 officer judges that the debt should be pursued, it's unclear whose responsibility (or capability) it is to provide that info or to pursue the debt.

Misinterpretation around some of the rules linked to statutory law and company trading status has resulted in a number of cases being incorrectly marked for Write Off, when the debt is not actually irrecoverable. A lack of focussed reporting has meant that these issues are not picked up in a timely fashion and our ability to effectively recover the debt is then severely diminished.

Instances of customer insolvency are regularly identified within teams and act as the basis for the majority of Write Off requests. Lack of clarity over the correct process results in Proof of Debt submissions only being made infrequently, so potential dividend payments due to the Council are not being claimed.

### **Legal cases**

The legal team have recently reviewed the cases listed as "With Legal" and advised that 13 are not contained within their internal records. There seems to be no formal procedures currently in place for Business Managers to obtain regular updates and maintain visibility of legal referral cases.

Staff resourcing challenges within the legal team mean that their ability to progress individual case referrals are already limited due to regular, often time-sensitive, commercial and legal matters.

A lack of detailed background information being readily available to staff and/or provided at the initial referral stage creates additional processing delays. This also means that our legal team regularly must take on tasks and activity that would normally sit outside of their expected role responsibilities, to ensure any subsequent claim applications made meet standard court requirements.

### **Halted Recoveries ('Disputed Invoice' and 'More time to pay')**

This case status is used for various procedural reasons, mainly as it will stop system generated letters from automatically being issued. However, adopting this approach can make specific case review and accurate data interpretation difficult.

Whilst procedural exceptions ('workarounds') to manage potential commercial relationship issues are acceptable, the general lack of procedural clarity and length of processing delays, mean that any true debt cases contained within this category are unlikely to be appropriately identified, with potential for them to become overlooked and then neglected.

### **Limitations Act 1980 ('Time-Barred debt')**

Time Barred debt is that which is 6 years past the original due date and under the Limitations Act we are prevented from taking legal enforcement action to recover our debt if no customer acknowledgement could be found.

90% of this debt relates to Homelessness support which has been covered in greater detail in Annex C. Actions to identify an appropriate risk based approach to avoid debt becoming 6 years past due without any customer contact is already underway.

### **Recommendations**

Recent efforts to improve aged debt have been focussed on reviewing and addressing some of the Write Off and Legal referral backlogs and large balance invoices identified via the review. Progress has been restricted by a lack of knowledge and record keeping on existing cases and understanding or knowledge of the correct procedures generally across the organisation coupled with limited staff resource availability to support service areas.

Changes are required to bring the management of aged debt under robust control and there are a number of options and areas of improvement which include but are not limited to:

- Define, in consultation with Service Managers, the roles and responsibilities for all staff members involved in the Aged Debt process.
- Review and define the role of the Accounts Receivable team (AR) in the management of aged debt.
- Consider the inclusion of Aged Debt KPI metrics within the staff performance management framework.
- Update and circulate the approved Aged Debt procedure and publish it on the Portal with annual review dates
- Finance and the S151 Officer to review and agree the process for the raising of Credit Notes, Legal Referrals and Write Off requests.
- Secure/train additional resource to help clear current processing backlogs
- Review all Legal referral cases with Service Managers, identify and act upon all requests that have not been properly executed
- Make changes to the system generated Aged Debt report making it more user friendly and give greater prominence to areas of significant risk.
- Introduce regular reporting on company liquidations and write offs, to be monitored by the AR Team
- Recruit a permanent Credit Controller to the Finance Team to support Budget Holders in managing the Aged Debt process