

**HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title/Subject Matter:** Miscellaneous Income – Performance Review  
**Meeting/Date:** Corporate Governance Committee – 27 September 2016  
**Executive Portfolio:** Cllr J Gray - Executive Member Strategic Resources  
**Report by:** Clive Mason (Head of Resources)  
**Ward(s) affected:** All

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**Executive Summary:**

In June 2016, the Internal Audit & Risk Manager reported to the Corporate Governance Committee (CGC) that, as a consequence of some procedural issues within the Miscellaneous Income (Debtors) service, it was his recommendation that the service should be included within the 2015/16 Annual Governance Statement.

This report outlines the recent issues there have been with the debt management team, the miscellaneous debt position as at 31 March 2016 and the position as at 31 August 2016, highlighting progress made during the year to recover the outstanding debt. The concerns raised by internal audit were:

- A lack of reminders for debt and appropriate and timely debt recovery action being in place, including historic debt which would lead to increased write-offs,
- Delays in raising of certain debt that provide important income streams to the Council, and
- Poor management information on outstanding debt.

As at 31 March 2016 the Council had £1.797m of outstanding and overdue debt, which has reduced to £1.033m as at 31 August 2016.

The report also outlines actions that are being undertaken to ensure that debt management for miscellaneous income improves and is appropriately managed. The actions are:

- Implementation of a new finance system;
- A revised miscellaneous debt management policy, procedures and debt write-off regulations; and
- Specific comments regarding Internal Audits concerns are addressed.

**Recommendation:**

The Corporate Governance Committee is recommended to note the content and actions contained within this report.

## 1.0 PURPOSE OF THE REPORT

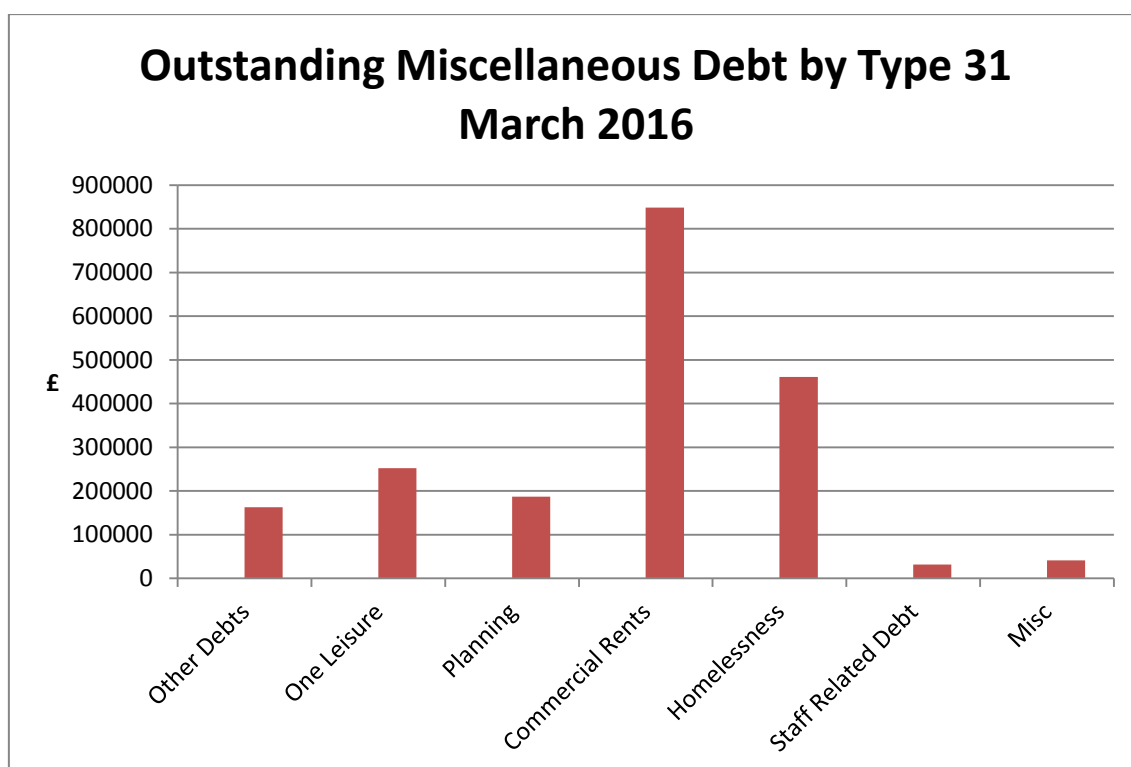
1.1 In June 2016, the Internal Audit & Risk Manager reported to the Corporate Governance Committee (CGC) that, as a consequence of some procedural issues within the Miscellaneous Income (Debtors) service, it was his recommendation that the service should be included within the 2015/16 Annual Governance Statement. As a consequence of this recommendation it was agreed that the Head of Resources would present a report.

## 2.0 DEBT OUTSTANDING AT THE COUNCIL

**31 March 2016**

2.1 As at the end of March 2016, the Council's total gross debt was £13.421m; after an allowance for Bad Debts Provision, the net debt was £10.854m. Of this, as shown in **Graph 1** below, the total net debt applicable to Miscellaneous Debt (debt) is £2.148m (16%), which is broken down over different types of debt.

**GRAPH 1: Miscellaneous Debt by Type**

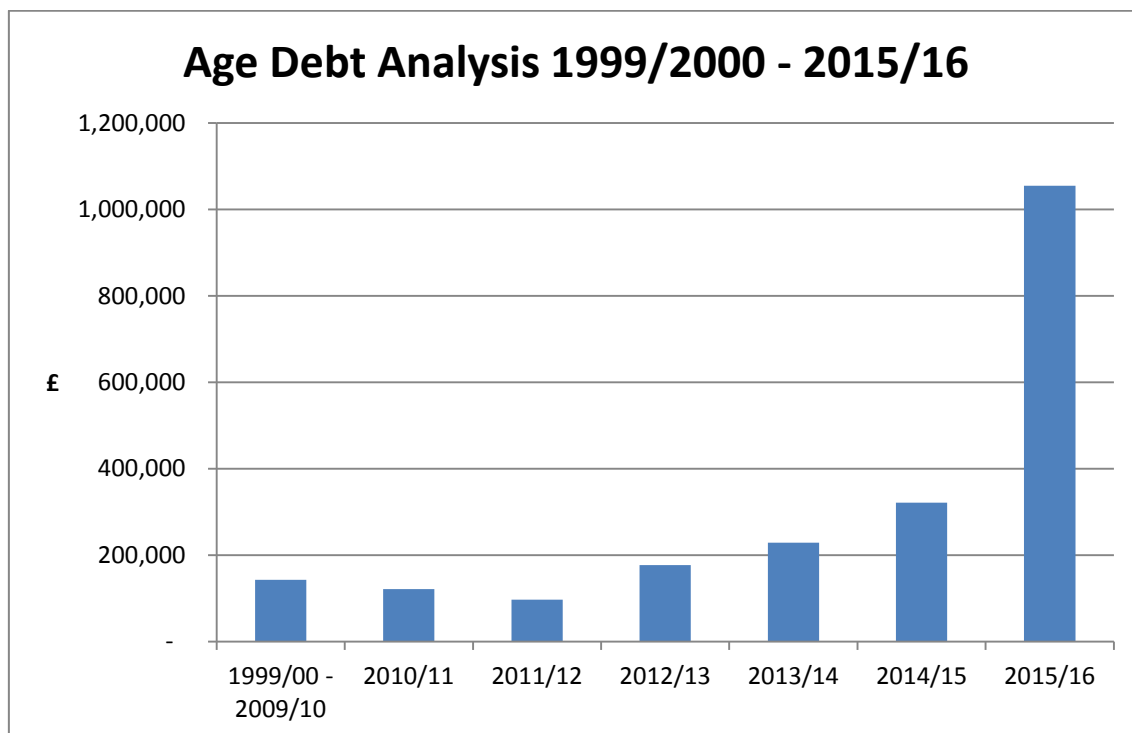


**Note:** the Commercial Rent debt includes annual invoices that were raised near the end of the financial year for the year ahead and therefore the majority of this was treated in the accounts as a receipt in advance. The value of real outstanding Commercial Rents debt is £45k.

2.2 Further, of the £2.148m miscellaneous debt, £351k was debt raised in 2015/16 but was still within the 21 day payment terms; therefore the pure debt (i.e. arrears) totalled £1.797m (13% of the total net debt).

2.3 The debt held at the 31 March 2016 dates back to 1999/2000 and the age breakdown of this debt is shown in **Graph 2** below.

**GRAPH 2: Age Debt Analysis**



2.4 Whilst the above graph is of concern as it shows historic debt going back to 1999/00 it does, however, demonstrate that the majority of the outstanding debt relates to more recent years, 2010/11 onwards, which greatly improves the ability of the team to collect.

2.5 If this is translated to a “debtors days” basis, this gives a rather concerning number of 108 days. However what needs to be considered is the type of debt that is held by the Council (as shown in graph 1) with homelessness and housing benefit overpayments, for example, being much harder to collect.

**31 August 2016**

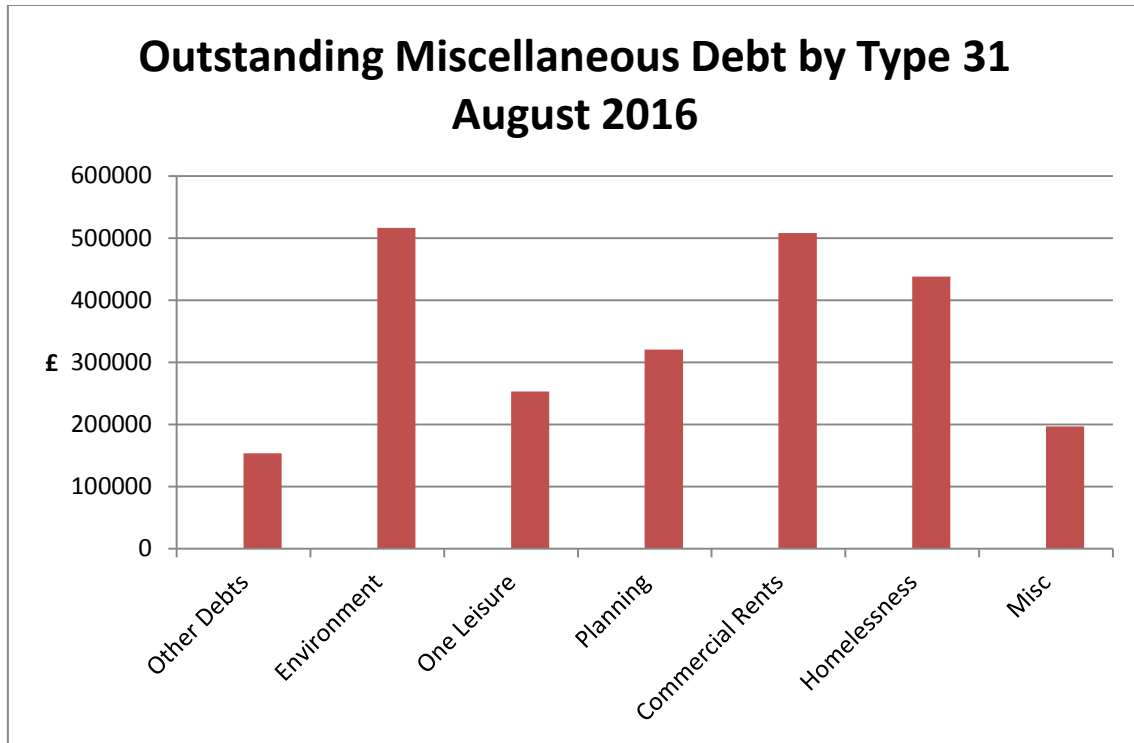
2.6 As at 31 August 2016 the debt outstanding as at 31 March has been reduced by £764,000 (£743,000 collections, £21,000 write-offs), thus reducing the outstanding debt to £1.033m.

2.7 The new debt position in relation to 2016/17 is set out in the table below:

	£m
New debt raised 2016/17	3.709
Less Income Received 16/17 debt	(2.201)
	<b>1.508</b>
Less Debt within 21 days payment terms	(0.774)
<b>Outstanding New Debt 2016/17</b>	<b>0.734</b>
Plus outstanding debt b/f 2015/16 (per paragraph 2.6)	1.033
<b>Total outstanding debt 31/8/16</b>	<b>1.767</b>

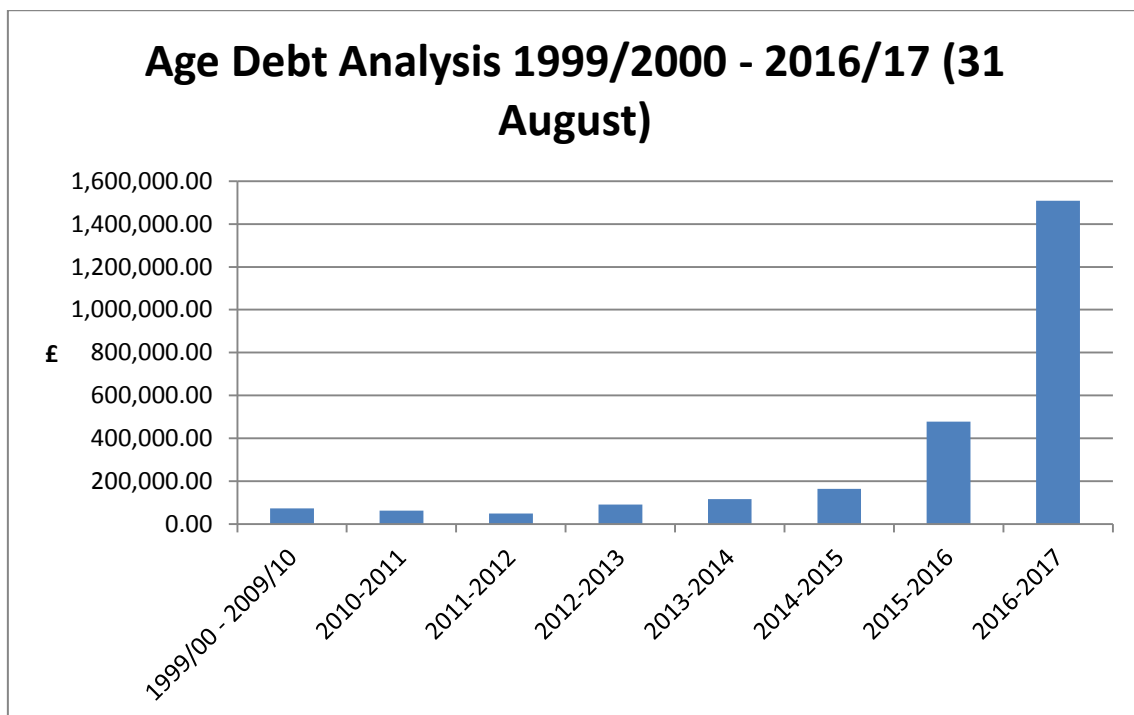
2.8 The charts below show the breakdown of the debt as at 31 August 2016 by age-debt and type of debt.

**GRAPH 3: Miscellaneous Debt by Type – 31 August 2016**



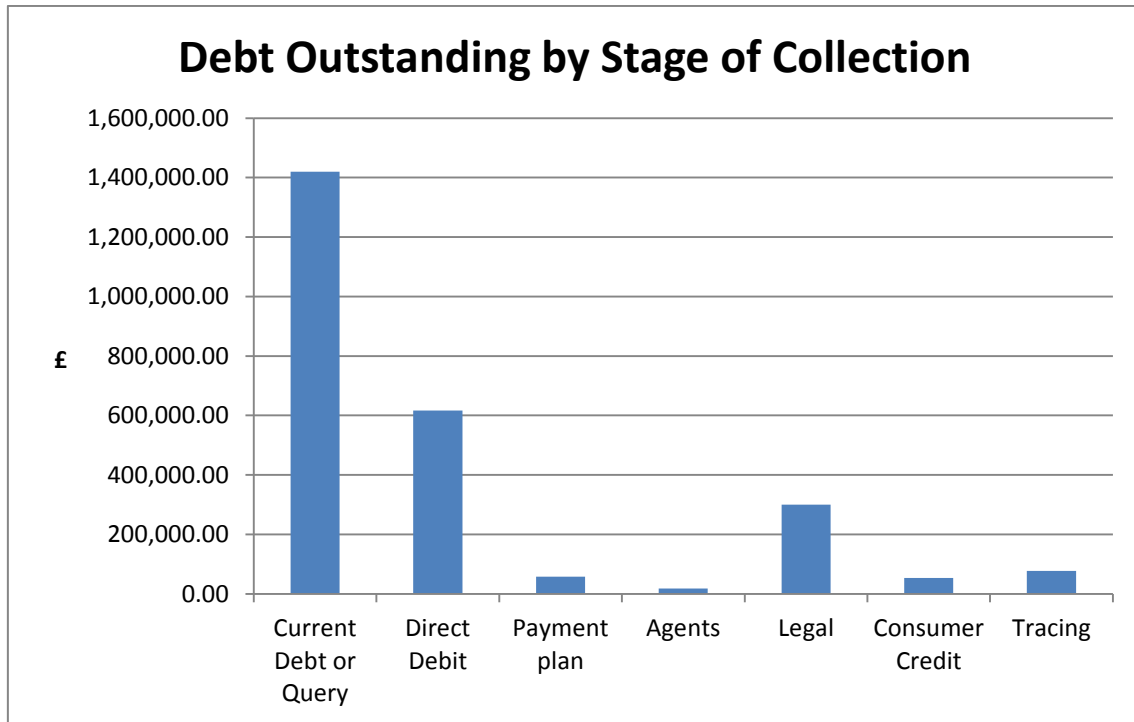
**Note:** the Commercial Rent debt includes annual invoices that are paid over the course of the year and are repaid on payment terms that vary from annual, quarterly and monthly. The level of outstanding debt from 2015/16 is £400k but the majority of this has a payment plan in place.

**GRAPH 4: Age Debt Analysis – 31 August 2016**



2.9 The outstanding debt is in various stages of collection and is being collected by a variety of means, as shown in **Chart 5** below, with a more detailed year on year breakdown in **Appendix 1**. This shows that of the debt outstanding £1.420m is current or under query or discussion with the debtor and £726,000 is subject to some sort of collection plan.

**Chart 5: Debt outstanding by stage of collection**



### 3.0 DEBT MANAGEMENT

3.1 Historically there have been a number of issues that have led to the current position of the debt management team.

- For the past 2 years there have been staffing issues resulting in a high turnover of staff, lack of appropriately trained and experienced staff in place and, until May this year, an establishment that was not completely filled.
- The previous Income Manager took on a lot of additional functions for the team that were outside the core purpose of debt management and were more debt administration that distracted the team from its core purpose. This position is being rectified with the majority of debt administration functions now passed back to services.
- The debtors system is now 17 years old and has had very little development since it was implemented. The processes are very long-winded and automatic debt reporting is almost non-existent. To get round these issues, the system has been heavily worked around and there has been a lot of bespokeing.

### 4.0 MOVING FORWARD

#### Miscellaneous Debt and Procedures

4.1 One of the underlying issues that has exasperated the issues within the debt management team has been the lack of an up to date and clear miscellaneous debt management policy, as well as, clear procedures setting out the

responsibilities of each part of the debt cycle, from raising invoices to collecting or writing-off debt. To rectify this the following actions are being undertaken:

- A revised miscellaneous debt management policy for approval by Council;
- A new miscellaneous debt management procedures and guide;
- An update to the debt write-off financial regulation to have all debts up to £5,000 jointly approved by the S151 and Head of Service; and
- New debt collection targets to be put in place for the team.

### **New Financial System**

- 4.2 The Council is replacing its Financial Management System, with a joint system with Cambridge City Council and South Cambridgeshire District Council, Technology One, being implemented in April 2017. This should ensure that the Council has a fit for purpose system for debt management and reporting.

## **5.0 INTERNAL AUDIT MEMO 2015/16**

- 5.1 Attached at **Appendix 2** is the Internal Audit memo for the Debtors Continuous Review 2015/16. Included within this memo were a number of weaknesses, which this report has sought to address but are summarised below.

<b>Internal Control Weakness</b>	<b>Action</b>
1. Lack of reminders or recovery actions	Reminders for all debts are now sent out within the following parameters: <ul style="list-style-type: none"> <li>• 1<sup>st</sup> reminder – 21 days</li> <li>• 2<sup>nd</sup> reminder/final notice – 7 days later</li> </ul>
2. Backlog on recovery of outstanding debt	Targeted action on outstanding debts taking place, including historical and current debt. A stable debt team is now in place with appropriate experience.
3. Delays in raising Commercial Rents income	All Commercial rents income relating to 2015/16 has now been raised and 2016/17 income raising is up to date.
4. Lack of action on historic debt – increasing the risk of write-offs as debt statute/time barred	Historic debt is being actively chased. In the year to date only a small value of debt has been written-off and procedures in place ensure that writing off of debt only occurs when all other options have been exhausted. .
5. Lack of regular reviews of debt to ensure appropriate action being taken.	Monthly management information on debt is being reported and monitored. More targeted monitoring of highest value debts to be started September 2016.

## **6.0 KEY IMPACTS / RISKS**

- 6.1 A lack of proper debt management procedures and processes in place that effectively manages the debt of the Council will result in a loss of income and therefore additional budgetary pressures.

## **7.0 WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION**

- 7.1 Specific actions and deadlines are contained within the body of the report.

## **8.0 LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND/OR CORPORATE OBJECTIVES**

8.1 Ensuring we are a customer focused and service led council.

## **9.0 REASONS FOR THE RECOMMENDED DECISIONS**

9.1 No specific approvals are required by the committee as this is a progress report on the specific issues. Therefore the Committee is asked to note the report and actions being taken.

## **10. LIST OF APPENDICES INCLUDED**

10.1 Appendix 1 – Detailed recovery action table.

10.2 Appendix 2 – Internal Audit Annual Review Memo.

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APPENDIX 1

Breakdown of debt by year and Recovery type 31/08/16									
	Current Debt or Query	Direct Debit	Payment plan	Agents	Legal	Consumer Credit	Tracing		Total Debt
1999-2000	-344.73				7,360.85			1999-2000	7,016.12
2000-2001	-459.42				580.76			2000-2001	121.34
2001-2002	-1,344.07				3,431.55			2001-2002	2,087.48
2002-2003	-1,916.57				878.29			2002-2003	-1,038.28
2003-2004	-1,025.85		6,652.49		3,201.05		119.66	2003-2004	8,947.35
2004-2005	891.86				505.88			2004-2005	1,397.74
2005-2006	-1,782.77		233.19		1,369.89			2005-2006	-179.69
2006-2007	1,028.33				2,449.27			2006-2007	3,477.60
2007-2008	-885.12				3,574.82			2007-2008	2,689.70
2008-2009	2,098.20	953.74			11,578.17			2008-2009	14,630.11
2009-2010	8,129.20	215.87	437.48	691.68	24,287.57		410.00	2009-2010	34,171.80
								1999/00 - 2009/10	73,321.27
2010-2011	8,042.21	3,593.80	3,702.99	754.78	42,673.16	342.26	2,992.34	2010-2011	62,101.54
2011-2012	12,053.47	1,890.04	991.56	314.48	30,573.22		2,659.45	2011-2012	48,482.22
2012-2013	19,779.94	4,709.28	1,771.00	3,093.54	51,654.09	770.00	9,410.52	2012-2013	91,188.37
2013-2014	22,146.57	3,936.28	4,665.42	1,498.99	42,328.25	19,664.16	22,093.51	2013-2014	116,333.18
2014-2015	74,459.51	20,509.69	9,363.41	4,293.17	27,245.75	11,575.21	16,925.57	2014-2015	164,372.31
2015-2016	20,575.00	365,917.58	11,734.18	5,797.94	42,625.71	19,718.36	10,855.28	2015-2016	477,224.05
2016-2017	1,258,411.19	214,301.51	17,804.22	1,249.04	3,961.30	1,044.16	11,448.98	2016-2017	1,508,220.40
Total	1,419,856.95	616,027.79	57,355.94	17,693.62	300,279.58	53,114.15	76,915.31		2,541,243.34