

# DEBT MANAGEMENT REVIEW

## Strategy & Resources – 30 June 2022

Report of: Chief Finance Officer

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Purpose: For information on current debt position, and decision on a Debt Improvement Plan, including approval to appoint temporary staff to settle and recover, where possible, aged debt.

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Publication status: Unrestricted

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Wards affected: All

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### Executive summary:

Tandridge District Council, like every local authority has outstanding debt across a number of categories. The main areas are Sundry debt, Housing Benefits Overpayments (HBOP), HRA and Collection Fund (Council Tax and Business Rates).

This paper provides a position statement for the four debt categories at 31 March 2022. The report sets out the current position with trend data and it can be demonstrated that:

- all except sundry debt is increasing;
- all four debt streams have increasing or stagnated debts aged over 1 year; and
- collectability is reducing.

A Debt Improvement Plan is proposed in two phases:

Phase 1: prioritise outstanding sundry debt and investigate straightforward recovery in other areas. Provide assurance that further recovery action across all debt types is likely to be self-funded. The temporary resource (up to £50k) will address the immediate capacity to review outstanding debt and continue the implementation of more robust debt collection process across the services.

Phase 2: Subject to the outcomes of Phase 1; to provide a further time-limited resource to tackle the outstanding debt across the other debt streams, focussing on recovery where appropriate, constrain any write-offs and to engage in an opportunity being explored with the County Council to increase collection of Council Tax and Business Rates.

Phase 2 is contingent on Phase 1 demonstrating that further recovery action is likely to be economically viable. A self-funded resource (i.e. through the increased recovery of debt) would be secured to review all other debt streams to optimise settlement rates and reduce debt provisions.

Appendix B outlines the improvement plan monitoring and reporting metrics to ensure the plan is on track and demonstrate whether the plan is positively challenging the baseline debt position.

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**This report supports the Council's priority of:** Building a better Council / Supporting economic recovery in Tandridge

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### **Recommendation to Committee:**

1. To note the current debt position (Paragraph 1 and Appendix A – Background, Insights, and Trends)
2. To approve Phase 1 of the proposed Debt Improvement Plan to tackle the debt position, providing an initial resource (up to £50k) to,
  - prioritise outstanding sundry debt straightforward recovery in other areas and provide assurance that further recovery action across all debt types is likely to be self-funded; and
  - address the immediate capacity to review outstanding debt and continue the implementation of more robust debt collection process across the services.

It is expected that this first phase will ultimately be self-funded but met initially from the 2021/22 outturn position.

3. To note that a decision to proceed with Phase 2 (if required and subject to the outcome of Phase 1), will be reported to a subsequent S&R committee to:
  - provide a further time-limited resource to tackle the outstanding debt across the other debt streams, focussing on recovery where appropriate and constrain any write-offs; and
  - engage in an opportunity under consideration to increase collection of Council Tax and Business Rates, with the possibility of a mechanism to share the gain equitably with the County Council.
4. To note the proposed Debt Improvement Plan, performance indicators, project risks, and critical success factors (Appendix B – Performance Metrics)

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### **Reason for recommendation:**

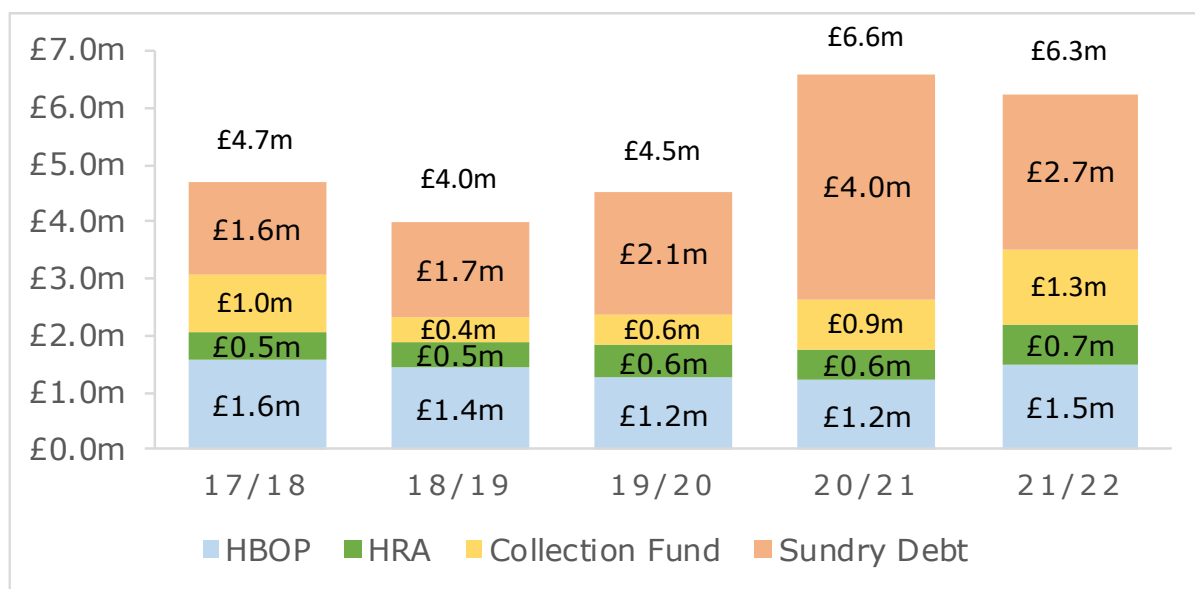
Outstanding debts for the Council are increasing. This report outlines the issue and proposals to reverse the trend. Appendix B outlines arrangements to monitor and reporting progress of the improvement plan. The proposed improvement plan strengthens the financial health of the organisation.

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## Introduction

1. Tandridge District Council, like every local authority holds debt across a number of categories. Chart 1, below, illustrates the increase in outstanding debt over time. The main areas of debt are Sundry Debt, Housing Benefits Overpayments (HBOP), HRA and Collection Fund (TDC share).

Chart 1: Analysis of the overall debt over 5 financial years:



Note: Collection Fund debt is the TDC share of the outstanding debt

2. The chart demonstrates that only sundry debts have reduced over the course of 2021/22, largely due to recovery of a number of high value debts. The analysis in Appendix A shows that all types of debt over 1 year old are stagnating or increasing. Contributory factors are likely to include sub-optimal recovery processes in previous years, lack of resources and/or the economic climate during the pandemic. The trend of growing debt is a cause for concern and should not be left unaddressed.
3. This business case covers the following:
  - Background - current structure and resources;
  - Outline Debt Improvement Plan and proposed request for additional resource;
  - Challenges and limiting factors;
  - Key risks;
  - Outputs & Return on Investment;
  - Proposed Monitoring; and
  - Recommendation.
4. Supporting the business case is Appendix A providing trend analyses and insights and Appendix B outlining the performance metrics and targets to monitor against the improvement plan.

## Background - current structure and resources

<p><b>Sundry Debts</b></p> <p><b>Exchequer Team</b> (within Finance)</p>	<p><u>Resourcing:</u> The Exchequer Team currently comprises of:</p> <ul style="list-style-type: none"> <li>• Exchequer Services Manager;</li> <li>• Exchequer Services Lead;</li> <li>• Five officers (4.8FTE)</li> </ul> <p>The Exchequer Team includes the payments of suppliers and individuals, the invoicing and associated debt recovery for sundry debt and the banking and income for all income streams at the Council.</p> <p><u>Activity:</u> Over the course of 2021/22, the invoicing and associated debt recovery for sundry debt element has raised over £6.3m in invoices, and sent approx. 7,000 reminders</p>
<p><b>Housing Benefits Overpayments, Housing Revenue Account, Collection Fund Debts</b></p> <p><b>Business and Income Team</b> (Within Revenues and Benefits)</p>	<p><u>Resourcing:</u> The Business and Income team is made up of three areas; Council Tax and Business Rate collection, Housing Revenue Account rent collection and Corporate Debt collection.</p> <p>Within this team there is an allocation of 1.2FTE to collect outstanding debt for Housing Benefit overpayments, unpaid Council Tax, unpaid Business Rates and former tenant arrears (HRA).</p> <p>In addition, unpaid sundry debts are referred to the Business and Income Team by Exchequer Services for collection. Prior to the 2019 transformation programme, debt collection was allocated resource equivalent to 4 FTE.</p> <p><u>Activity:</u> While in-year collection rates for Council Tax and Business Rates remain high, the Council's overall gross debt position for these areas has increased to £1.3m, up 44% from £0.9m in the previous year. This is due to reduced resource, an increase in other work due to Covid-19 grant administration, resource required to implement the NEC system and impacts of the pandemic on customers and their ability to pay. Very little enforcement work has been undertaken to recover debt due to court closures during the same period.</p> <p>The ongoing Finance and Exchequer service reviews have resulted in greater communication between these service areas, which includes regular meetings, more accurate debt position reports and engagement with services across the Council.</p>

5. Over the last twelve months the Exchequer Team has been the focus of a workstream within the Tandridge Finance Transformation programme (TFT). This has predominately focussed on the sundry debt position. A budget of £50k was approved by Strategy & Resources in July 2021 to start the change programme to transform the Exchequer function. The investment was to address the following findings, prior to the change programme:
  - No overall management of the outstanding debt position;
  - No regular monthly reports to key stakeholders e.g., senior managers and service departments;
  - Lack of meaningful text on invoices for customers;
  - Service departments not aware of invoices, if an invoice remains unpaid and therefore service continues to be delivered;
  - Irregular reminders with little narrative;
  - System issues with direct debits, periodical invoicing, and allocation of instalment plans;
  - No agreed roles and responsibilities; and
  - Little engagement between the Exchequer and Business and Income Teams
  
6. As part of this transformation activity the following has been undertaken:
  - Agresso System Health Check;
  - Sundry debts outstanding debt position statement to determine the age and status of outstanding invoices;
  - Review of Accounts Receivable/Debt Management audit observations and recommendations;
  - Review of associated Accounts Receivable end-to-end systems and processes;
  - Overhauled reminder narrative stating consequences of non-payment now sent every two weeks;
  - New Payments from Customer & Debt Management policy approved by Strategy & Resources Committee and Council; and
  - Automation of some manual tasks.
  
7. Progress to date, since the review:
  - Overall management of the debt position established through production of an improved sundry debt report together with a combined outstanding debt report for Members covering other debt categories e.g., Council tax, housing etc. The new sundry debt report is now despatched monthly across the organisation.
  
  - Formation of an Exchequer Working Group since December 2021 as part of the transformational work with cross-service department representation to start to work more collaboratively to improve the collection of income and the payment of suppliers. The focus of the group at present is on moving forward with improving debt collection and agreeing roles and responsibilities.

- Creation a new Exchequer Manager role to oversee the Exchequer team, reporting directly to the CFO post, approved at the last Strategy & Resources meeting on 11th January 2022. This new role is key to the continuous improvement work started with the Exchequer transformation programme, with debt management a high priority.
- Initial assessment of the outstanding sundry debt to consider the feasibility and economics of continuing chasing older debt. 26% of sundry debt is older than 6 months, totalling £716k. This debt has already been provided for and adjusted for potential non-collectability by over 90%. Some of this old debt will now be statute barred and therefore needs to be written-off.

### **Outline Debt Improvement Plan and proposal for additional resource**

8. Building on the initial success on the Tandridge Finance Transformation - Exchequer Service workstream, the next step is to outline a Debt Improvement Plan, supported by temporary resource. It is proposed that this consists of two phases, as follows.

9. **Phase 1:**

- Prioritise outstanding sundry debt (high value, low volume) and straightforward recovery in other areas; and
- Provide assurance that further recovery action across all debt types is likely to be self-funded.

The temporary resource (up to £50k) will address the immediate capacity to review outstanding debt and continue the implementation of more robust debt collection process across the services. It is expected that the £50k for Phase 1 will ultimately be self-funded however to provide budgetary assurance, it is proposed that funding be set aside from the 2021/22 outturn position.

10. The proposed resource would be 1FTE fixed-term officer shared by Exchequer and Business and Income to undertake the initial review, with a 0.5FTE (or 6 months at 1FTE) fixed-term legal officer. The posts will:

- Create capacity to review aged debt
- Assess the debt for likelihood of recovery
- Support the identification of quick wins
- Support the Exchequer Services Manager with resolution of inefficient debt management processes and their implementation as part of a continuous improvement plan
- Determine whether further investment in recovery will cover its costs

Table 1: Phase 1 Resources

Role:	Contract type:		Grade	Spinal point	Salary	Salary plus oncosts
Legal Officer	Temporary	0.5 FTE	TA2	19	£12,884	£16,500
Accounts Receivable Officer	Temporary	1 FTE	TA2	19	£25,767	£33,500
Total impact on budget but self financing						£50,000

11. **Phase 2:**

Subject to the outcomes of Phase 1, a self-funded resource (i.e. through the increased recovery of debt) will review all other debt streams to optimise settlement rates and reduce debt provisions:

- Extend the time-limited resource to tackle the outstanding debt across the other debt streams, focussing on recovery where appropriate and constrain any write-offs; and
- To engage in an opportunity being considered with the County Council to increase collection of Council Tax and Business Rates, with the possibility of a mechanism to share the gain equitably.

12. This would involve recruitment of 2 further full-time fixed-term officers shared by Exchequer and Business & Income. The posts will be managed by the Exchequer Services Manager. The posts will:

- Build resilience and ensure debt collection is prioritised;
- Pursue the recovery of debt identified as economically viable in Phase 1
- Ensure team is adequately resourced and workloads are manageable across the team whilst outstanding debt is resolved;
- Strengthen current working arrangements;
- Support the development of revised collections processes within the new NEC (Northgate) platform;
- Ensure the referral of debtors to debt agencies as set out in policy; and
- Support the development of a joint opportunity on the recovery of Collection Fund debt.

13. Phase 2 will also extend the resource available to the Legal Team to 1 full-time Legal Officer role. The post will be managed by one of the Legal Specialists and be for a fixed term basis.

Table 2: Phase 2 Resources

Role:	Contract type:		Grade	Spinal point	Salary	Salary plus oncosts
Legal Officer	Temporary	1 FTE	TA2	19	£25,767	£33,000
Accounts Receivable Officer	Temporary	1 FTE	TA2	19	£25,767	£33,500
Accounts Receivable Officer	Temporary	1 FTE	TA2	19	£25,767	£33,500
Total impact on budget but self financing						£100,000

14. The above represents indicative resourcing subject to the outcomes of Phase 1 and discussions with the County. Within the overall principles of

being self-funded, the resourcing will be shaped in conjunction with the Head of Legal Services, Business and Income and Exchequer.

15. Across both phases, the likely outcomes are:
  - Write-off of those statute barred invoices (older than 6-years);
  - Recommendations for recovery actions based on value of debt;
  - Contact with the debtor whilst being mindful of individual circumstances and ensuring compliance with the Debt Respite Scheme which provides a period of "breathing space" for eligible debtors;
  - Address tracing if relevant and if value merits;
  - Legal recovery action taken on debts £500 and above;
  - Referral of debts below £500 to the debt collection agency;
  - Implement advance payment processes where relevant;
  - Exploit opportunities for direct debit payment; and
  - Calculation of the unit cost of the end-to-end process of raising invoices to debt recovery action of all invoices
  
16. It is anticipated that the full proposal would ultimately be self-financing. The Phase 1 £50k investment would initially be funded by a surplus in the 2021/22 outturn position, with the expectation being that the activity undertaken will reduce the bad-debt provision and recover additional income. Once the principle is tested, Phase 2 would be self-financing. Opportunities to share costs with the County Council will be explored.

### **Joint Working Opportunity**

17. The Collection Fund is a significant part of any local authority debt position. Tandridge (like other lower tier authorities) collect the Council Tax and Business Rates for Surrey County Council, Surrey Police & Crime Commissioner, and Central Government. Tandridge is charged with the collection of c£90m (62% of total revenue income) for others, in respect of Council Tax and Business Rates. In effect, the Business and Income Team pass on to other authorities 62p in every pound collected.
18. The Collection Fund is also a very complex area with Government subsidies, local discounts, reductions and allowances, and many residents /businesses having automated and scheduled payment methods. This complexity further weakens the link between increasing collection and a gain to the Council's General Fund.
19. The Debt Improvement plan will consider opportunities for Tandridge to pilot an arrangement with Surrey County Council to share the gain from increased collection.



## Proposal for performance monitoring

20. As part of the Debt Management improvement activity a Health Indicator has been developed for sundry debt and other debt categories. It is planned that this Health Indicator, which will consist of a group of key performance indicators, will be reported monthly within the business area and quarterly with the budget monitoring position.
21. The proposed annual performance indicator is the value of unsecured debt over 6 months as a proportion of the total debt raised. The measure refers to the amount of unsecured sundry debt outstanding older than 6 months within the Agresso / Orchard system. Plus, this represented as a proportion of debt raised. Secured debt is defined as being secured against a property in the case of a legal charge. An example is set out below:

Type	Invoices Raised (to date)	Debts outstanding +6 Months	% unsecured debt	Prior Year Baseline	Outcome Red - Increase over 10% Amber - Increase lower than 10% Green - Decrease
HRA	£14,070k	£536k	3.8%	3.2%	Increase over 10%

22. Appendix B outlines the current 2021/22 positions, therefore the benchmarks. This metric would be applicable to HRA and Sundry Debts.
23. HBOP recovery is highly volatile and can span decades. Therefore, the metric would be amended to +1 year to accommodate the duration it can take to recover and identify.
24. The proposed quarterly performance indicator would be simplified to the rolling quarterly debt outstanding over 6 months. Progress would monitored as follows:

**Red:** +6 Months debt position deteriorates since last quarter by over 10%  
**Amber:** +6 Months debt position deteriorates since last quarter by less than 10%  
**Green:** +6 Months debt position improves since last quarter

Type	Debts outstanding +6 Months as at					Outcome Red - Increase over 10% Amber - Increase lower than 10% Green - Decrease
	Q4 21/22	Q1 22/23	Q2 22/23	Q3 22/23	Q4 22/23	

25. Collection Fund performance metrics are more complex. The bills are raised in full at the beginning of the year and most will have a payment schedule. So quarterly reporting would be skewed due to payment schedules. Potentially looking at pre-Covid settlement percentages for each month could be the target. However the final debt positions will be subject technical adjustments but will provide an indicator of performance.

## **Key implications**

### **Comments of the Chief Finance Officer**

26. The S151 Officer is required to make arrangements for the proper administration of the Council's financial affairs. This includes key elements of the Council's balance sheet such as debt.
27. This paper provides an evidenced position statement for key debt streams at 31 March 2022. Observations in Appendix A demonstrate that:
  - all but sundry debt is increasing in value;
  - all four debt streams have increasing or stagnating debts over 1 year; and
  - collectability is reducing.
28. Intervention is necessary to reverse the current trend of rising debt. As debt ages the ability to recover diminishes. The Council provides prudently for ageing debt to ensure that write-offs do not impact on the revenue budget. However, the increase in the debt provision is charged against the revenue budget, meaning that increasing debt impacts on the budget available for other services. Reducing the burden of the debt provision will release funds for other purposes.
29. The report outlines a Debt Improvement Plan, to review recoverability of the aged debts and address where economically viable to do so.

### **Comments of the Head of Legal Services**

30. The Council has a duty of best value and a general fiduciary duty to council tax payers to act with financial prudence. It is consistent with these duties to (a) make proper arrangements for billing and payment of income, monitoring of arrears and recovery of debts and (b) to keep the arrangements under review. Many types of income to be collected by the Council are subject to statutory rules and time limits for recovery. The proposals put forward in this report will need to have regard to these in their collection and recovery processes.

## **Equality**

31. This report contains no proposals that would disadvantage any particular minority groups.
32. Appropriate consideration will be given to any debtor that is subject to Debt respite scheme (Breathing Space<sup>1</sup>).

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<sup>1</sup> Breathing space is a free Government-backed scheme allowing individuals time to get debt advice to help relieve the stress caused by debt. Breathing space allows the debtor to focus on getting debt advice and come to a debt solution without worrying about incurring additional charges or being harassed for payment. A debt solution could be a plan to pay off debts or a way to get them written off. A breathing space can only be

## **Climate change**

33. This report contains no proposals that would impact on the Council's commitment to Climate Change.

## **Appendices**

Appendix A – Background, Insights and Trends

Appendix B - Performance Metrics and Targets

## **Background papers**

None

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