



City of Westminster

Audit and Performance Committee Report

Meeting:	Audit and Performance Committee
Date:	23 rd April 2013
Classification:	General Release
Title:	Accounts Receivable Management Report
Wards Affected:	All
Financial Summary:	Outlines the approach to be taken by the Council to improving the management of its accounts receivable.
Report of:	Chief Operating Officer
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1. Executive Summary

As previously reported to the Committee, Corporate Finance engaged an accounts receivable (AR) expert to critically review all current AR processes and reporting, then to create and implement an AR improvement plan.

This first phase of this activity has now been completed; an exhaustive investigation has been carried out into the Council's AR. Although this phase of the project covered all areas, its key focus was on those areas with a high level of AR in relation to activity, and where there were the greatest opportunities for improvement. Although the high-value areas of Housing Benefit & TA arrears were investigated they were not subject to significant follow-on action because of limited apparent scope for potential improvement. Therefore the major areas of focus were Property and Parking.

Following the evaluation and analysis of AR problems and the underlying issues the AR expert became heavily involved, in conjunction with the service areas and outsourced partners, in resolving a number of long-term billing and payment issues within Property and working with Parking to investigate and understand the un-recoverable position, and where necessary raise write-off requests.

A summary of the approach taken, what has been achieved to date, the major areas of concern and proposed next steps are given below.

2. Recommendations:

That the Committee note the content of the report and endorse the following key activities to be taken forward:

2.1 Generic

In order to lead required improvements it is proposed that the project continues with the buy in of key stake-holders. Those process improvements which have already been identified are to be implemented. It is proposed that AR is subject to an ongoing monthly review including a report to senior management which will provide an update on progress and highlight outstanding issues. Developing a sustainable approach to the more effective management of external service providers will be another key focus. This will drive long-standing matters to a conclusion, whilst embedding new methodology and reporting.

Combined, these initiatives will result in more timely and accurate billing, proactive management of Accounts Receivable (AR), reduced write-offs, clear ongoing reporting of the AR position and improved cash flow. In turn, they will result in improved client satisfaction.

2.2 Property

As Property is a complex area with a significant volume of lease and related agreements it is proposed that a one-off audit of all lease agreements in place across the portfolio is carried out in order to ensure that billing is in accordance with the agreement and that renewal dates etc. are correctly recorded within the Knight Frank system. This audit will highlight those properties that are coming to the end of their lease and where related activities e.g. billing of dilapidations etc. may be necessary. The audit will also identify those properties within the WCC portfolio that were not recorded on the Knight Frank systems and will use the existing TechForge (property data asset management) and RAM (fixed asset database) information to support this and ensure that any missing information is added to the Knight Frank systems.

Further to this it is proposed that a complete review of the billing format and the provision of supporting documentation is carried out particularly in relation to re-charging of utilities and repairs. By improving the visibility around how the charge

to client is calculated the level of disputes and the value of outstanding AR should reduce.

In order to embed the necessary improvements in this area it is imperative that this area – particularly the Knight Frank element - is adequately resourced. This issue has already been raised with Knight Frank by both Corporate Finance and the Lead Business Partner.

As a consequence of the delays and blockages identified above Days Sales Overdue (DSO – a measure of outstanding debt in relation to revenue) at the end of February were 63.14 days. As most billing is on the basis of terms ranging to net 30 days there is significant room for improvement. An initial improvement target of 15% i.e. to 54 days – to be achieved by September 2013 - is proposed.

2.3 Parking

It is suggested that a full review of collection processes is carried out once the new service provider has settled into the contract. In the interim it is proposed that monthly statistics are produced which track the progress of penalty charge notices (PCNs) in order to identify where attention is required.

Due to the nature of this debt and the extended statutory timescales the Days Sales Overdue (DSO) at the end of February stands at 150.59 days. If the Council and its service provider could manage this debt in a more timely and proactive manner there may be some room for improvement. An initial improvement target of 10% i.e. to 135 days – to be achieved by September 2013 - is proposed.

2.4 Commercial Waste

Within this area there are a number of balances – primarily lower values – which should be subjected to more scrutiny and active management. This combined with a greater visibility of payment delays – resulting from the reporting improvements which have already been introduced - will enable the Service Area and their outsourced supplier Veolia to improve AR management.

The level of Days Sales Overdue (DSO) at the end of February is 66.08 days. The opportunity exists to achieve a marked improvement in this area, an initial improvement target of 15% i.e. to 56 days is proposed.

2.5 Resourcing

Approval has already been obtained from the Chief Operating Officer to continue with the project and to retain the AR specialist for a further six months (to the end of October 2013) with the cost funded by Corporate Finance.

2.6 Target Setting

At this stage, it is not possible to clearly quantify the savings which will result from this activity, as many of the benefits accrue downstream. That said, some

preliminary Days Sales Outstanding (DSO) targets are embedded within this report. More accurate targets will develop during Phase 2 of the Project.

2.7 Reporting & Engagement

It is imperative that key stakeholders are kept informed of progress against the plan and are fully engaged in supporting this initiative. In order to facilitate this:

- Monthly reports are to be provided to SEB.
- Periodic updates are to be provided to the Audit & Performance Committee.
- Within the Finance community, it proposed that monthly updates are provided to the Senior Finance Group (SFG) and to Business Partner meetings in order to ensure that objectives are shared and activities are aligned to support progress.

3. Reasons for Decision

It is pleasing to report that a number of improvements have already been made, but of course it is recognised that there is still a great deal which needs to be done to move the Council's management of its AR onto a more commercial footing. These further improvements fall into the categories of billing (completeness, accuracy and timeliness), collection (proactive approach, timely escalation) and reporting (status, analysis of trends and patterns). A "Top 30" of detailed improvements is provided in Appendix 1 in the form of an action plan.

4. Background, including Policy Context

4.1. What Has Been Achieved to Date?

Commencing in October 2012 this project has carried out an in depth review of all areas, working in conjunction with Service Areas and Finance colleagues to construct an "as is" picture of the Council's AR management practices. The review has been informed by the collection and analysis of an enormous amount of data from external service providers as well as numerous meetings with service area and finance colleagues.

It is apparent that in certain areas improvements may be made by the Council in order to ensure that these service providers are more diligent in administering the collection of the Council's AR.

Opportunities also exist to improve the administration, follow through and proactive engagement on the Client (WCC) side.

Related improvements are contained within the "Top 30" list of actions which was mentioned earlier in this document. These activities include the embodiment of best practice combined with tangible improvements (reductions) in the level of

AR and improvements in the AR age profile. These will result in improved cash flow and a reduced charge to the General Fund via a lower level of write-offs.

4.2. Key Areas of Concern

Summary of Findings from Phase One of the Project

High levels of outstanding accounts receivable are very often a symptom of ineffective underlying commercial processes which culminate in either non-payment or delays due to payment disputes.

The first phase of the project has confirmed that commercial management within many areas of the Council can be improved.

Improvement opportunities exist in the areas of: Agreements (particularly in relation to the clarity of billing milestones and related paperwork); Client details (particularly in relation to setup and maintenance); Invoicing (either unnecessarily delayed or issued without the necessary backup documentation), and Client Management (where billing issues or queries raised by the client are not addressed in a timely manner).

All of these issues need to be addressed in order to improve the end to end process and facilitate more effective AR management. The major areas of concern by Service Area are as follows.

4.2.1. Property

It is evident that the current billing and reporting systems require some significant improvements in order to ensure that the billing and collection activities are more systematic, more robust and are processed in a more timely manner.

A factor which impacts all of these areas is the level of resources which Knight Frank (to whom the Council has outsourced this activity) devotes to this. From this review, the current level appears to be inadequate.

4.2.2. Parking

The investigation identified a number of reporting gaps were identified particularly in relation to debt which had “timed out” on a legislative basis. Consequently reports have been developed which enable detailed status reporting. This has facilitated a comprehensive review of AR in particular those balances which are un-recoverable.

It should be noted that during the period of the review, there has been a change in service provider. In this context, whilst it is possible to identify where the previous contractor may have been able to potentially improve their reporting and service delivery, it is not yet possible to form a view of the new service provider (in-situ from 1st March 2013). The key findings of this review will of course be passed onto the new service provider for their consideration.

4.2.3. Commercial Waste

The detailed review of this area concluded that there were a number of areas where the existing collection process and related rules could have been more diligently applied e.g. in the treatment of lower value balances and the management of unallocated cash receipts.

5. Financial Implications

There are no direct financial obligations arising from this report.

6. Legal Implications

There are no direct legal obligations arising from this report.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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BACKGROUND PAPERS

Appendix 1 - Next Phase, Action Plan