Improving Cash Flow Management In Local Government

A Report by the Audit Commission

October 1986
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Summary

The cash flows handled by local authorities amount to some £60 billion annually in England and Wales; and the timing has important cost implications. For example, acceleration of rate income by two weeks would have been worth £50 million in authorities' favour last year. Managing these payments and receipts is also a major administrative task, costing some £500 million annually and involving 400 million transactions a year.

The Commission has collected information from 370 local authorities and has developed specific guidance on good management practice in cash flow management. This is based on the successful current experience of authorities; so there can be no doubt that it is practicable in virtually all circumstances. Analysis suggests that authorities would save over £100 million a year if all were achieving good practice performance.

Some £60 million of annual savings could come from better management of cash flow. Steps such as the following are recommended:

—Send out all rate demands by April 1, and set the due date for the first of ten instalments during the first half of April; start action on arrears by the end of May.
—Avoid invoicing for amounts less than £5 and whenever possible collect income in advance.
—Set a minimum charge of £20 (reduced to £10 for payment within seven days) for excess car parking charges.
—Avoid use of repeated reminders for non-payers; issue a summons as the first recovery action for rates.
—Aim to refer no more than 2% of sundry debts for legal action, and consider using finance department staff to take cases to court.
—Claim all government grants promptly, co-ordinating grant claims under one officer.
—Bank all cheques on the day they are received, or at least the following working day.
—Review the timing of payments to the major creditors to ensure that their trading terms are adhered to.
—Aim to pay all staff monthly.

Exhibit S1 shows the impact of such measures on two south coast districts. By better cash flow management, the ratepayers of one authority have been saved 2p in the £ on a district rate of 20p—a saving of 10%.

A further £40-50 million a year could be saved by general application of current good practice in administering cash flows. In most aspects of administration there are variations among authorities in unit costs in excess of 2:1. Costs in Inner London are generally considerably higher than elsewhere, after the effects of London weighting have been excluded; and productivity is generally substantially lower.
The report recommends the following steps to reduce administrative costs:
—Shifting the balance of work between the centre and service departments.
—Increasing flexibility, to deal with changing workloads.
—Greater centralising of creditor payments.
—More selective checking of invoices: 5% of invoices typically account for 70% of the value.
—Enhanced computerisation of sundry debtor and car parking excess charge notice collection.
—Purchasing computer packages off-the-shelf whenever possible.
—Encouraging payment of rate instalments and mortgages by direct debit, and monthly payment of all employees by bank transfer.
—Making payments to regular creditors by the Bankers Automated Clearing Service (BACS) system.
—Negotiating banking terms aggressively, and going out to tender every five years.

Auditors have already reviewed the local situation, drawing on the results of the audit questionnaire and feedback on the performance of comparable authorities. The Commission has been encouraged by the positive reaction of authorities; action should produce results—and will be monitored by auditors every six months.
Introduction

1. This report summarises good practice in those administrative functions which deal with authorities’ cash flows: the collection of rates, mortgages and other general income, the payment of employees and creditors, and the coordination of the resulting income and expenditure. This set of exchequer functions has received little previous research attention. Nonetheless, it is an important area for several reasons:

— There is direct contact with the public—both as individuals and through businesses—often of a sensitive nature; some 400 million individual transactions take place every year.

— The timings of collections and disbursements of some £55 billion every year can have a major financial impact. For example, acceleration of rate income by two weeks would have been worth some £50 million to authorities last year in interest charges.

— It costs over £500 million a year, more than the cost of refuse collection and not far short of the cost of the Fire Service. In a climate of expenditure restraint, it is all too easy for the costs of overheads to grow relative to more directly attributable costs of service provision.

— There are marked variations between authorities in the unit costs of dealing with similar tasks, of the order of 2:1 in most cases.

2. In addition, there is a more general concern about central overhead costs in local government since so-called Central Establishment Charges (CEC) directly affect the competitiveness of Direct Labour Organisations (DLOs) as well as the costs of managing council houses, often amounting to £200-300 a year per dwelling. The Society of County Treasurers has initiated an analysis of the costs of 18 defined support functions in the counties in order to improve the management information available; and, in co-operation with CIPFA, such an approach is to be extended to cover all classes of authorities. The proposed new standard form of accounts currently being developed by authorities together with CIPFA and the Commission will also raise issues of overhead allocation. The Commission proposes to examine overhead activities slice by slice rather than by attempting to embrace them all in one study. This report is therefore the first in a series that will eventually cover all major overhead cost functions within local government.

3. The importance of the overhead costs associated with management of cash flows, and their variation, is one of the reasons the Commission undertook this study. The second is the lower priority traditionally attached to cash flow management in local authorities compared with the private sector because authorities do at least have the comfort of knowing that cash flow factors are unlikely to drive them out of business. It appeared that this was an area where local authorities might fruitfully take on board some approaches from the best of the private sector. Table 1 shows that the number of transactions dealt with by local authorities are hundreds of millions each year, with a total transaction value exceeding £50 billion a year. The benefit to local authorities in England and Wales...
of accelerating all income and delaying all payments by one week would be £130M at an interest rate of 12%. Such major improvements are not feasible across the board, but, for example, rate income of £11 billion could probably be accelerated by a fortnight on average, worth about £50 million a year in interest charges.

| Table 1: CASH FLOW TRANSACTIONS AND COSTS FOR LOCAL AUTHORITIES IN ENGLAND AND WALES, 1984-85 |
|----------------------------------|-----------------|-----------------|
| **Receipts**                      | **Transactions** | **Income/expenditure** | **Administrative costs** |
| Rates                            | 100 million     | £11.5 billion    | £165 million          |
| Sundry debtors                   | 7.5             | 2.0              | 25                   |
| Mortgages/loans                  | 0.5             | 0.5              | 25                   |
| Car parking                      | 200             | 0.1              | 30                   |
| Grants/claims                    | 20              | 14.0             | 40                   |
| Cashiers                         | *               | *               | 40                   |
| **Payments**                     |                 |                  |                      |
| Creditors                        | 20              | 12.0             | 115                  |
| Payroll                          | 65              | 14.0             | 125                  |
| **TOTAL**                        | 400 million     | £54.1 billion    | £525 million         |

* Cashiers handle transactions shown under other headings

4. The report draws on the results of special study work undertaken by a team consisting of Paul Carey (Audit Commission) Ken Webster (former Treasurer of Leicester City Council) and Ray Corner of Price Waterhouse. This included visits to 18 authorities to study their practices in depth. In addition, detailed questionnaires were completed by auditors in conjunction with local authority officers at 370 authorities in December 1985—March 1986, which were then analysed centrally with help from IPF Ltd (CIPFA). This has provided extensive quantitative data from which performance indicators have been derived. Appendix A lists the questions asked.

5. The principles of sound cash flow management are usually obvious enough, but rarely put into practice to maximum effect. This report says little that will be fundamentally new to treasurers—not is it intended that it should. Rather, it is a distillation of good practices found in authorities visited, illuminated by a degree of quantification which has not previously been available. The Commission has relied on, and is accordingly grateful for, the contribution of those authorities visited during the study and the authorities which provided information for the completion of the detailed questionnaire. Appendix B lists the authorities named in this report because they exhibit some good or interesting practice. Throughout the study the appropriate interested bodies have been consulted, notably the Local Authority Associations and their associated groupings of treasurers and the Local Government Group of the Law Society. The role of auditors in overseeing the return of information in a consistent manner has also been vital. But, as with all its reports, responsibility for the conclusions and recommendations in this report rests with the Commission alone.

6. The report is organised around the three main conclusions to emerge from this work:

(i) **Better management of cash flows could generate some £60 million a year of additional income for local authorities.** There is considerable scope, given the will, for authorities to save interest charges.
by more effective collection of rates and general income, and to a lesser extent by closer control over creditors. Chapter 1 describes how this extra income can be generated.

(ii) Administrative costs can be reduced, perhaps by as much as £40 million a year, by greater use of automated methods of payment and receipt, optimum use of computerisation and reviewing administrative procedures and costs. Chapter 2 shows how these cost reductions can be achieved by more general application of the approaches already in place and working well in a number of authorities.

(iii) Early action is possible. Improvement of cash flows in particular can often be achieved without the need for staffing changes or capital expenditure; for the local authorities at least, it is thus a relatively painless way of securing increased value for money. Chapter 3 therefore describes the next steps, and underlines the progress that is already under way.

The benefits of action along the lines set out in this report could be substantial for local ratepayers. It is not unrealistic for authorities to be aiming to save the equivalent of 1p in the £ on the rates in the not too distant future. And the Commission and its auditors will be monitoring progress every six months, to help authorities secure the potential value improvements.
1. Improving cash flows

7. With interest rates running at 10% currently—and 12% in 1984-85—the importance of effective management of cash flows is obvious. Since the sums of money handled by local authorities are considerable, a small improvement in the speed of income collection or delay in payment can bring significant benefits in interest earned or saved. A district council may be handling £20 million in rates income, £3.5 million in sundry debtors, mortgages and car park income, and paying out £12 million on payroll and £10 million to creditors each year. In a county council there is little that can be done to influence the speed of rate income since it is a precept on the districts, but payroll and creditors can amount to £150 million and £80 million respectively. This chapter is mainly concerned with how authorities can, by adjusting the timing of their income and expenditure, realise these potential savings. This chapter first examines ways of expediting income, then it considers how the timing of payments can be better controlled. A final section discusses the general management of cash flows.

EXPEDITING INCOME

8. The areas of income examined are rates, sundry debtors, mortgages, car park income (including excess charges) and grants. All authorities should be taking the steps necessary to:

(i) Minimise, if not avoid, the problems of collection. In this, as in most other fields, it is preferable to prevent problems arising rather than to be forced into corrective action after the event.
(ii) Make prompt and clear demands for payment.
(iii) Encourage prompt payment. This can take the form of penalising slow payers.
(iv) Monitor levels of arrears at regular intervals, so that appropriate action can be set in hand promptly.
(v) Take firm and timely recovery action, to avoid escalation of arrears.
(vi) Make only selective use of legal proceedings.
(vii) Claim government grants promptly, since for many authorities these are the single most important source of income and some grants are not paid automatically.
(viii) Bank receipts promptly, to ensure that interest income is maximised.

The principles involved can best be illustrated by considering rate collection, before moving on to a discussion of the detailed practices that should be implemented.

Rates—an illustration of the principles

9. If an authority levies £100 in rates, it might ideally like to have £100 on April 1 to spend on services as a result—rather as parish councils levying a precept often receive their income from the district council. In practice however, the amount available for the collecting authority to spend on services will fall short of this ideal because of:
—Loss due to delays in collection. Even if £100 is finally collected in full, interest will be foregone (or incurred if borrowing is necessary) compared with receiving £100 on April 1.

—Loss due to non-collection. Probably less than 10% of year-end rate arrears in a typical authority will remain uncollected; but such arrears represent especially long delays in collection with attendant financing costs.

—Administrative costs of collection, which might include discount for prompt payment. These costs are borne wholly by rate collecting authorities, rather than being shared with precepting bodies.

These elements can be combined to show the 'net effective value' of £100 due in rates at April 1. Appendix C explains the calculation of net effective value and Exhibit 1 shows how authorities vary in their performance. A poor authority will effectively lose £7.70 per £100 demanded, while an excellent authority will lose 25% less than this i.e. £5.85. These differences may seem marginal, but all the benefit accrues to the rating authority and can amount to a considerable proportion, 10%, of its own rate in the case of a small shire district. Shire districts and, to a lesser extent, metropolitan districts and London boroughs, handle large sums of money of which they retain only a proportion for themselves. This gives them a good opportunity to benefit from improved speed of collection and reduction in collection costs. If the performance of the best quarter of authorities could be achieved by all, some £50-70 million could be saved—equivalent to a penny rate nationally. Although social and economic factors affect arrears levels, analysis suggests no systematic connection with the speed with which income is received during the rating year.

10. The speed of collection within the year tends to have more impact than the extent of arrears at the year end. The range of performance encountered in speed of collection shown in Exhibit 2 demonstrates that most authorities would save at least 25p per £100 collected if they could achieve the good practice levels to be seen in 65 authorities at present. Every 25p saved was worth over £25 million in England and Wales in 1984-85. Authorities can influence the collection timetable, but may be able to do little about such causes of arrears as losses on liquidations. Yet collection speed is rarely accorded the attention given to arrears trends. By focussing on this area, authorities can therefore achieve the potential savings. Analysis of questionnaire returns suggests that loss of rate income is minimised in circumstances where:

(a) All 'straightforward' demands are sent before March 31 (25% of authorities achieve this).
(b) Yearly rather than half yearly demands are issued (83%).
(c) No demands are delayed because of prior year arrears (51%).
(d) No demands are delayed pending housing benefit assessments (77%).
(e) Reminders are sent within two months of the demand, or summonses issued without reminder before the end of June (30%).
(f) Instalment facilities are restricted to 10 rather than 12 payments (75%).
(g) The date of first instalment for established instalment payers is set in the first half of April (18%).
(h) There is a willingness to make application for commitment summonses (77%).
(i) Computerisation is adequate (98%).
(j) Management attitudes are right; this cannot be quantified, but is likely to be linked to the attributes above.
Exhibit 1

'LOSSES' ON RATE COLLECTION IN THREE DISTRICT COUNCILS
FY 1985

£'Lost' per £100 Due

POOR £7.70 'Lost'
FAIR £6.77 'Lost'
EXCELLENT £5.85 'Lost'

Cost of Collection
Effect of Year-end Arrears
(assumes 10% never collected,
interest charged on 90%)
Effect of Speed of Collection
during the Year
(see Exhibit 2)

Source: Study Team analysis of questionnaire returns
CIPFA rating statistics (for cost of collection)

Exhibit 2

INTEREST 'LOSS' PER £100 RATES COLLECTED, FY 1985
Shire Districts

Number of Authorities

<4.50 4.50- 4.75 4.75- 5.00 5.00- 5.25 5.25- 5.50 >5.50

£ 'Lost' per £100 Collected

Source: Study Team analysis of questionnaire returns
A substantial minority of authorities adopt practices which are of doubtful value for money such as sending separate rate demands for each half year; delaying some (or all) demands until after March 31 in order to show the year-end arrears position; giving prompt payment discounts for biannual payments; offering payment by 12 instalments.

11. Before considering how authorities can alter the timing of their cash flows to advantage, it is worth considering whether such changes can be viewed as genuine value improvements for the local community. It has been argued that faster collection is merely a transfer of benefit from the individual recipients of services to the community at large. However, there is rarely any explicit costing of decisions on when rate demands should be sent; and ratepayers are likely to prefer a lower rate collected quickly to a higher one collected more slowly (if only to avoid loss of rate support grant; for some authorities every £1 saved brings £3 of additional grant). Moreover, whatever the date of payment demanded, the Commission takes the view that authorities should seek prompt payment from all concerned so as to avoid tardy payers being subsidised unintentionally at the expense of their fellow citizens.

12. In any case an effective approach to collection is more likely if prompt payment is a goal. And such an approach minimises uncollectable arrears: average year-end rate arrears in shire districts who started sending rate demands out in March are 1.6%, compared with 2.3% in districts sending out demands later (relative year-end arrears are one measure of overall efficiency in rate collection).

13. The balance of this section considers the practices required to improve cash flow, not only in rate collection but also sundry debtors, mortgages and car park income. Speed of collection is important in all these areas, although only easy to identify in the case of rates. Therefore, for the other areas, uncollected income is used as the primary measure of performance.

14. In all, authorities issue over seven million sundry debtor accounts annually worth some £2 billion—that is for debtors other than for housing rents, mortgages and rates, e.g. commercial rents, trench reinstatements, education recoupment claims and building regulation fees. Collecting such income tends to be seen as a minor function within both service and finance departments. As a result, the administration—in terms of both seniority of staff and quality of systems—often compares unfavourably with that of rates and housing rents. All authorities could benefit from reviewing a sample of sundry debtor accounts, asking the question: 'should this account have been raised?' The answer may well be 'no' if invoices are for internal matters or uneconomically small amounts, or the money could have been collected in advance. District councils should aim to raise no more than 50 accounts per 1000 population in the absence of special factors such as may apply in a seaside resort. Exhibit 3 shows sundry debtor accounts raised compared with population. There is scope for improvement in many authorities; first by reducing the number of accounts raised (largely by requiring payment in advance), second by streamlining the administration of the remaining accounts.

15. Avoid invoicing for amounts less than £5. Authorities should calculate the cost of raising and handling a debtor account, and use this as the basis for setting a minimum figure below which it is considered uneconomic to raise an account. Each sundry debtor invoice costs typically between £3 and £5 to raise and collect (including service and finance department costs), so authorities should aim not to use accounts to collect amounts below about £5. However, in one authority analysis showed that
Exhibit 3

FREQUENCY OF SUNDRY DEBTOR ACCOUNTS
Accounts per 1000 Population

of 1,300 invoices raised over seven months, 30% were for less than £10, and 15% for less than £5 (although the average value of accounts was £164). Another authority makes a charge of £1 annually to 4,000 owners of former council properties which is clearly uneconomic to collect. Examples of how proliferation of small accounts can be reduced are:

—Collecting cash at point of provision, e.g. sale of broken paving slabs, scrap, publications.
—Increasing charges or providing the service free (whichever is preferred on policy grounds), e.g. for elements of pest control.
—Combining charges, e.g. do not invoice mortgagees separately for insurance policies, or council tenants separately for garages.
—Extending the period to which a charge relates, or capitalising it, e.g. spread wayleaves over five or ten years, review the collection frequency of small rents.
—Avoiding direct management of the service, e.g. collect allotment income via allotment associations; let markets as a concession for a single management fee.

16. Avoid invoicing for internal matters. The sundry debtors system may become a dumping ground for matters internal to the authority which can be handled more economically in other ways. Examples of added transactions which can bedevil the system unnecessarily are:

—'Request debits' whereby income from grants or certain sales (typically of council houses) is only receipted when a sundry debtor account has been raised to match the sum received.
—Accounts raised by one department for charges to another; journal transfers are preferable, especially if they consolidate many small recharges, such as for printing.
—Accounts to the authority's staff, e.g. telephone charges. These can more simply be dealt with through payroll.

Examination of 2,200 invoices at one district council revealed that one in three were for internal matters: 15% were 'request debits'; 15% were internal charges; 5% were invoices to staff. In a similar way, 'internal'
invoicing—such as by a DLO to the housing department—should be amenable to more streamlined administration than single invoices from external services.

17. Collect in advance when possible. Payment in advance can be used either as a requirement of obtaining the service or as an option. West Wiltshire has differential charges for pest control visits; £6 if paid at the time, £7.60 if billed as a sundry debtor. Alternatively, a deposit can be required if advance payment is impractical or thought to be unreasonable. For home helps in particular, the administrative burdens of preparing accounts in the service departments and ensuring that payment is obtained in the finance department can be considerable; in some counties over 70% of sundry debtor accounts are for home helps, often as many as 1,000 per week. Consideration should be given to introducing schemes for payment by pre-purchased stamps, which also provide an automatic check on service to clients. The Post Office provides this service, though it can be done more cheaply in-house (as in Calderdale), if clients have adequate access to local authority offices. In either case, substantial savings can be achieved. Another alternative to the issue of invoices is rent-style booklets, as used by Bromley.

18. Payment in advance is also worth considering for many other services such as removal of trade refuse (prepaid sacks), planning applications, training and course fees, hire of facilities (e.g. halls), hire of equipment (e.g. skips), construction of carriageway crossings, emptying cesspits, minor services (e.g. drainage works, pest control, removal of rubbish) and vending rights. One authority charging football clubs for pitch hire only at the season’s end found that 20% became bad debts; such problems should be avoidable.

19. Obviously, demands for payment should state plainly and prominently the fact that the account is due, how much is due, how to pay, and when to pay. Nonetheless, some demands do appear rather confusing, and many authorities provide instalment booklets or separate slips for use of instalment payers—sometimes even despatched separately. Because of the complexities involved it is worth considering rate demands and sundry debtors separately.

20. Rate demands.

(a) All straightforward rate demands should be sent out by March 31. And instalment notification should be part of the rate demand; provided that good quality paper is used, this can then be receipted 10-12 times without difficulty.

(b) For cash flow purposes it is better to give prominence to the fact that 'the rate is now due', and less emphasis to a last date on which it is payable. Where a 'last date' is given, this should be reasonably early. One seaside resort does not require the first half year's payment until August 1. Historically, this was intended to give tourist-reliant ratepayers the benefit of the holiday season before payment. But with instalments available, this is no longer appropriate. The end of May is a reasonable time by which to require payment without causing an unmanageable workload in the cash office.

(c) Direct debit should be encouraged in preference to payment by standing order. Where standing orders are preferred by payers, the bank/giro slip for standing order authorisation should have preprinted payment dates starting towards the beginning of April. In practice, few ratepayers will then deviate from these dates. Frequently, those opting for standing order payment can choose
their own dates without guidance beyond the general requirement to pay by a certain date; then standing order payments are spread across the month.

(d) Only one rate demand should be sent. It is common practice for an annual rate to be declared in two instalments. Usually, this is presented as the normal method of payment if the right to 10 or 12 instalments is not claimed. However, some 60 authorities send separately two half yearly demands. There is no apparent justification for the additional administrative and postal costs incurred; and in addition this practice prevents immediate recovery of the full year's rate from those late in paying the first half.

21. Indeed, now that all ratepayers have the right to pay by instalments, it is appropriate for the offer of biannual payment to be reconsidered as it no longer appears to serve a useful purpose. An annual rate payable in one sum—except for statutory instalment payers—could both improve cash flow and reduce and expedite workload in recovery action. In fact nine authorities adopted this approach in 1984–85—most having done so for many years—and the speed with which they collected rates was well above average. This was reflected in a low interest loss, as Table 2 below shows.

<table>
<thead>
<tr>
<th>Table 2: EFFECT OF DISCOURAGING PAYMENT BY TWO INSTALMENTS, 1984-85</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average interest 'loss' per £100 collected £</td>
</tr>
<tr>
<td>Two payments discouraged 4.40</td>
</tr>
<tr>
<td>Two payments usual 5.02</td>
</tr>
</tbody>
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It is worth recalling that a typical rate-collecting authority may well receive £30 million in rates every year; so the difference would have been worth of the order of £200,000 for an average authority.

22. Authorities changing to an approach of discouraging two payments would no doubt find their proportion of instalment payers increasing—especially now that business ratepayers are covered by the statutory instalment scheme. Indeed, such a switch occurred in 1985-86 in authorities discouraging two payments.* However, this trend is to the authorities' advantage if the ratepayers concerned pay by direct debit or standing order. Furthermore, instalments begun in early April may be preferable in cash flow terms to biannual payments made on the due dates, which is the timing otherwise likely to be adopted by businesses.

23. Exhibit 4 illustrates the cash flow effects of this and other practices. The net present value is a calculation of the value of the income taking into account the timing of its receipt and interest rates. For example, if the full rates are collected on April 1, the net present value is £100 per £100 rates collected. If, however, at the other extreme, rates are collected in twelve instalments over the period May 1 to the following April, the net present value is reduced to £93.79.

24. Obvious as these tenets may sound, they are by no means general practice. For example, while it is quite possible to send all straightforward demands—that is, those unaffected by prior years' arrears, housing benefit

* Although this is not reflected in any difference between the proportions paying by 10 or more instalments in Table 2.
Assessments, changes of address or other complications—by March 31, only a quarter of authorities achieve this. Failure may be due to:

—Delays in setting the rate. This does not appear to be a frequent reason for delay, indeed in 1984-85 many authorities set their rate in February, yet sent no demand until April. Nevertheless, authorities should aim to make a rate by mid-March at the latest—irrespective of the new statutorily required date of April 1.

—Computer or other system problems; either because a new system is being introduced, or because several districts have to wait their turn on the county mainframe, some authorities are unable to send their demands as early as they would wish. The cash flow costs resulting should therefore be considered when comparing alternative systems.

—Delays in folding and enveloping; in this case the possible benefits of mechanisation should be appraised.

—Making no attempt to issue demands early, either as a matter of policy, or because this is not seen as a priority task. Any such decision regarding the demand recovery timings should take full account of the consequences for cash flow.

As will be apparent, all of these problems should be avoidable with sufficient pre-planning.

25. Of course, some demands will pose problems in preparation. Consequently, it is unlikely that all demands can be despatched by the end of March. Appropriate measures can however reduce or eliminate delays in such cases:

(a) Arrears cases. Authorities should not wait for the year-end close-down at March 31 before sending rate demands simply in order to show the year end position for arrears cases. It is preferable to send the demand earlier showing the arrears outstanding at the
time of preparation. This approach also avoids the extra administrative and postal costs incurred if prior years' arrears are sent separately from the main rate demand in order to show the arrears at the year end.

(b) Housing benefit assessments. A bigger problem may result from the substantial proportion of housing benefit cases not assessed by the date at which demands are prepared. A rolling review of cases should assist in this respect; indeed, about half of authorities had no assessments outstanding when sending demands for 1984-85. Where the level of rate rebate to be given is not known, authorities should incorporate an estimate for housing benefit rather than delay despatch of the rate demand.

(c) Late changes of occupation and rateable value. Some demands will be delayed while full information is obtained; but the extent of processing delays should be monitored in order to ensure that they are minimised.

26. Where late demands are unavoidable, a programme should be prepared for their despatch. At the end of (say) the first week of April, the head of the rating function should report to senior management the estimated number of demand notes that have not been despatched and the amounts of income involved; and these should be categorised by reason for delay. A programme should be agreed to deal with each category and an adequate monitoring system established. Where, for any reason, there is a significant delay in the despatch of demand notes, consideration should be given to making special arrangements to send out demands to those ratepayers occupying premises with large rateable values.

27. Additional demand notes will arise during the year from changes in occupation, rateable value, housing benefit entitlement and other causes. There should be a general requirement that all such changes are dealt with as quickly as possible and revised demand notes despatched within (say) seven days of the receipt of the necessary information. There should be similar targets for response to other correspondence. The effectiveness of these arrangements should be monitored and senior management should receive periodic reports.

28. The timing of instalment payments also merits attention. Most authorities require those wishing to pay by instalment to notify them so that they can be set up as instalment payers. This option need not be exercised until the end of April, which makes it unlikely that the first payment will be before May. However, Wakefield has adopted a more streamlined system whereby any ratepayer can pay an instalment immediately. This is taken as a request to pay by instalment, so cutting out two communications. Once established as an instalment payer—preferably by direct debit—the date for first payment can be as early as April 1 (as required by 20 authorities). The only statutory limitation is that ratepayers have 10 days notice of the amount to be debited. Yet:

—In 1983-84 over half of rating authorities did not require the first instalments until May, as Exhibit 5 (overleaf) shows; and only 11% required instalments in the first two weeks of April, which should be a generally attainable target.

—A quarter of authorities allow more than the statutory minimum of 10 instalments (12 is a common figure, though one authority retains some ratepayers historically entitled to 40 instalments!). Twelve instalments may be preferred because it is thought that because many ratepayers budget on a monthly basis this will be more convenient to them. However the payments 'holiday' seems
Exhibit 5

EARLIEST REQUIRED DATES FOR PAYMENT OF RATES
BY INSTALMENT, 1985

Source: Study Team analysis of questionnaire returns

to suit many ratepayers. And with 12 payments cash flow will
be adversely affected; there will be extra administrative and
transaction costs; and it is helpful for the last instalments to be
received well before the year end (e.g. 10 payments from April-
January) so that old year 'lags' can be settled before the new
year begins.

29. Sundry debtor accounts. Given that an account needs to be raised,
the aims of a sundry debtors section are to collect the debt as quickly,
certainly and inexpensively as possible. The key to prompt and clear issue
of accounts is to ensure that service departments take a responsible
attitude. Documentation kept must be adequate to substantiate debts and
provide full details when necessary to the finance department. Otherwise,
the sundry debtors section may spend as much time chasing details
internally as it does chasing debts externally. In such cases, departments
need an incentive to treat sundry debtors seriously. To this end:

(a) Notes should be provided to service departments detailing pro-
cedures to be followed in raising invoices and recording details of
the service provided.

(b) Departments should be involved in some cases by advising them
of amounts which remain unpaid after a reminder has been sent.
This would be particularly appropriate where the debt was the
result of a contractual arrangement, say the hire of a hall, which
might be repeated. At this stage, departments might be able to
help in recovery action, e.g. by a telephone call to the debtor,
prior to further recovery and legal action.
(c) There should be regular and reasonably prompt (say within a year for most cases) writing off of debts which it is impractical to pursue further. In this way, non-collection will be seen reasonably soon to have an impact on service costs when written back. Such a practice need not, of course, preclude collection of such debts if recovery does after all prove possible.

30. In any event, invoices raised should make it clear that queries about the service provided should be made to the service department, whereas queries about payment should be made to the finance department. Otherwise a great deal of time can be wasted dealing with queries which have gone to the wrong person. The invoices should give adequate detail of the service being charged for, including the date on which work was done. And, as indicated above, the invoices should state clearly that payment is now due, and where and how it can be made.

31. Finally accounts should be raised promptly and the debit set up well before payment is likely to be received. Ideally, this should be combined with minimal double-handling of data. For periodical income this is commonly achieved by raising the accounts in the finance department. For one-off items, procedures vary; usually service departments send out accounts, then send details to the finance department, who make the relevant accounting entries. However, in a quarter of authorities, the finance department is responsible for sending most or all accounts. This should be done as in West Wiltshire’s system by entering details on-line in departments, from which all relevant documentation and accounting entries flow automatically. This improves financial control, streamlines administration, and ensures that recovery action stems directly from the raising of the account.

32. If it is necessary to issue a reminder it is self-evident that income has not been collected as quickly and conveniently as it might have been. Thus it is logical either to make prompt payment attractive or to penalise slow payment. The merits of different approaches are discussed briefly below.

33. **Discounts for prompt payment.** An authority’s approach to discounts for prompt payment may be affected by considerations of policy and cost. Sometimes discounts are dismissed on the policy grounds that only the well-off can benefit. Provided the discount is seen to pay for itself this objection is countered because those not claiming it will pay no more than they would have without a scheme. Discount may also be seen as a reward for prompt payment, in which case the costs and benefits of the scheme determine the extent of reward involved.

34. The main cost of a scheme is the discounts given, though there may also be extra administration involved (for example, some inconvenience will be caused by receipt of discounted payments after the cut-off date). An authority may hope that the discount will offset these costs by some combination of:

---

**Encourage prompt payment**

---

—Reducing the proportion of payments not made at all.

—Increasing the proportion of payments made without reminder, so avoiding the administrative costs of debt-chasing.

—Producing quicker payment, so that interest can be earned on the amount so obtained. This depends crucially on whether the discount goes to those who would have paid early anyway, or brings in payments earlier than would otherwise have been the case.

The extent to which these aims are achieved appears to differ with the type of payment.
35. In the case of rates, authorities may give a uniform rate of discount provided that the rates due for the period are paid in full by a date specified by the rating authority. The cost of discount is not shared with the precepting authority, so the effect of allowing it falls entirely on the district. The discount terms offered by authorities vary from 2% if the full rate is paid in April to 3% if half is paid by May 25 and the remainder by November 30. Only 20 authorities offered such a discount in 1984-85 leaving 380 not doing so; but ratepayers quite commonly ask authorities why no such discount is given.

36. Although a minority of discount schemes are probably self-financing, the evidence suggests that discount schemes are generally best avoided. Compared with other shire districts, those giving discounts have slightly higher arrears, the same proportion of instalment payers, and slightly fewer reminders (25 per 100 direct ratepayers compared with 31 per 100). These differences are minimal, so the effect on cash flow is the critical question. As Table 3 shows, the discount offer brings money in more quickly, but not quickly enough to compensate for discounts paid. Within the range of discounts offered, the percentage given appears to have made no difference. Among those who offered discounts in 1984-85, Easington and Chorley had notably good cash flows; however, this was primarily due to their allowing payment only in one amount or ten instalments.

Table 3: EFFECT OF PROMPT PAYMENT DISCOUNT FOR RATES, 1984-85

<table>
<thead>
<tr>
<th>Description</th>
<th>Interest ‘loss’ on £100 rates collected</th>
<th>Average cost of discount given per £100</th>
<th>Net ‘loss’ per £100</th>
</tr>
</thead>
<tbody>
<tr>
<td>6% of shire districts offering discount</td>
<td>4.65</td>
<td>0.61</td>
<td>5.26</td>
</tr>
<tr>
<td>94% without discount</td>
<td>5.01</td>
<td>—</td>
<td>5.01</td>
</tr>
</tbody>
</table>

If a discount is offered it should be for not more than 2%, and for payment of the full rate in April. For administrative convenience a single, once and for all cut off date is best, giving no discount on demands sent thereafter. Authorities still offering discounts should examine the justification carefully; indeed Reading dropped its scheme in 1985-86, and found that loss of interest through slower collection was only a third of the amount paid in discount the previous year. An interesting alternative might be qualification for entry in a competition. The Welsh Water Authority offered £15,000 in prizes this year. Competitors had to pay their full water rate by April 8, answer three questions based on rate demand information (e.g. how many gallons of Welsh water can you get for a penny?), one question on the advertiser who sponsored the prizes and write a slogan. 10,000 entries were received, and the authority calculated the cash flow benefit at £44,000. Variants might appeal to local authorities (e.g. how much a week does it cost to empty your dustbin?).

37. In the case of car parking excess charge notices (ECNs) the offer of prompt payment discount works well. There is a good deal to gain because non-payment is frequent for this type of income, and issuing reminders is inconvenient because enquiries must first be made to the DVLC. A third of authorities offer a discount, usually for payment within one or two weeks, though a few authorities require payment within a day or two by the purchase of additional tickets. Table 4 compares the two groups for off-street parking.
Table 4: EFFECT OF DISCOUNTS ON PAYMENT OF EXCESS CHARGES, 1984-85

<table>
<thead>
<tr>
<th>Discount offered</th>
<th>Discount not offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of ECNs paid without a reminder</td>
<td>48%</td>
</tr>
<tr>
<td>% of ECNs paid in total</td>
<td>69%</td>
</tr>
<tr>
<td>Average charge:</td>
<td></td>
</tr>
<tr>
<td>—without discount</td>
<td>£13.60</td>
</tr>
<tr>
<td>—with discount</td>
<td>5.40</td>
</tr>
</tbody>
</table>

38. This suggests that not only should off-street ECNs generally offer a discount, but also that for metered parking it would be advantageous to make discounts a possibility (local orders often cause legal obstacles at present). This is especially clear where the systems work in parallel. For example, in one authority 63% of off-street ECNs are collected (£6 discounted to £4 if paid within days) but only 44% of meter ECNs (£6, no discount). Nor does the amount charged appear to have any particular effect on collection rates, as Table 5 shows.

Table 5: AMOUNTS CHARGED AND COLLECTION RATES FOR EXCESS CHARGES, 1984-85

<table>
<thead>
<tr>
<th>Amount charged</th>
<th>% of authorities</th>
<th>Average % collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>£2-£5</td>
<td>20%</td>
<td>64%</td>
</tr>
<tr>
<td>&gt;£5-£10</td>
<td>61%</td>
<td>64%</td>
</tr>
<tr>
<td>&gt;£10-£20</td>
<td>17%</td>
<td>65%</td>
</tr>
<tr>
<td>&gt;£20</td>
<td>2%</td>
<td>67%</td>
</tr>
</tbody>
</table>

39. On grounds of deterrence, administrative convenience and revenue maximisation a charge of £20 discounted to £10 for prompt payment should be considered by all those many authorities now charging less than £10. Two authorities charge £25 (£10 if paid within seven days) which is even better practice because it enables costs to be claimed in any resulting court cases.

40. The more troublesome categories of *sundry debtor* income might well be suited to the offer of discount, although in practice this is rare. It seems likely that administrative savings could outweigh the cost of discounts given for small accounts, and payment might be encouraged in awkward cases such as rechargeable housing repairs.

41. **Penalties for slow payment.** A second method of encouraging payment without the expense of reminders is to state that there will be no reminder, just a summons issued as the first recovery action—in which case the debtor incurs an additional charge. Among authorities adopting this approach are Harlow and Wakefield. The former also discourages payment by two instalments, and had the best rate collection performance in England and Wales in 1984-85 (see Appendix C). The latter had the best metropolitan authority performance. Wakefield sends summonses to all who have not paid 19% of the rate by May 31. Similar arrangements apply on October 31. Publicity is maximised prior to the sending of summonses by advertisements on hoardings and in newspapers and by encouraging the press to report on progress in rate collection and arrears actions. Local television and radio advertisements may also be economical, especially if shared with a neighbouring authority. Such methods may of course be used in addition to reminders; Calderdale found that newspaper advertisements brought cash in and so reduced the number of reminders needed.
42. Moving direct to summons without reminders improves cash flow because once the system is known and accepted people will not wait for a summons in the same way as they wait for a reminder before paying. Furthermore, it avoids the costs of producing and sending reminders, but makes little difference to the number of summonses required. Indeed before moving to direct to summons Wakefield used to send 20,000 reminders (costing over £2,000 in postage alone) and then needed 14,500 summonses in addition. In 1984-85 it sent just 8,500 summonses. In all, 22 authorities (six of them in Wales) move direct to a summons for rates with evident success, as Table 6 shows.

Table 6: COMPARISON BETWEEN AUTHORITIES USING REMINDERS AND THOSE PROCEEDING DIRECT TO SUMMONS, 1984-85

<table>
<thead>
<tr>
<th></th>
<th>Average reminders per 1,000 direct ratepayers</th>
<th>Average summonses per 1,000 direct ratepayers</th>
<th>Interest 'loss' per £100 collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>District councils using reminders (305)</td>
<td>350</td>
<td>83</td>
<td>5.00</td>
</tr>
<tr>
<td>Direct to summons (22)</td>
<td>—</td>
<td>96</td>
<td>4.80</td>
</tr>
</tbody>
</table>

Monitor levels of arrears

43. Once demands for payment have been issued, it becomes important to monitor levels of arrears to ensure that prompt action can be taken when problems arise. Different considerations need to be taken into account with respect to rates, sundry debtors and mortgages. These are discussed separately below.

44. Rates. Exhibit 6 shows the level of rate arrears over the three years to the end of March 1985 in the authorities covered by the survey. It seems that rate arrears are under better control than are council tenants' arrears. But the same areas—Inner London and Liverpool—have the highest arrears levels. Inner London accounts for about 15% of rate income in England and Wales and has fluctuated at around 25–30% of the arrears over the last six years.

45. Rate collection performance continues to look reasonable once economic trends and factors beyond authorities' control are allowed for. However, as Table 7 (which is based on CIPFA statistics) shows, amounts written off following bankruptcies have risen sharply of late. Furthermore, arrears due to late accounts have also increased. Many such late accounts are the result of authorities receiving valuations from the District Valuer for new or altered property—often these are delayed until March for proposals spread throughout the year. Prompter valuation response would make for easier administration and improved cash flows for many authorities.

Table 7: TRENDS IN RATE ARREARS AND AMOUNTS WRITTEN OFF, 1981-85*  
as at March 31:

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1983</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross arrears (%)</td>
<td>2.3%</td>
<td>3.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Arrears due to late accounts (%)</td>
<td>0.3%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Write-offs due to bankruptcy and absconders (%)</td>
<td>0.16%</td>
<td>0.16%</td>
<td>0.33%</td>
</tr>
</tbody>
</table>

* All figures are as a percentage of rates collected, excluding internal transfers, for the relevant year.

Clearly, existing machinery for monitoring levels of arrears needs to be kept in good repair—as is evidently the case in most authorities.
46. Sundry debtors. By contrast, sundry debtor arrears are characteristically much higher, and appear to be out of control in a substantial minority of authorities: arrears are over 30% of the debit raised in 1984-85 in 40 authorities and over 20% in a further 80 authorities. This reflects both the awkward nature of these debts and the tendency of sundry debtor collection to be something of a backwater function. Little of the variation in arrears levels can be explained by socio-economic circumstances and almost 100 authorities have kept sundry debtor arrears to below 12% of the debit raised in 1984-85, as Exhibit 7 (overleaf) shows.

47. Mortgages. Housing mortgages pose different problems from those of periodic sundry debtor income. There are similarities with housing rent collection, though in only half a dozen authorities is the housing department responsible. In recent years right-to-buy legislation has obliged authorities to give mortgages to ex-tenants fulfilling set income criteria; and, at the same time, mortgagors and potential mortgagors have been encouraged to prefer building societies if possible, both by local authority policies and by comparative interest rates.

48. As a result local authorities are increasingly 'lenders of the last resort', often to low-income mortgagors who represent a high risk. There were some 625,000 loans in March 1985, 50,000 fewer than a year before. Work by the Association of Metropolitan Authorities has shown that arrears problems are increasing, especially in metropolitan districts. The AMA's report *Mortgage Arrears—Owner Occupiers at Risk* shows that the rate of increase (47% rise in the proportion of mortgagors over 6
months in arrear for metropolitan districts from March 1983 to March 1985) is comparable to that suffered by building societies.

49. Against this background the time is right for authorities to review their practices. The general comments on income collection are applicable. In addition, many authorities should consider:

(a) Assessing staffing levels. On one the hand, reducing portfolios suggest that staff numbers will be falling. On the other, rising arrears suggest that more staff will be needed to deal with the resultant problems (more recovery action, counselling and advice—such as drawing up detailed budgets for borrowers in difficulties). Local trends will determine the balance required, but less than 750 mortgages per FTE staff where arrears are not a major problem, or more than 1,000 mortgages per FTE staff where arrears are escalating should be questioned.

(b) Changing methods of payment. Standing orders and especially direct debits (which eliminate the administrative problems of fluctuating interest rates) should be encouraged, because as well as being cheaper they make default less likely and more quickly and easily identifiable. Metropolitan districts lag in this respect. It might be worth offering an incentive to those switching to direct debit as well as pressing for new mortgagors to pay by automated means. Encouraging mortgagors in this way to take out bank accounts might also make it less likely that they will take out ill-advised loans secured on their property (the AMA identified this as an important factor in many arrears cases).

(c) Reviewing frequency of payment. Monthly payments are usual, although a small minority of mortgages are quarterly. Weekly
payment is rare, but is sometimes used for mortgagors known to have payment problems. Perhaps weekly payment should be used more for those who find that monthly budgetting causes difficulties.

(d) Improving liaison with the courts, the DHSS, building societies and the housing department (who will have to deal with those made homeless by repossession).

(c) Ensuring that reminders are issued promptly, so that arrears do not become unmanageable. Given that payment frequency is monthly or less, it is vital to be able to take action as soon as one payment has been missed. Given the expected regularity of payments—especially if by direct debit or standing order—reminders can reasonably be sooner than the standard one month. Indeed, West Somerset remind even quarterly payers after one week. Amounts owed by recent mortgagors in particular will otherwise build up to problematic levels before the matter is tackled. It follows that new borrowers’ accounts should be monitored especially carefully (and given priority where management resources are limited). Over a fifth of authorities nonetheless fail to remind until two or more payments have been missed. Initial reminders should be personal and offer the assistance of a named officer. Almost all authorities place emphasis on visits or office interviews at later stages.

The AMA’s report is recommended for more detailed discussion of good administrative practice in this area. The potential for improvement is illustrated by the range in arrears shown in Exhibit 8.

Exhibit 8

HOUSING MORTGAGE ARREARS IN FY 1985

% Arrears

<table>
<thead>
<tr>
<th>Arrears*</th>
<th>&lt;2</th>
<th>2-4</th>
<th>4-6</th>
<th>6-8</th>
<th>&gt;8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Authorities</td>
<td>100</td>
<td>90</td>
<td>80</td>
<td>70</td>
<td>60</td>
</tr>
</tbody>
</table>

* Average of arrears at 31 March 1984 and 31 March 1985, excluding any payments less than one month overdue, as a percentage of the amount due in 1984-5

Source: Study Team analysis of questionnaire returns
50. Policy issues impinge on the chosen means of pursuing debts since relations with the public are involved. From the cash flow point of view it is important to initiate action promptly, avoid proliferation of letters, use personal visits, bailiffs and phone calls, and to concentrate the effort. Each of these requirements is discussed briefly below.

51. **Initiate action promptly.** Studies of housing rents have shown that prompt identification and follow-up of arrears is the best way to prevent them growing. The same holds true of mortgages; one payment missed should trigger action. Most authorities (58%) schedule action on unpaid sundry debtor accounts four weeks after sending the account. Three weeks, as adopted by a quarter of authorities, is probably preferable, while more than four weeks is definitely too slow. A one week difference will have some impact, but in practice this is probably less significant than delays resulting from internal inefficiency, e.g.:

—Failure of service departments to raise invoices promptly.
—Service departments being slow to send details of invoices raised to the finance department. In 23% of systems, recovery action timings stem from when debits are raised in the accounts, not from the invoice date, which exacerbates this problem.
—Failure to achieve the policy laid down for reminders (especially in manual systems due to lack of time). Regular review is essential to ensure that stated follow-up policies are actually implemented.

52. In comparison with sundry debtor procedures recovery action for rates is generally tardy, as Table 8 shows:

<table>
<thead>
<tr>
<th>Period before rates reminders were sent, 1984-85</th>
<th>Days from demand to reminder</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of authorities</td>
</tr>
<tr>
<td>% of authorities</td>
<td>6%</td>
</tr>
</tbody>
</table>

During April and May the rates section is bound to be at its busiest with queries generated by demands. However, there is no reason (provided demands are sent early enough and required dates for payment are brought in line) why recovery action should not start by the end of May, i.e. after 60 days assuming the demand is sent out by April 1. There is also a case for streamlining the recovery timetable for known bad payers. Lewisham give 'credit ratings' in this way, sending a reminder after 19 days to former bad payers compared with 41 days otherwise. If an authority has a policy of beginning recovery later than June, the costs of this policy should be explicitly assessed.

53. An authority's relationship with the local magistrate's court can be an important factor in the speed and effectiveness of the recovery process. It is well worth consulting with the clerk to the local court in order to put across the authority's concerns in its approach to recovery cases, e.g. its preferred court timings, the need to avoid long adjournments for ratepayers who have proved difficult to trace, and levels of court summons costs. By law, the latter can cover the cost of summons administration, and costs should be reviewed regularly to ensure that this is done.

54. **Avoid proliferation of letters.** Experience suggests that there is very little to recommend the expense of a long sequence of letters of increasing severity. Yet over half of authorities make standard use of three reminder letters for mortgage arrears before reference to the legal department. One
London borough sends over twice as many reminders as accounts for sundry debtors! To avoid unnecessary expense in writing letters:

(a) The possibility of legal proceedings should be mentioned either in an immediate 'final reminder' or as a second and final reminder.
(b) There should be guidelines issued to staff in respect of the length of time over which they should allow debtors to pay by instalments. Instalment arrangements should be formalised by letter.
(c) Debts between public sector organisations should be passed to the accountancy section for them to raise the matter with their opposite numbers.

55. Use personal visits, bailiffs and phone calls. The value of visits to collect rates was repeatedly emphasised by authorities visited, but few authorities regularly used this method for one-off accounts. Since all authorities employ income collectors for rates and rents work, they should consider using these resources more flexibly. There is also room for more co-ordination between authorities, e.g. counties using districts’ bailiffs, or districts combining to seek tenders from the private sector for collection work. The use of collection agencies should also be considered. Telephone calls have proved effective in some authorities—36% of authorities incorporate them in sundry debtor procedures and 27% for mortgages (where visits or interviews are more common).

56. Concentrate the effort. Many authorities rely heavily on a few very large ratepayers. Yet income collection procedures generally fail to single out the small number of high value accounts which will form a high proportion of the total debit. At one authority analysis showed that accounts for less than £50 represented 67% of sundry debtor accounts processed but made up only 3% of the value. Especially if resources are limited, concentration of effort on the larger debts is advisable in order to maximise the cash flow benefit of the section's work. Bassetlaw, which has an excellent sundry debt collection record, refers all debts under £100 to a collection agency after eight weeks while staff concentrate on recurrent phone calls to obtain the larger amounts.

57. Monitor performance. Arrears performance should be monitored regularly, and the results reported to members and senior officers in summary form showing trends in the number of accounts raised and demands sent, write-offs, and arrears levels:

—Solihull has assessed the average payment speed for sundry debtor accounts on a sample basis.
—Coventry distinguish 'arrears' from 'payments not overdue', which combine to form the debit outstanding. This allows more sensitive assessment of 'true' arrears.
—The number of accounts outstanding by age is also a useful measure. Most authorities record only a figure for debit outstanding. This is therefore used as a surrogate for arrears, as in Exhibit 7. Given that accounts are raised evenly throughout the year, a debit outstanding of under 10% of the year's debit is an exceptional performance.

58. Like any other debt collector, local authorities need to maintain a high degree of credibility with their debtors if they are to collect debts effectively. This can be achieved through effective and timely recovery action, which will include initiating legal action. However, legal action can be expensive. Authorities should therefore consider carefully the extent, timing and manner of legal action that is appropriate.

59. For a variety of reasons, such a considered approach is not often achieved. Co-ordination between service, finance and legal departments
is often poor. The criteria for action to be taken are either not formalised or not reviewed often enough. In addition, debt collection is usually seen as a low priority task within legal departments; and little advantage is taken of the potential benefits of computerisation. As a result, authorities vary widely in the proportion of sundry debts referred for legal action, as Exhibit 9 indicates. Some mechanism is evidently required to prevent or limit the uneconomic pursuit of small or uncollectable debts and to avoid unnecessary double handling of information. Moreover, debts need to be referred as early as possible; it is widely accepted that this increases the chance of successful action.

Exhibit 9

REFERRAL OF DEBTS TO THE LEGAL DEPARTMENT

% of Sundry Debtor Accounts Referred

<table>
<thead>
<tr>
<th>Number of Authorities</th>
<th>Good Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1%</td>
<td>110</td>
</tr>
<tr>
<td>1-2</td>
<td>105</td>
</tr>
<tr>
<td>2-3</td>
<td>95</td>
</tr>
<tr>
<td>3-4</td>
<td>85</td>
</tr>
<tr>
<td>&gt;4</td>
<td>75</td>
</tr>
</tbody>
</table>
|                      | Source: Study Team analysis of questionnaire returns

60. A reasonable target is to refer for legal action no more than 2% of debts raised, and to do so within eight weeks of the account being raised. These targets can best be achieved by taking the following steps:

(a) Limits should be placed on the value of debts referred. Such limits should be based on the legal department's average cost per case and reviewed from time to time. Unit costs per case vary considerably between authorities, influenced largely by the proportion of debts referred to the legal department. The costs of legal department staffing (including employers' oncosts but not other overheads) per case referred were calculated in six authorities and compared with the value limits in force. The results are shown in Table 9. It is also sensible to pursue a proportion of debts below the value limit lest it become generally thought that the authority does not take small debts seriously.
(b) Only one reminder should be sent (say, three weeks after raising the account) followed by a solicitor's letter sent by the finance department (say, six weeks after raising the account), then refer to the legal department if there is no response within two weeks. It is logical for finance departments to send the first letter under a legal officer's name. Such letters can be issued as matters of routine, and are effective in reducing the number of cases referred for legal action.

c) Guidelines should be issued to departments making it clear how to raise accounts, and what evidence of debts is required. This prevents wasting time pursuing the unobtainable.

d) The legal department should be briefed outlining the case rather than just photocopying the account. Legal officers are then well placed to take action in the cases which really require it.

Table 9: COSTS OF LEGAL STAFF PER CASE, 1984-85

<table>
<thead>
<tr>
<th>Authority</th>
<th>% of debts referred</th>
<th>£ staff cost/case</th>
<th>£ value limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1.1</td>
<td>59</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>1.5</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>C</td>
<td>1.6</td>
<td>44</td>
<td>25</td>
</tr>
<tr>
<td>D</td>
<td>2.6</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>E</td>
<td>6.3</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>F</td>
<td>6.9</td>
<td>8</td>
<td>none</td>
</tr>
</tbody>
</table>

61. The key to pursuing cases successfully in the legal department is good monitoring linked to explicit assessment of the most appropriate course of action (or lack of action). Where caseloads are large, this is most readily achieved in a computerised system—which is especially convenient if linked to the sundry debtors system in the finance department. However, progress in the computerisation of debt collection has been slow. In the meantime, authorities should aim to produce regular reviews of cases to assess action required. Periodic statements should show case load, actions taken and debts settled in order to assess the performance of the legal department and keep other departments informed. In addition, members may need to authorise guidance on such matters as instalment agreements, the type of remedies used (e.g. warrants of execution, attachment of earnings orders, garnishee proceedings), and the use of collectors (who can be useful in assessing the prospects for recovery even if nothing is collected).

62. Solicitors' involvement in debt collection should be minimal; most of the work can be carried out more economically by legal executives or clerical staff. Indeed, there is nothing to prevent finance department staff taking legal action in all but the most complicated of cases. This approach is adopted by at least 30 authorities including large, such as Coventry and Wakefield, and small, such as Colwyn and Derwentside. Frequently legal departments are unable to handle the debt workload referred to them, in which case this is the obvious way to relieve the pressure. It also eliminates double handling of information, and gives the sundry debtors section the satisfaction of following cases through to the end. This suggestion is hardly radical; finance department staff routinely take rate arrears cases to court. Similar considerations apply to action enforcing excess charge notices for car parking. Overall, the best use of legal resources is prompt referral of those (and only those) cases which cannot be dealt with more economically in other ways. Therefore legal departments' collection performances must be viewed in the light of referral procedures.
Claim government grants promptly

63. Government grants are many authorities' most important single source of income. For the larger grants, authorities are required to estimate their entitlement, and receive advances on this basis. The claims reviewed suggested that this is done with accuracy and prudence, as Table 10 indicates.

Table 10: CLAIM DETAILS FOR GRANTS FOR WHICH ESTIMATES ARE REQUIRED, 1984-85

<table>
<thead>
<tr>
<th>Grant/claim</th>
<th>Average % variation between first estimate and final claim</th>
<th>% of authorities' estimates wrong by &gt;5% under &gt;5% over</th>
<th>Estimated total distributed £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing benefit</td>
<td>6</td>
<td>35 7</td>
<td>4,130</td>
</tr>
<tr>
<td>Block grant</td>
<td>11*</td>
<td>10 13</td>
<td>8,840</td>
</tr>
<tr>
<td>MIRAS</td>
<td>3</td>
<td>7 8</td>
<td>not available</td>
</tr>
</tbody>
</table>

* This figure is affected by exceptionally large variations for two authorities. The median variation is 4.5%.

64. However, late completion of smaller claims has recently led to the imposition of penalties by government departments—typically advances are discontinued if delay exceeds nine months. The cash flow gains from prompt submission of smaller claims should be sufficient incentive to authorities. The in-service teacher training grant can be taken as an example of the importance of claiming quickly. On average, almost five months elapses between the end of the claim period and receipt of payment. One authority in five takes over 100 days to submit claims. On the other hand, 30% claim within a month. Payment speed averages 80 days, and is not affected by claim speed. The position is better on the larger programmes such as Youth Training Scheme and Community Programme. Even so, as Table 11 shows, there is an average delay of over 45 days between the end of the claim period and the grant being received.

Table 11: CLAIM PERIODS FOR GRANTS WITH VARIABLE TIMINGS, 1984-85

<table>
<thead>
<tr>
<th>Grant/claim</th>
<th>Average days from end of claim period to making claim</th>
<th>Average days from claim to receipt of payment</th>
<th>Estimated total distributed £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-service teacher training</td>
<td>65</td>
<td>80</td>
<td>10</td>
</tr>
<tr>
<td>Community Programme</td>
<td>29</td>
<td>15</td>
<td>240</td>
</tr>
<tr>
<td>Youth Training Scheme</td>
<td>28</td>
<td>21</td>
<td>200</td>
</tr>
</tbody>
</table>

Since the total amount of grant distributed in just the sample of grants examined in Table 11 exceeds £400 million a year, even a 10-day improvement would be worth some £1 million a year to the authorities involved. So authorities should make the effort to:

(a) Submit claims as promptly as possible. Not only can prompt claims improve cash flow, they also help central government departments in their budgetting so there is a potential benefit to both sides of the transaction.

(b) Ensure that variations in expenditure with grant implications are picked up quickly (e.g. housing benefit and block grant).

(c) Be aware in advance of when grant income is due to be received. (This also requires adequate notification; VAT payments pose particular problems because, as several authorities have pointed out, notification is received only after payment).
These aims are best achieved by co-ordinating grant claims under one officer, who can then monitor progress in completing claims and liaise with the loans officer to give notice of amounts due. Only 20% of authorities have such a co-ordinating officer. At Kensington and Chelsea all grants are listed on a microcomputer, and timetables laid down not only for completion internally but also (by agreement) for certification by external audit.

65. The requirements for maximising cash flow benefit once income is received are obvious enough. All authorities should therefore be taking steps to:

(a) Ensure that cheques received through the post are presented for payment on the same day so far as is possible, and otherwise not later than the following working day.

(b) Bank counter receipts as frequently as security and reasonable administrative convenience and cost allow. In practice, this is usually daily, with an arrangement to bank exceptionally large payments separately before the bank closes.

(c) Ensure that departments and other establishments which collect cash bank it promptly. Constant badgering is often required to ensure that this is done. The comparative costs of many separate bankings and of collection by secure van for joint banking should be kept in mind, as well as staff safety considerations. Southampton arranges for almost all cash collected by departments to be paid in at the central cashier's office. Notes and coins are then banked in bulk using sealed packets at the National Girobank. The advantage in doing this is that bank charges for cash handling have been reduced substantially.

66. In addition, consideration should be given to retaining cash for payment of wages and petty cash imprests if security allows and if any interest lost is less than the cash handling charges avoided. This equation was in the authority's favour at Southend for wages and in Kensington and Chelsea for the unusually large float for the chief cashier's imprest; 25,000 payments per year are made from this imprest, and it proves useful not to have to visit the bank at short notice to replenish it.

* * *

67. In the private sector, too, it is often said that credit management receives insufficient status given its importance to company results, and the remedies proposed are in line with findings in local authorities. For example, a study by Control Data Business Advisors in 1983 of 57 medium sized companies found that there was considerable variation in performance. The best companies achieved less than 20 days sales outstanding. Eight significant factors emerged as being strongly related to credit management results, all of which have potential application to local authorities:

—Prompt despatch of invoices and statements.
—A collection procedure that concentrated on the use of the telephone and a minimum number of actions.
—A firm attitude towards delinquent accounts, as regards the stopping of further supplies and legal action.
—A close working relationship between the marketing/sales and credit departments.
—Routine evaluation of prospective customers.
—Regular review of existing customers' credit standing.
—The measurement and targeting of performance using days sales outstanding, aged debtor analysis and cash collection targets.
—A professionally qualified executive holding overall responsibility for credit management.

On the other hand, the levels of resource devoted to credit management—both in terms of staff numbers related to workload and levels of pay—were found to have no correlation with performance achieved. So the argument that 'we need more staff' is unlikely to stand up to close examination.

68. Some high value payments are constrained by contractual or legislative requirements, such as those to Inland Revenue and to contractors on interim certificates. However, the vast majority of externally generated payments—perhaps two-thirds by value—are constrained only by trade credit terms and goodwill. In general, however, local authorities do not pay the same degree of attention to the timing of payments as is usual in the private sector. Few authorities have a policy other than to pay as quickly as possible, which frequently means no more than as quickly as the system currently happens to pay. Only 8% of authorities (primarily county councils and more recently those facing financial difficulties) have explicitly quantified policies. And there is limited awareness of how quickly creditors are in fact paid, although this should be calculated as a matter of course for VAT purposes.

69. Local authorities have traditionally aimed to pay promptly because this is thought to befit a responsible public body; local firms and so the local economy are thought to be better served; and suppliers may offer better terms as a result. More recently, many local authorities have taken active steps to stimulate local economies and may not wish to be seen to be taking action that could be counter-productive to their explicit policies in that respect.

However, to pay in accordance with terms of trade is after all only to pay when suppliers expect to be paid. And many payments will be to national firms. Moreover, the cash flow benefit is more certain than the only potentially superior terms which might result from prompt payment. In any case, payment speeds vary not only between authority types (as Exhibit 10 illustrates), but also within authority types, e.g. 25% of shire districts pay within 25 days on average, 25% take over 35 days on average.

70. If a typical shire district now paying on average within 25 days extended its payment time by 10 days, it would stand to gain some £20,000 a year in interest. All authorities should therefore quantify their speed of payment and review the cost implications of slowing either selected payments or payments in general, so providing the appropriate basis for policy assessment. This will be useful in any case in marketing prompt payment as a positive benefit to suppliers; Kent County Council tells tenderers that they will be paid within 14 days of receipt of the invoice if a prompt payment discount is offered, otherwise there will be a 28 day delay built into the payment cycle for the creditor. This is an effective way to maximise discount potential.

71. If payment dates are to be more fully controlled, these approaches are worth considering:

(a) Selective control over large payments. Given that 5% of payments will constitute 70% of the value, control of large payments will maximise the benefit from a limited effort. Such selective control can be conveniently implemented manually—perhaps linked to manual signature of cheques—so that all payments over a certain
amount are precisely controlled. Surprisingly, this approach is rarely implemented although there are usually arrangements made to meet specified payment dates (e.g. Inland Revenue) which are common for large amounts.

(b) Computerised control over all payments is easily achieved where the computer program incorporates, subject to manual override, a standardised minimum period between invoice date and cheque production. Hertfordshire have such a system. (Manual systems of invoice sorting are also in use; the cost of additional staff time needed is likely to be minimal compared with the cash flow savings achieved. Cheshire claim to be making a net saving of £165,000 annually in this way).

72. Towards the year end, spending commitments often show an increase in order to make full use of the year's budget. Cambridgeshire avoid this by allowing any underspendings for which there is a reasonable explanation to be carried forward (via special funds) as additions to the next year's budget. While the main aims are to prevent hasty and perhaps wasteful spending and to encourage savings, there is also a cash flow effect in that artificial acceleration of spending is avoided; since Cambridgeshire carry forward £1 million annually in this way, this could be worth around £100,000 a year.

73. Because the payroll is the largest single item of expenditure for most authorities, the time of month when staff are paid has important cash flow implications. In general, authorities should aim to pay all staff monthly; and most private sector employers pay close to the end of the month. This is primarily a matter of negotiation between the authority
and its employees, as an aspect of conditions of service: for instance, some teachers have the benefit of two months’ salary prior to the summer holidays, although this is becoming rarer; on the other hand, teachers are generally more likely to be paid towards the end of the month. However, as Table 12 shows, there is a wide variety of practice within similar categories of employee. And every authority should review its local arrangements in the light of the cash flow implications. A county council moving from mid to end-of-month payment might save some £600,000 in that financial year, and £50,000 annually thereafter if new employees normally join at the beginning of the month.

Table 12: PAYMENT TIMING FOR MONTHLY PAID STAFF

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Teachers</th>
<th>Police</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before mid-month</td>
<td>2</td>
<td>—</td>
<td>5</td>
</tr>
<tr>
<td>Mid-month (15th)</td>
<td>25</td>
<td>8</td>
<td>44</td>
</tr>
<tr>
<td>Penultimate week (16th-22nd)</td>
<td>30</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>Last week (23rd-30th)</td>
<td>30</td>
<td>38</td>
<td>17</td>
</tr>
<tr>
<td>Last day (31st)</td>
<td>13</td>
<td>31</td>
<td>17</td>
</tr>
</tbody>
</table>

Memo: Authorities included

<table>
<thead>
<tr>
<th>General</th>
<th>Teachers</th>
<th>Police</th>
</tr>
</thead>
<tbody>
<tr>
<td>348</td>
<td>78</td>
<td>18*</td>
</tr>
</tbody>
</table>

* In addition 16 police forces were paid four-weekly, most at mid-cycle

The means of payment might also be taken into account in the calculations. Payments by bank transfer will reach employees' accounts more quickly than cheque payments initiated at the same time.

74. For administrative convenience—especially in enabling basic and bonus to be for the same week, and in facilitating payment by BACS—it is sensible to pay wages up to two weeks in arrears. Authorities are increasingly preferring this to the formerly standard one week in arrear. A loan is generally made of one week’s average earnings so that no cash flow effect is involved. Such loans need not be repayable during the period of employment and this may make the approach more acceptable to the employees concerned.

75. In addition to taking the steps described above to accelerate income and to manage cash outflows, authorities need to devote attention to inter-authority payments and to the short term cash position. Both are discussed briefly below.

MANAGING CASH FLOW

Inter-authority cash flows

76. Large amounts flow between local authorities: principally precepts, agency fees (mainly for highways) and education recoupment. Obviously local government as a whole cannot make savings by adjusting the timing of these payments, but they are nonetheless worth attention. They often cause administrative inconvenience and friction between authorities; and adjustment of timings may benefit both parties. For example, a district might pay part of the county precept early as a short term loan rather than both authorities having to go to the market. In similar vein, one district council visited had negotiated a slight delay on some precept payments in order to make them just after rather than just before receiving housing benefit grant.

77. In particular, authorities often devote time and effort into trying to ensure that schools identify recoupment cases accurately, followed by wrangles over amounts due and payment dates. This can be avoided by
a 'knock for knock' arrangement whereby neighbouring authorities agree not to charge each other for cross-boundary pupils. This is likely to require a reasonable balance of 'imports' and 'exports' or negotiation of a lump sum adjustment. Failing this, a joint payment date should be set for the bulk of the claims, with any minor adjustments being made subsequently.

78. In addition, the precepting system can be seen as an incentive to rating authorities to improve their cash flows, because this will determine whether they make a 'profit' or 'loss' on the rate collection function. Precept payment schedules vary, but if districts pay the precept as late as allowed without the county being able to claim interest (i.e. first payment after six weeks of the rating period followed by monthly payments proportional to the time elapsed), the net present value to the county of £100 due in precept on April 1 is £94.21. Almost all authorities, therefore, make a 'profit' in terms of interest on cash flows—but rarely sufficient to offset the cost of collection (which might, however, substantially have to be borne anyway if only the district rate was being collected).

79. The income and expenditure sides of cash flow management are brought together by the loans officer's manipulation of the authority's day to day cash position. This requires an assessment of the likely position, taking into account known items such as receipts notified by cashiers, predicted items such as payments likely to be cleared and movements in the loans portfolio. The loans officer will then lend short term surplus funds or borrow to meet shortfalls as appropriate.

80. Almost always, authorities aim as a matter of general principle at zero balances on their bank accounts, while recognising that it can be appropriate given transaction costs and interest rate patterns to be in substantial overdraft for perhaps one night. Exhibit 11 illustrates the ranges of balances found at six authorities visited; some, but not all, of the large credit balances could be explained by unusual factors. These authorities' performance appears generally adequate in this area. In any event, the potential gains are far less than are achievable by improving the cash flows themselves or achieving more favourable interest rates on loans*.

81. Management of authorities' short-term cash positions would often be improved by more general application of steps such as the following:
(a) Regular review of the pattern of balances and reasons for deviation from targets by the treasurer or an independent senior member of the department.
(b) Better use of bank data; it is often worth the loans officer visiting the bank to ascertain exactly what information it receives of relevance to forecasting cash flows so that it can be fully utilised. This can be helpful for other purposes: the bank's information on daily cleared balances is a useful crosscheck on the authority's own predictions; differences can highlight problems to be investigated.
(c) 'When in doubt, lend out', because it is impossible to predict balances exactly and rate differentials are invariably greater with a credit than with a debit balance (i.e. the loss from maintaining a credit balance rather than lending it is more than the extra cost of borrowing on overdraft rather than through the market). There may even be an argument for working to a negative rather than zero bank balance (especially if no interest is received on current

* See the recent Audit Commission Working Party Report Capital Financing in Local Authorities
account). This philosophy can only be appropriate at the margin and no encouragement can be given to the general proposition of local authorities lending out money which they do not have.

(d) Increased attention to reaching an optimal balance on Friday night, since, for most authorities, the position achieved on Friday remains over three nights (in addition some authorities make special arrangements for days when their offices are closed but it is not a Bank Holiday).

(e) Negotiation of short term deals with the bank's head office—in one case the authority actually had direct access to the head office dealing room. The advantages of this method of dealing are that it avoids the LA Loan (Transmission) Fees and gives more flexibility by allowing for deals later in the day and with smaller amounts.

* * *

The objectives of the measures described in this chapter and summarised in Exhibit 12 are to increase the speed with which income is collected,
reduce the level of arrears and make explicit the policy for paying invoices. Table 13 summarises the indicators that could be used by authorities to assess their effectiveness in this area, together with some benchmarks of generally good performance to aid analysis of current local authority practices. If all authorities could achieve the performance of the best quarter regarding speed of rate collection and level of arrears, then in England and Wales at least £50 million a year could be saved. Further savings of perhaps £10-15 million a year (depending on policy decisions) could be made by improving the collection of other income and by reviewing speed of payment to creditors and the timing of payroll payments.

Improving cash flows—accelerating income and deferring payments—is only part of the opportunity for obtaining better value. The management of cash flows costs over £500 million a year in administrative expenditure; and here too, there are worthwhile opportunities to reduce waste. These are discussed in the next chapter of this report.
<table>
<thead>
<tr>
<th>Indicators</th>
<th>Benchmark of Good Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rate collection</strong></td>
<td></td>
</tr>
<tr>
<td>Interest 'lost' per £100 rates collected</td>
<td>£4.70 by 31 March</td>
</tr>
<tr>
<td>Date of despatch of straightforward demands</td>
<td>2 months</td>
</tr>
<tr>
<td>Reminder action within</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Arrears as a % of amount collected:</td>
<td>&lt;2%</td>
</tr>
<tr>
<td>—District council</td>
<td></td>
</tr>
<tr>
<td>—Metropolitan authority</td>
<td></td>
</tr>
<tr>
<td><strong>Sundry debtors</strong></td>
<td></td>
</tr>
<tr>
<td>Debit outstanding (annual average) as % of annual debit</td>
<td>&lt;13%</td>
</tr>
<tr>
<td>Accounts outstanding for more than four weeks as % of annual debit</td>
<td>&lt;5%</td>
</tr>
<tr>
<td>% of accounts referred to legal department</td>
<td>&lt;2%</td>
</tr>
<tr>
<td><strong>Mortgages</strong></td>
<td></td>
</tr>
<tr>
<td>Arrears as % of amount due in the year</td>
<td>&lt;2%</td>
</tr>
<tr>
<td>% of accounts more than one month in arrears</td>
<td>&lt;5%</td>
</tr>
<tr>
<td>% paid by cash/cheque</td>
<td>&lt;30%</td>
</tr>
<tr>
<td><strong>Pay and Display car parking</strong></td>
<td></td>
</tr>
<tr>
<td>% of excess charge notices collected</td>
<td>&gt;75%</td>
</tr>
<tr>
<td><strong>Payments</strong></td>
<td></td>
</tr>
<tr>
<td>Timings controlled to maximise benefit to the authority</td>
<td>policy made and monitored</td>
</tr>
</tbody>
</table>
2. Reducing administrative costs

82. The cash flow related functions examined in this study constitute on average half the cost of the finance department—rather more in a shire district and less in a county. This in turn comprises around a quarter of central establishment staffing. The pilot study which preceded the main study identified marked variations in the resources used by treasurers to give similar support services to departments. However, recharges to services do not make it easy to identify such variations. This has led some service managers to query whether they are getting value for money from their finance departments—a query quite often heard from transport managers in the Commission’s study of vehicle fleet management, for example.

83. As Exhibit 13 shows, the main costs associated with administering cash flow related functions are staffing. This chapter examines the range in unit staff costs and how costs might be reduced. Most of the evidence was gathered from the questionnaire completed by 370 authorities together with their auditors. This concentrated on staffing and administrative practices. The information was checked by auditors, and visits were made to some of the authorities exhibiting particularly interesting practices. Unit cost comparisons were made on the basis of salary costs, adjusted to neutralise the effects of incremental drift, and excluding London weighting and all oncosts. Other costs—notably those of computerisation—were omitted from the survey in view of the difficulty of obtaining costs on a comparable basis.

Exhibit 13

ESTIMATED COST OF MANAGING CASH FLOWS, FY 1985
Analysis by Cost Headings, (England and Wales)

Source: Study Team analysis of CIPFA Rating Statistics and questionnaire returns
84. The analysis shows that unit staff costs typically differ by up to 2:1 between the quarter of authorities with the lowest staffing and the quarter with the highest. Exhibit 14, for example, shows the variation in unit costs of rate collection staff in metropolitan authorities. These cost variations are clearly worth further examination. Accordingly, this chapter sets out:

(i) The method used to assess unit costs and staffing levels, and the factors taken into consideration.

(ii) Opportunities for streamlining (and perhaps centralising) administration.

(iii) Lessons to be learnt from recent computing initiatives.

(iv) Ways of reducing transaction costs.

Exhibit 14

VARIATIONS IN RATE COLLECTION STAFFING LEVELS FOR METROPOLITAN AUTHORITIES, FY 1985

The analysis suggests that administrative costs associated with cash flow management could be reduced by £40—50 million a year by general application of the steps now in place in a substantial minority of authorities.

ASSESSING UNIT COSTS AND STAFFING

85. Because the degree of centralisation in some functions varies between authorities, the approach taken to ensure consistency was to define the activities to be included within given functions. The definitions used are given in Appendix D. Supervisory time below the level of treasurer was included. In payroll (especially in large authorities) and creditors (almost invariably) the definitions used required inclusion of staff not in the finance department. The Society of County Treasurers (SCT) has adopted a similar approach in its survey of support service
costs. This covers all central support type services—e.g. accountancy and property management—as well as cash flow management functions, and it is intended to use the SCT’s work as a basis for future CIPFA statistics for all authorities. In order to keep the amount of data collection by auditors and authorities within reasonable limits (especially in small district councils) the Commission’s definitions were more restrictive than those used by the SCT in some areas, principally payroll, where bonus scheme administration was excluded, and also sundry debtors, where the work of service departments in initiating accounts was excluded.

86. In analysing unit costs it is obviously important to take account of potential causes of systematic distortion; for example, when relating staffing levels to workloads. However, analysis suggests that the factors that might be thought to have an influence on staffing levels are of only limited relevance:

—In some functions socio-economic factors are clearly influential. Generally speaking, however, they are associated with direct effects on particular functions, e.g. more rates enquiries and higher arrears, which should themselves explain the need for more staff.

—Computerisation should reduce staffing requirements; the better the computerisation, the greater the reduction. In the study modern on-line systems were found to require fewer staff actually administering the function as well as eliminating the separate data entry staff associated with batch systems. Not surprisingly, however, computerisation is a significant explanatory factor of actual staffing levels only where the degree of computerisation differs markedly between authorities, e.g. sundry debtor collection rather than rating. Even here it seems that computerisation explains little of the variation in staffing levels.

—Scale effects in functions with routine and generally computerised processing, such as payroll and the finance department side of paying creditors, appear to be limited. They are completely absent in rate and sundry debtor collection. Thus, although counties’ costs for payroll and creditor payments are generally low, it is not clear that this can be explained by the scale of operations.

—Soundness of financial controls is not generally reflected in staffing levels, although among smaller districts the systems judged sounder tended to have lower staffing than average in income collection, but more than average in payroll. There were, however, interesting contrasts in the assessments made of different systems, as Table 14 indicates. Controls were judged best in the generally well computerised systems. It was also noteworthy that arrears were on average lowest in the systems judged good, and high arrears were more prevalent where systems were judged poor.

<p>| Table 14: AUDITORS’ ASSESSMENTS OF AUTHORITIES’ SYSTEMS |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| % of systems assessed: |</p>
<table>
<thead>
<tr>
<th>Cashiers</th>
<th>Rates</th>
<th>Creditors</th>
<th>Payroll</th>
<th>Mortgages</th>
<th>Car parking</th>
<th>Sundry debtors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>48</td>
<td>33</td>
<td>28</td>
<td>26</td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td>Adequate</td>
<td>51</td>
<td>65</td>
<td>66</td>
<td>68</td>
<td>65</td>
<td>71</td>
</tr>
<tr>
<td>Poor</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>12</td>
</tr>
</tbody>
</table>

(excludes systems where no opinion could be given)
87. In sum, these factors are of limited effectiveness in explaining variations in staffing levels. It seems that management decisions are most important—be it in terms of good practices, better quality or motivation of staff, or even simply in the form of inherited staffing levels. Some authorities, for example, have low staffing levels with no apparent explanation other than this has become established and accepted. Examples are Hinckley and Bosworth, Solihull and Stockport. Thus, it seems that within the constraints of local factors which a national survey cannot take into account, many authorities could become more economical as well as more effective in the functions examined. The London effect is a good illustration of the factors that seem to be at work. Social and economic factors, as represented by the basic z-score*, are far more strongly related to performance in London than they are elsewhere. In some functions, e.g. payment of creditors, the z-score correlates with staffing levels in London even though there is no logical reason why there should be any connection. Mortgage administration affords an interesting example of the difference between London and metropolitan areas outside the capital. Arrears problems are less severe in London than in other urban centres—probably owing to the relative buoyancy of the capital's housing market. Yet administrative costs are much higher even when London weighting is excluded. It seems unlikely that Inner London's higher staffing helps significantly in keeping arrears down: first, because for other income collection Inner London has high arrears and staffing; second, because among the Inner London boroughs those with most staff have the highest arrears. This is due to London staff being higher graded and so higher paid, and dealing with fewer mortgages each:

<table>
<thead>
<tr>
<th></th>
<th>Inner London</th>
<th>Outer London</th>
<th>Metropolitan districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary cost: £/mortgage/year</td>
<td>£19</td>
<td>9</td>
<td>7.5</td>
</tr>
<tr>
<td>Mortgages per FTE staff</td>
<td>440</td>
<td>800</td>
<td>940</td>
</tr>
<tr>
<td>Staff graded below senior officer</td>
<td>58%</td>
<td>79</td>
<td>84</td>
</tr>
<tr>
<td>Average staff salary (1984-85, excludes London weighting)</td>
<td>£8440</td>
<td>7440</td>
<td>7110</td>
</tr>
</tbody>
</table>

88. Simple indicators of expected staffing levels based on workload explain over 80% of observed differences in staffing levels. These measures are given in Table 15. Low, average and high correspond to the staffing levels exceeded by 75%, 50% and 25% of authorities respectively. Variations may occur between authority types because of differences in functions (e.g. counties' unit costs for invoice processing benefit from the high proportion of school meal invoices which are comparatively straightforward to process) and typical socio-economic circumstances. The formulae required to derive more sensitive indicators are given in Appendix E. Staffing comparisons have been expressed on the basis of full-time equivalent numbers of staff in all departments involved in the activity rather than salaries in view of the differences between authority types in average pay for the functions examined in 1984-85 (excluding London weighting):

<table>
<thead>
<tr>
<th></th>
<th>Inner London</th>
<th>Outer London</th>
<th>Metropolitan districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>£7570</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outer London</td>
<td>7070</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan districts</td>
<td>6560</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shire districts</td>
<td>6560</td>
<td></td>
<td></td>
</tr>
<tr>
<td>County councils</td>
<td>6290</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The z-score is a measure of the socio-economic conditions of the authority and is tabulated in the Commission's statistical profile of each authority.
Table 15: RELATIVE STAFFING LEVELS, 1984-85
Workload per full-time equivalent employee

<table>
<thead>
<tr>
<th></th>
<th>Metropolitan districts*</th>
<th>Shire districts</th>
<th>Counties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Rate collection:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>000 direct ratepayers</td>
<td>1.7</td>
<td>2.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Sundry debtors:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>000 accounts/year†</td>
<td>3.6</td>
<td>4.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Mortgages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>750</td>
<td>940</td>
<td>1370</td>
</tr>
<tr>
<td>Cashiers:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>000 transactions/year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>24</td>
<td>35</td>
</tr>
<tr>
<td>Creditors:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>000 invoices/year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.7</td>
<td>6.5</td>
<td>8.7</td>
</tr>
<tr>
<td>Payroll:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>persons/paid</td>
<td>275</td>
<td>400</td>
<td>455</td>
</tr>
</tbody>
</table>

* In general London boroughs can use these figures, but auditors have been provided with separate information for all authority types.
† Finance department staffing.

89. Although the unit costs derived in the study concentrated on staffing, there is no reason to suppose that there are not similar variations in other costs. For example, CIPFA’S rate collection statistics show the following differences in cost per £1000 collected (excluding internal transfers):

<table>
<thead>
<tr>
<th>Component Cost</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>£4.59</td>
<td>6.91</td>
<td>10.06</td>
</tr>
<tr>
<td>Central establishment charges</td>
<td>2.54</td>
<td>4.35</td>
<td>8.14</td>
</tr>
<tr>
<td>Computer recharges</td>
<td>0.85</td>
<td>1.68</td>
<td>2.71</td>
</tr>
<tr>
<td>Other running expenses</td>
<td>0.68</td>
<td>1.33</td>
<td>2.43</td>
</tr>
<tr>
<td>Total*</td>
<td>12.97</td>
<td>16.34</td>
<td>19.99</td>
</tr>
</tbody>
</table>

* Note that the quartiles have been generated separately for each component cost, and therefore the total does not necessarily equal the sum of the components.

90. One interesting indication of apparent variety in costs and costings is the level of summons charges imposed by authorities. The local magistrates must be satisfied that the charge made covers costs only, yet even outside London (where charges are consistently high) there are a number of authorities charging over £10 and 50 charging less than £3. Nor can these variations be fully explained by failure to review costs often enough (although one authority visited had not done so for 10 years) because several authorities have just revised their charges from £2 to £3.

91. Although there are marked variations in the resources used by treasurers to give similar services to departments, this is not reflected in recharges which are based on block allocations of time to services. More accountable methods of recharge are needed, not just to DLOs and newly created transport subsidiaries, but more widely in order to maximise the potential for service providers to influence their own budgets (although of course their influence is necessarily limited in issues of adequate financial control). Otherwise, as the Commission found in its study of housing management, recharges are likely to be seen as the dumping on
service departments of expenditure over which they have no control, and which they cannot relate to the quality of service provided.*
—The cost of rate collection is already identified separately—historically, to enable the precepting authority to be recharged, and now to fill in the CIPFA return. This cost is set off against the rate collected rather than shown as a recharge to departments.
—No such statistics have been produced previously for the other finance functions. Authorities do not generally treat the various sections within finance departments as cost centres.
—Authorities do little to monitor achieved performance against intended performance. In most cases performance targets and policies are either not set or are set in vague terms—such as to pay creditors 'as quickly as possible'. And even where targets are set, there is often little attempt to monitor achievement. For example, audit review of sundry debtor accounts often shows that the timetable laid down for reminders is not achieved.

92. Many authorities would benefit from more formally and explicitly defined guidelines. This exercise, together with the support service statistics being developed by the SCT, should increase awareness of unit costs. Indeed, once a convenient system for identifying them is in place, such costs could logically serve as the basis for recharges. One authority has allocated all finance department costs except for audit to particular activities, and devised measures of workloads. Consideration is being given to using this approach to allocate central establishment charges, on the basis that this would be fairer and simpler than the current method of employees apportioning time to specific services, and would also improve accountability.

93. Administration of a function can, generally, be improved in one of two ways: first, current systems can be modified or second, and more radically, the whole approach to the function can be altered. This division is linked to—but not synonymous with—a distinction between short-term and long-term solutions, and is illustrated in Exhibit 15. Authorities will obviously need to distinguish functions in need of radical overhaul from those where streamlining the existing system is more appropriate.

The choice will depend on the authority's current performance, available resources and capacity for change. When computer systems are under review, the chance should be taken to appraise radical solutions. Often a major criterion in the introduction or replacement of computer systems is that current working practices should be accommodated. This can result in both missing an opportunity to review the overall approach adopted, and an unjustified bias towards in-house systems development in order to cater for the authority's 'unique way of doing things'. For example, this study suggests that no authority should replace its creditors system without first considering whether there should be more or less centralisation, whether BACS payments should be introduced and how much control of payment timings is required.

94. Those authorities where unit costs appear excessive will generally find it worthwhile to investigate the local potential for:
(i) Shifting the balance of work between the centre and service departments.
(ii) Increasing flexibility, to deal with changing workloads.

* The issues involved in charging for support services are considered in detail in the recent CIPFA discussion document Support Services—Value for Money?
DIFFERENT APPROACHES TO CHANGE

<table>
<thead>
<tr>
<th>MODIFICATIONS</th>
<th>RADICAL ALTERNATIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RATE COLLECTION</strong></td>
<td>Discontinue reminders</td>
</tr>
<tr>
<td>Bring forward reminder dates</td>
<td>Require payment in one amount or 10 instalments</td>
</tr>
<tr>
<td>Review dates by which half-year payments are required</td>
<td>Discourage payments other than by direct debit</td>
</tr>
<tr>
<td>Encourage direct debit</td>
<td></td>
</tr>
<tr>
<td><strong>SUNDARY DEBTORS</strong></td>
<td></td>
</tr>
<tr>
<td>Streamline administration of accounts</td>
<td>Reduce number of accounts</td>
</tr>
<tr>
<td>Improve liaison between departments</td>
<td></td>
</tr>
<tr>
<td><strong>CASHIERS</strong></td>
<td></td>
</tr>
<tr>
<td>Review hours/staffing levels</td>
<td>Finance department sends accounts and takes legal action</td>
</tr>
<tr>
<td><strong>CREDITORS</strong></td>
<td></td>
</tr>
<tr>
<td>Examine procedures to reduce duplication, and introduce selective checking</td>
<td>Review number of cash offices</td>
</tr>
<tr>
<td><strong>PAYROLL</strong></td>
<td></td>
</tr>
<tr>
<td>Emphasise the advantages of bank transfer</td>
<td>Increase centralisation/decentralisation</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Greater centralising of creditor payment systems.</td>
<td></td>
</tr>
<tr>
<td>(iv) More selective checking of invoices received.</td>
<td></td>
</tr>
<tr>
<td>Each of these steps is discussed below.</td>
<td></td>
</tr>
</tbody>
</table>

Shifting the balance of work

95. In order to make the best use of developing technology and to optimise streamlining of systems, some flexibility in the location of functions is likely to be required. Different considerations apply to sundry debtors, payroll and creditors.

96. Sundry debtors. Normally, service departments send accounts and the legal department follows up after initial reminders. As discussed in Chapter 1, there are potential advantages in the finance department doing both. Only two authorities have decentralised all sundry debtor procedures so that collection and reminders are service department responsibilities. There is less logic to this because it will probably require duplication of similar systems.

97. Payroll. Most small authorities are centralised. Larger authorities tend to be mixed: over two thirds of metropolitan districts have 30% or more of payroll staff located in service departments; only one fifth of other classes of authorities are organised in this way. In both cases, the use of on-line terminal facilities can cut out manual transcription of details in service departments ready for central processing. For example, Fareham has developed a system whereby entry of jobs done and hours worked in the technical services department is sufficient to generate all costing and pay details (including bonus calculations) for the DLO.
98. Creditors. Almost invariably invoices are processed extensively in both service and finance departments. However, a few authorities have streamlined procedures. On-line facilities allow service departments to enter all relevant invoice details and retain invoices, while cheque production and despatch remain finance department functions. Centralisation is also possible.

99. Staff carrying out the cash flow related functions should be deployed flexibly. Day to day workload varies depending on the time of week (e.g. Friday is typically a slack day for certain aspects of wages work), month (in the case of salaries) or year (cashiers and rates). Furthermore the number of staff available will fluctuate with sickness and leave. It is especially important to have adequate cover for the loans officer—at one authority visited performance suffered markedly in her absence. Some guidelines for good practice emerge from the analysis:

(a) Sharply drawn demarcation lines between sections are inappropriate (subject to adequate separation of duties), especially in small authorities. It may be sensible to link creditors and payroll for this reason, and for cashiers to be given other work at slack times.

(b) The same staff should work on both salaries and wages within the payroll section, especially in shire districts where, in the absence of teachers and uniformed services, there is less need for specialisation. If both functions are within the finance department, it is worth considering the combination of rate and rent collection so that the same staff cover both; Fareham find this convenient.

(c) Collectors should be potentially available to pursue all forms of debt.

(d) Part time staff may be used to cover known peaks. Some authorities have wages make-up teams employed for one day each week.

100. Cashiering provides the clearest example of the benefits of flexible staff deployment. The organisation of the cashier's function varies a good deal. In county councils, the function is a relatively minor one. At central offices of large districts there will be a sizeable section devoted to cash collection and related tasks while in sparsely populated authorities one often finds far-flung offices with one or two cashiers only. This diversity brings about considerable variation in cashiers' staffing levels, compared with numbers of transactions handled.

101. Much of the variation in staffing may be explained as being a consequence of policy—that a council presence should be maintained within an area. This is more obviously the case in rural areas, where it may result in retention of facilities with very low levels of activity. Experiments in decentralisation are also being made in some urban areas. At the same time, there are some scale economies, as Exhibit 16 shows. Separate comment on small and larger offices is therefore appropriate.

102. Small offices. The costs of running cash offices should be ascertained and compared with the use made of them, and alternatives assessed. This requires records to be maintained of the number of transactions dealt with. It is then for the authority to decide whether the facilities offered represent value for money. Examples of the action which might follow such assessment are:

—Combination of separate positions for housing rents and other payments.
—In small rural offices, combining payments with enquiries about housing repairs, planning applications, etc, at the same counter.
—Assigning cashiers' sections additional tasks. For example, one
authority sells rail cards on behalf of British Rail and Tynedale takes payments on behalf of the Electricity Board.
—Switching less busy offices to part-time opening; this can be achieved by means of reduced hours and/or days of the week open.
—Closing cash offices but offering payment at the Post Office and/or banks as an alternative local payment facility, with the authority meeting the transaction costs.

West Wiltshire closed all but one of its six cash offices some years ago, when it was found that rates payments in cash were costing an average of £3 to receipt. The cost of offering a wide range of other payment methods following the closures was comparatively modest.

103. Larger offices. Tasks typically undertaken in a central cashier's office are taking over-the-counter payments for rates and general income (housing rents are usually dealt with separately), remittance cashiering (postal payments), counting cash income, maintaining collection and deposit records, making up wage packets, enveloping and sending creditors' cheques and making miscellaneous payments and internal disbursements. Leicester has a substantial cashiers section which operates with model flexibility in the use of staff.
—There are eight designated cashiering roles; four manning permanently open counters and four undertaking supplementary tasks and acting as relief for the counter staff, both by replacing them during meals or other breaks, and by opening up a reserve counter if demand requires it (defined as whenever there are more than six people queuing at a counter).
—At slack times, cashiers also help out in the rates section. It is characteristic of cashiering that there are marked peaks and troughs in workload, both annually—due to payment of rates—

Exhibit 16

ECONOMY OF SCALE IN CASHIERING

Over-the-counter Transactions
per Cashier per Year

(000)

Average Office Size
(over-the-counter transactions per office per year (000) )

= DCs, MDCs and OLBCs. It has not been possible to show all the data points in the bottom left hand corner of the exhibit.

Over-the-counter Transactions per Cashier per Year (000)

Average Office Size (over-the-counter transactions per office per year (000) )

= DCs, MDCs and OLBCs. It has not been possible to show all the data points in the bottom left hand corner of the exhibit.
and weekly—for example, because of wages and housing benefit cheque runs and encashments.

—The cashiers rotate on an eight week cycle between these tasks, so increasing the staff's variety of work and separation of duties.

The possibility of organising the cashiers section on such a basis is an argument in favour of grouping all the above tasks within cashiers.

* * *

104. In all circumstances, trends in workload need to be monitored closely, and staffing levels adjusted as appropriate. Automation is simplifying receipting and payroll duties; contracting out of services may reduce general income collectable; and the number of mortgages is falling. On the other hand, invoices processed by creditors' sections seem to be increasing due to more frequent submission of accounts by suppliers—for example, Somerset paid 15% more accounts in 1983-84 than in 1981-82, despite reducing expenditure in real terms.

105. Systems for paying creditors can serve as an example of the alternative means of seeking improvement—by streamlining current systems or considering more radical change—and of the potential for varying degrees of centralisation. Almost all authorities operate a decentralised system for paying invoices from creditors along the following lines:

—Goods are ordered by the service department requiring them.
—Goods and invoices are delivered to the service department.
—The invoice is checked and certified for payment within the service department.
—The invoice is sent to the finance department for further checks, entry into the accounts and payment.

106. However, there is immense variety in the number, type and location of processes and checks carried out, not just between authorities but often between departments within an authority. Identifying such differences and questioning the reasons for them is a fruitful source of potential for improvement. Frequently there is little awareness of exactly who is checking what, and why. For example, in one county highways invoices pass through three tiers of administration—area offices, highways accounts section and treasurers. Batch totals are checked three times; VAT and arithmetic twice. Manual processes continue to be carried out in the department although central computerisation has rendered them redundant. Furthermore queries can be directed by creditors to any of the three tiers, so each office must keep sufficient information to be able to respond.

107. The potential problems of a decentralised system can be tackled either radically—by seeking alternatives—or more conservatively by streamlining existing procedures. Certainly it makes sense to review the number of administrative tiers, which can be reduced through:

(a) Rationalisation, e.g. routing school meal invoices from schools directly to finance rather than via the education department.
(b) Avoiding duplication of effort. Service departments can enter online all details required for the finance department to initiate payment. In Bromley the finance department's role is restricted to such post-payment checks as are considered necessary. Alternatively, invoices can be sent to the finance department for checking against details on the screen prior to payment, as at Gravesham.

108. Only around half a dozen authorities operate—in whole or in part—a centralised creditors system analogous to those commonly operated in the private sector. Invoices which result from the placing of an
order are received centrally in the finance department, matched against orders, and checked as deemed appropriate (this includes requiring confirmation that goods have been received for large orders). A minority of non-order invoices need to be certified departmentally. A centralised approach has several important advantages:

—The separation of duties is strengthened by routing the invoice directly to the finance department and not to the person who has made out the order.

—It enables advance data capture and validation (supplier numbers and accounting codes).

—The facility for commitment accounting is more easily provided.

—Control can be enhanced in small and less computerised authorities. All invoices and enquiries can be directed to the finance department, as at Hinckley and Bosworth and Blaby, even though invoices may then be sent to service departments for checking by ordering officers and certification as required.

—It may also be more convenient in small authorities (especially if offices are located on one site) to have one central administrator of creditors checking in this way rather than to split the work piecemeal between departments.

It also seems likely that centralised systems can be cheaper to operate—but the small number of authorities using this approach makes this difficult to assess.

109. Kent’s supplies department have a centralised system which takes the elimination of paperwork to its logical conclusion. (The supplies department’s system is itself a decentralised part of the County’s creditor payment system). Their approach should be seriously considered by the larger authorities, and Appendix F gives a description.

Checking selectively

110. The extent of checking varies greatly both within and between authorities, but without any apparent pattern. For example, among authorities with similar service department procedures, some finance departments duplicate most of the checks undertaken in service departments while others ensure only that invoices are correctly certified.

111. Even given that records are not kept and the figures were therefore approximate, authorities’ estimates of the extent of errors found by finance department checks vary remarkably. Some make thorough checks but recall finding no errors. Indeed 30% of authorities find less than one error affecting the amount paid per 1,000 invoices. Others find so many errors (10% of authorities estimate that over 10% of codings are found to be wrong) that the credibility of service department administration must be open to question.

112. Whatever the structure of the creditors system adopted, there is a logic to selective checking of invoices. This involves checking all invoices above a certain limit and a sample of those below. The underlying assumption is that the cost of checking is proportional to the number of invoices, but that the benefit is proportional to the value. Exhibit 17 (overleaf) shows the typical distribution of invoice values. Non-selective checking will devote most effort to a small proportion of the value. This has been a generally accepted theory for nearly two decades.* But in practice it seems that selective checking is used by only a minority of authorities. About 20% use it to a significant extent in service departments.

* The technique of selective checking of invoices has been widely promoted by the Local Government Operational Research Unit (now RIPACS). See their report The Selective Checking of Invoices, 1967, which remains applicable and is still available.
(but then rarely to a similar extent in all departments). Only 30% of finance departments take a selective approach, even though some of the checks often duplicate those already carried out.

Exhibit 17

**DISTRIBUTION OF INVOICE VALUES**

<table>
<thead>
<tr>
<th>Invoice Values</th>
<th>Metropolitan District</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;£1,000</td>
<td></td>
</tr>
<tr>
<td>£100-£1,000</td>
<td></td>
</tr>
<tr>
<td>&lt;£100</td>
<td></td>
</tr>
</tbody>
</table>

% of Invoices | % of Value  
74 | 26 | 8 |

**ILLUSTRATIVE EXAMPLE**

Source: Study Team analysis, 1986

113. Where selective checking is used it is rarely applied in a logical manner—i.e. fixing a limit by assessing the extent of errors found and comparing this with the costs of checking. Only a handful of authorities keep any records of errors found. Selection is usually on the basis of:

—Time available.
—Simple proportions unrelated to value, e.g. 50% of invoices are checked.
—Value limits with no apparent basis for arriving at the value adopted.

114. Some treasurers take the view that they have a duty to check all invoices as custodians of a responsible public body, even if the cost of checking exceeds the savings made by detecting errors. Others are in favour of abandoning all checks (save for small numbers by internal audit). Some considered that the known removal of checks by finance departments had improved checking in the service departments, who could no longer rely on the finance department as a 'long stop'. Yet others believe that departments take extra care knowing that their work will be checked up on.

115. Selective checking can combine these philosophies. One finance department concentrates checks on service departments thought to have weak financial administration. This is most appropriately combined with some monitoring of errors found. Hertfordshire checks against weekly contracts for school meal invoices. Each week there is a full check of 10% of each contractor's invoices. Only if an error is found are the remaining 90% then checked.
116. In any event, an authority which still follows any of the following practices should review its procedures and the logic behind them:
—Use of comptometer operators to check all invoices arithmetically. As often as not, errors will be in the authority's favour; and mathematical errors tend to be rare, given that many invoices are produced on a computer. Authorities could therefore restrict this check to manually produced invoices.
—Manual checking of VAT amounts. These can conveniently be checked by computer on input of invoice details.
—Requiring service departments to match copy order and invoice, and having an additional copy order sent to the finance department for the same check to be made again. About a third of district councils follow this rather cumbersome procedure (it is less common in larger authorities).
—Incorporation of internal audit checks as part of the system. It is generally agreed that this is inappropriate, but it remains commonplace in small districts for internal audit to stamp or call over all cheques, or cancel all invoices once paid.
—Extensive central checking of codes. It is reasonable to hold departments responsible, in general, for the accuracy of their own coding, leaving the finance department to check on a sample basis that miscodings are not taking place.
—Manual checking of creditor numbers. This should be a natural area for the use of check digits. There is also much to be said for using a convenient figure on the invoice—e.g. postcode, VAT, telephone or telex number—as a creditor reference. This will generally produce a unique reference. If it does not, this is flagged automatically at Wakefield, and all firms with that reference displayed. The advantage of this system is that the task of looking up and entering a creditor code number is avoided.

**COMPUTERISATION**

117. Financial systems were generally the first to be computerised. The result is that computerisation is widespread, but systems are often old. Many systems are now over 10 years old, especially for creditors and payroll; and old systems are less likely to be on-line. In assessing the impact computerisation has had on cash flow management and possible future developments for authorities, the following questions are relevant and are discussed further below:
(i) How do the costs compare?
(ii) Are there potential benefits from further computerisation or enhancement of existing systems?

**Computerisation: what should it cost?**

118. One obvious method of assessing the impact of computerisation would be to compare the unit costs of computing for particular functions with other costs and the performance achieved. The Commission's survey *Computing in Local Government* found that 45% of authorities are unable to identify users' costs and for some systems such costing is much less common than this. Where costs are identified, the variations in costing methods are sufficient to cast doubt on any comparisons. For example, there is no standard basis for allocating hardware and development costs, differing treatment of central establishment charges and varying approaches to allocating costs between systems.

The absence of users' costs not only complicates inter-authority comparisons, it also makes it hard to see how authorities can determine
Whether their present computerised systems are more or less cost-effective than the alternatives, manual or more heavily computerised.

119. The mix of computing facilities now potentially available is so varied as to make any single performance indicator meaningless. The Commission has accepted an offer from a number of authorities to undertake further joint investigations of costing methodologies.

120. Generally, off-the-shelf packages are to be preferred to in-house solutions to systems problems provided documentation is adequate. In particular other authorities’ packages are available, for the more popular hardware, at far lower cost than in-house development; and some more commercially minded authorities provide a maintenance service. Moreover, the computer field in local government is a particularly inappropriate place for not-invented-here attitudes, given the difficulty of recruiting and keeping good staff, and the much greater cost of developing systems in-house. The use of county-based consortia does not alter the position radically because systems are still typically developed for only three or four authorities. There are probably over 250 different creditors systems in use, for example, and the proliferation of individual systems may well have inhibited progress by preventing pooling of resources. Individual developments are commonest even where one would expect requirements to be uniform, e.g. mortgage administration. And, in terms of system capabilities, most in-house systems appear inferior to available packages or systems from other authorities. Small authorities which have made a judicious selection of other authorities’ or commercial package solutions are as effectively computerised as larger authorities who have devoted substantial resources to developing their own solutions. Kingswood, which had the highest overall computer scores of any shire district, bought in all their packages.

In short, in-house systems development must represent poor value for money in view of the low cost packages now available and the high costs (not always fully identified) incurred in developing major systems. The onus should be on authorities to justify any decision to adopt other than a package solution. There is a trend towards buying in software but, as Table 17 shows, this remains a minority approach.

**Table 16: AVAILABILITY OF COSTING INFORMATION FOR DIFFERENT COMPUTER SYSTEMS**

<table>
<thead>
<tr>
<th>Systems</th>
<th>% survey authorities with information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>47</td>
</tr>
<tr>
<td>Payroll</td>
<td>34</td>
</tr>
<tr>
<td>Creditors</td>
<td>26</td>
</tr>
<tr>
<td>Housing mortgages</td>
<td>28</td>
</tr>
<tr>
<td>Income</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: *Computing in Local Government: An Audit Survey*

**Table 17: ORIGIN OF COMPUTER SYSTEMS**

<table>
<thead>
<tr>
<th>Date of original implementation</th>
<th>% of systems</th>
<th>Bought in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1975</td>
<td>86%</td>
<td>14</td>
</tr>
<tr>
<td>1975-79</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>1980 or after</td>
<td>58</td>
<td>42</td>
</tr>
</tbody>
</table>
Benefits of computerisation

121. Computers are an important aid to cash flow management. Questions were included in the questionnaire which produced a score out of 100 for each system, reflecting the extent to which computerisation replaces manual tasks and provides management information. This was necessarily a somewhat subjective approach, but provided a basis for assessing computerisation as follows:

- 0—5 points = manual/largely manual
- 6—35 points = poor computerisation
- 36—65 points = adequate computerisation
- 66—100 points = good computerisation

122. In the major systems (rates, creditors and payroll), most authorities have comparable levels of computerisation, and manual systems are rare; other systems exhibit much more variety. Even in large authorities manual or antiquated computer systems are common for sundry debtors, mortgages and excess charge notice administration although computerisation can often dramatically improve performance. Only one in four authorities levying excess charge notices has any computerisation of their collection, although the requirements for specifically timed standard letters and cross referencing of ticket numbers, registration numbers and addresses are obviously suited to computers. In addition, tape exchange of information with the DVLC is more convenient (some authorities have direct on-line access), and persistent offenders can be identified. Furthermore, as in sundry debtors, ad hoc systems which are of limited usefulness prevail; there are packages available which would surely provide good value to the 35 authorities which each deal manually with over 5,000 excess charge notices a year.

123. The advantages of transferring staff resources from passive manual control to active intervention were illustrated by computerisation of 1,500 mortgages at one authority visited; arrears fell from £8,200 to £3,500 within 18 months. Guildford reports major benefits from computerisation, which has enabled it to halve the staff required to administer ECNs while tripling the number of ECNs issued. However, a well established manual system in a small authority may well deal with the minor sources of income better than a poor computer system—and many sundry debtor systems, for example, do only bits and pieces of the job.

Table 18 shows that staffing costs for sundry debtors in larger shire districts are actually higher in authorities with poor or even adequate computer systems than they are in authorities still operating manual systems. Only good computer systems show any staffing cost savings.

<table>
<thead>
<tr>
<th>'Computer assessment'</th>
<th>&gt; 100,000 population</th>
<th>&lt; 100,000 population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual</td>
<td>3,400</td>
<td>4,000</td>
</tr>
<tr>
<td>Poor</td>
<td>4,800</td>
<td>3,400</td>
</tr>
<tr>
<td>Adequate</td>
<td>5,000</td>
<td>3,500</td>
</tr>
<tr>
<td>Good</td>
<td>5,900</td>
<td>4,600</td>
</tr>
</tbody>
</table>

The best systems provide on-line facilities for enquiry into the state of individual accounts, regular reports on trends in debit and arrears, automatic production of periodic invoices, automatic production of reminders, and exception reports on accounts outstanding by age and size. This is the key to concentrating effort where it will give the best results.
124. Any new systems development should be preceded by a detailed feasibility study. However, the national study of computing, carried out last year, found that such studies were undertaken for only 38% of all new systems developments. This suggests that authorities are failing to take the opportunity to examine existing practices and work methods when they introduce new, or enhance existing, computer systems.

**REDUCING TRANSACTION COSTS**

125. Considerable savings, perhaps worth £20-£30 million a year, could be made by automating methods of payment and receipt. Specifically, authorities should be aiming to have:

(i) All rate instalments and mortgages paid by direct debit.
(ii) All employees paid by bank transfer.
(iii) Greater use of BACS to pay creditors.
(iv) Streamlined collection of car park income.
(v) Fewer individual payments to creditors.
(vi) Lower bank charges.

Of course, the ideal will not be fully achievable in all local circumstances. Nonetheless, each warrants local evaluation and is discussed below in the final section of this chapter.

**Collecting rates by direct debit**

126. Rate instalments are the most numerous source of receipts. Table 19 shows the current methods of payment used by ratepayers.

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct debit</td>
<td>30%</td>
</tr>
<tr>
<td>Standing order</td>
<td>29%</td>
</tr>
<tr>
<td>Cash/cheque</td>
<td>34%</td>
</tr>
<tr>
<td>Other (mostly giro)</td>
<td>7%</td>
</tr>
</tbody>
</table>

**Exhibit 18**

**RATES AND MORTGAGE PAYMENTS BY DIRECT DEBIT AND STANDING ORDER, 1985**

% Payments by Direct Debit or Standing Order

Source: Study Team analysis of questionnaire returns, 1986
However, as Exhibit 18 shows, these figures disguise wide variations between authorities. In over half of authorities less than 60% of the rate instalments were paid by direct debit or standing order.

127. Compared with cash and cheque payment, standing orders and direct debits share the advantages of lower staffing costs, fewer collection difficulties for instalment payments, and lower bank charges. Table 20 shows typical collection costs per rate instalment by different methods.

Table 20: COLLECTION COSTS PER RATE INSTALMENT, 1985
Pence per transaction
Illustrative, based on an average instalment of £40

<table>
<thead>
<tr>
<th></th>
<th>Direct debit</th>
<th>Standing order/bank girocredit</th>
<th>Postal remittance</th>
<th>Cash collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing*</td>
<td>6.9p</td>
<td>4.6</td>
<td>9.2</td>
<td>26.1</td>
</tr>
<tr>
<td>Computer recharge</td>
<td>2.5</td>
<td>6.9</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Security</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.5</td>
</tr>
<tr>
<td>Stationery</td>
<td>-</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Despatch of tapes</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bank charges</td>
<td>3.1</td>
<td>6.0</td>
<td>8.1</td>
<td>12.3</td>
</tr>
<tr>
<td>Bank interest</td>
<td>-</td>
<td>2.6</td>
<td>3.9</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12.9</strong></td>
<td><strong>20.5</strong></td>
<td><strong>28.5</strong></td>
<td><strong>50.5</strong></td>
</tr>
</tbody>
</table>

* Excluding employers' oncosts and other overheads

It will be evident that direct debits have definite advantages:
—Generally lower costs, mainly in respect of bank charges (about 3p per transaction compared with 6p for standing orders and 8p per cheque) and data input. Some authorities have to input standing order details manually, e.g. by entering details from listings into cash receipting machines. This represents an additional cost, but is avoidable because banks will supply details on magnetic tapes.
—Reduced stationery costs given that most authorities otherwise use instalment booklets.
—No loss of interest because procedures for direct debiting are initiated in advance so that credit is received on the due date. In comparison, standing orders involve a delay of two days in bank transfer. Cash collections are often banked on the day following receipt, and cheques even if banked on the day of receipt can take three days to clear. Collection by each of these methods therefore involves some delay and a resultant loss of interest.
—Unpaid direct debits are automatically highlighted by exception reports. Internal monitoring—which will be of varying efficiency—is required to identify lapses for other types of payment.
—Due dates can be precisely managed; and mandates are continuous, which is administratively simpler when the amount due changes.

128. The disadvantage of direct debit is a common suspicion on the part of ratepayers of any direct intervention with their bank accounts. This persists even though authorities are required by banks to sign a form of indemnity before they are allowed to participate in the direct debit system. However, while this suspicion may explain low take-up, it hardly justifies failing to offer the facility at all: direct debit is offered by only half of authorities for rates and a quarter for mortgages. (Recurring
sundry debts are rarely paid by direct debit or standing order, even though this is obviously convenient for, say, non-housing rents*.

129. Take-up of direct debit can be maximised by taking the following steps:

(a) Publicity can be given to the advantages of direct debit, and mandate forms sent to those who do not use it. Exhibit 19 shows one approach.

(b) Incentives can be offered. Several authorities accept 12 rate payments by direct debit or 10 by other payment methods. But this is an expensive cash flow cost (calculated at £180,000 annually at one London borough). A one-off payment or discount is therefore preferable, though no examples of this approach are known.

(c) Other methods of payment can be discouraged. Some authorities send out stationery for direct debit but not for standing orders.

130. Security, staffing and banking costs are all highest for cash collection. Most authorities feel obliged to offer cash receipting facilities. But it is possible to discourage cash payment by providing no counters for receipt of rates (as in Lewes), reviewing number and opening hours of offices and encouraging other methods of payment. Where local facilities are closed down, the Post Office provides a useful alternative for those without bank accounts—and one which supports local facilities. Many authorities have opened special accounts with National Girobank for the receipt of rates and other income. Where debtors have accounts with National Girobank and pay by standing order or National Giro transfer, this is an effective and cheap method of collection.

131. For debtors who do not have a Girobank account, there is a standard charge of 40p per transaction to the customer, which is unlikely to be the most economical payment method for many ratepayers. However, if the authority pays (as do only 15%) then charges can be negotiated. Authorities visited paid charges ranging from 6p to 20p per transaction using specified Post Offices.

132. Girobank is thus generally more expensive than direct debit or bank standing order. However, it is cheaper than local collection offices, and very convenient for those without bank accounts. The benefits are especially evident where collection offices have been closed; on this basis the use of Post Offices as a replacement for collection offices was good value in Southend and Fareham.

133. Credit cards are used increasingly in the private sector, but only 30 authorities accept them for rates, and fewer still for other payments. No authority receives more than 2% of its rate income from credit cards. However, there are several advantages, including flexibility in method of receipt—which may be at a collection office, by post or by telephone; payments are cleared on the day of receipt, and are guaranteed; and payments can easily be transmitted via BACS as if they were direct debits. Against these must be set the service charge of 1-1.5%.

**Paying employees by bank transfer**

134. There are advantages to both employers and employees in avoiding cash payment. For employers, cash payments are inconvenient and subject to security risks (though these can be insured against relatively cheaply this cannot compensate for the physical dangers); and payment by cash is generally more expensive than other payment methods, both in terms of transactions costs and administration. In addition there can be losses

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* Similar arguments apply, of course, to housing rents. See the Commission’s report, *Managing the Crisis in Council Housing*. 
PROMOTING USE OF DIRECT DEBIT

When Wychavon introduced direct debit payment recently, this was how they explained the advantages to their ratepayers. The leaflet is a modification of one originated by West Wiltshire. Woodspring used a similar leaflet in 1985, and persuaded three quarters of instalment payers to switch to direct debit.
in productivity as a result of employees attending pay parades. Table 21 shows the typical costs of payroll transactions*.

Table 21:  **TYPICAL COSTS OF PAYROLL Transactions**

<table>
<thead>
<tr>
<th></th>
<th>BACS</th>
<th>Crossed cheque</th>
<th>Cash</th>
<th>Open cheque‡</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank charges</td>
<td>3p</td>
<td>20</td>
<td>14</td>
<td>65</td>
</tr>
<tr>
<td>Interest lost/gained</td>
<td>-</td>
<td>(6)</td>
<td>2*</td>
<td>(6)</td>
</tr>
<tr>
<td>Cheque handling and bank reconciliation</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Wages make up</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Security</td>
<td>-</td>
<td>-</td>
<td>22</td>
<td>-</td>
</tr>
<tr>
<td>Transport of tapes</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>6</td>
<td>20</td>
<td>53†</td>
<td>65</td>
</tr>
</tbody>
</table>

* Assumes cash held overnight for wage make up
† Plus the opportunity cost of employees attending pay parades
‡ Assumes cheque not cashed at authority’s bank

135. For employees there is the risk that a pay packet might be lost or stolen; and by opening a bank account in order to receive wages, they may benefit from a wide range of banking services. The disadvantages for employees of cashless pay are gradually reducing. Cash dispensing machines are now available in many areas, and there is a general movement towards longer bank opening hours. And while employees might incur charges as a result of opening a bank account in order to receive payments by bank transfer or crossed cheque, several banks offer a free banking service provided that the account is kept in credit. However, several of the authorities visited referred to deep seated social attitudes against non-cash pay which a minority of employees retain and which will take time to change.

136. In fact local authorities are ahead of the private sector in the move away from cash payment, as Table 22 drawn from the Inter-Bank Research Organisation and the cash flow questionnaire shows.

Table 22:  **PERCENTAGE OF EMPLOYEES PAID BY DIFFERENT METHODS**

<table>
<thead>
<tr>
<th>All sectors:</th>
<th>Local authorities, 1985:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1969</td>
</tr>
<tr>
<td>Cash</td>
<td>75%</td>
</tr>
<tr>
<td>Cheque</td>
<td>10</td>
</tr>
<tr>
<td>Bank transfer</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
</tr>
</tbody>
</table>

Again the picture varies markedly between authorities, as Exhibit 20 shows. So there is clearly room for a further shift away from cash payments, and it is worth bearing in mind that Britain as a nation is fairly backward in this respect: in both France and West Germany, cash accounts for less than 1% of all payments.

137. Alterations in the method of paying employees should focus on the weekly paid, both because less progress has been made to date in this area than for salaries, and because there are more transactions per

* A recent study by the Association of Health Service Treasurers showed even larger cost differences in the health service, e.g. weekly cash payment cost £46 more per employee per annum than monthly payment by BACS.
employee on which to make savings. Any local initiatives should be given impetus by the recent repeal of the Truck Acts, which previously gave employees a right to receive their wages in cash. Now is therefore a good time for authorities to review their methods of payment.

138. Broadly there have been two strategies available to authorities wishing to persuade their employees to accept different methods of payment. The most obvious approach is to keep raising the issue of payment method, stressing the benefits of non-cash payment. Over a number of years progress can then be made without offering additional incentives. It is mainly county councils (for example Somerset) which have adopted this approach successfully. An alternative is to offer a deal aimed at an immediate high take-up. The costs and benefits require calculation locally:

—Lincolnshire (and Boston, which subsequently offered a similar package) induced 90% of manual employees to accept four-weekly pay by bank transfer in return for:
  • A £25 ‘gift’.
  • Immediate payment of the holiday entitlement ‘frozen’ as a result of the 1981 pay agreement, which employees would not otherwise receive until they left.
  • An advance of up to four weeks’ net pay repayable over a year for all employees not so entitled.
  • Two years free banking if in credit from the Council’s bankers.
  • Facilities previously available to salaried employees only, such as mortgage facilities, Building Society savings scheme, BUPA scheme.

—Tameside is the only authority to date to achieve 100% payment by bank transfer. This followed union acceptance of an offer of £60 to employees moving from cash and £30 to those moving from open cheque.
Hinckley and Bosworth made a flat payment of £50 for movement to bank transfer.

Since the Wages Act has changed the position incentives should also aim for alteration in pay frequency.

139. The Bankers Automated Clearing Service (BACS) is the commonest method of transfer for monthly paid employees. This method poses timetabling problems for weekly payments—data to be processed must reach the BACS centre two days before payment, and so must be ready three days in advance if sent from some distance from London. However, these problems can easily be overcome either by adopting a wage cycle two weeks in arrear (e.g. with a loan of one week's average pay to all employees), or by transmitting data via telecommunications links. This saves on journey time and may be cheaper than physically sending tapes. Local cost comparisons should be made; and a consortium approach may be appropriate, as in one county where four districts use the county's BACSTEL facilities.

140. It is also possible to make bank transfers locally by notifying the bank branches involved. This can be the cheapest method of all. Such local arrangements also avoid the timing problems of BACS and are especially well suited to small scale operations. For example Hinckley and Bosworth use National Westminster's 'autopay' facility; details are required by Wednesday afternoon for crediting to bank branches within the district (any bank) on Friday. No separate charge is made.

141. Postal costs will not necessarily be less with bank transfers given the need to distribute pay advices, although this can usually be done satisfactorily at work places. For pensioners, Leicestershire has introduced a 'negative' system (as is used for Civil Service pensioners); only if there is a significant deviation from the previous month is an advice sent. Potential savings are around £1 per year per pensioner—well worthwhile with half a million local authority pensioners in England and Wales. The methods of bank transfer used are shown in Table 23.

Table 23: METHODS OF BANK TRANSFER USED FOR PAYROLL

% of employees:

<table>
<thead>
<tr>
<th></th>
<th>Weekly paid</th>
<th>Other frequencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>BACS</td>
<td>9%</td>
<td>69</td>
</tr>
<tr>
<td>BACSTEL</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Local arrangements</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>All transfers</td>
<td>23</td>
<td>80</td>
</tr>
</tbody>
</table>

142. At present only nine local authorities offer creditors the facility of payment by tape transfer through the BACS system. This reflects the overall national picture—BACS say they handled only 6m out of 740m items in 1984. At first sight, this low take-up is surprising:

—Regular creditors have proved willing to accept payment by BACS.

—BACS, who operate the system on behalf of the sponsoring banks, charge banks about 3p per transaction, whereas authorities are typically charged up to 20p per cheque by their banks. There is therefore scope for reduced bank charges.

—The administrative costs of handling cheques are avoided.

—Some postal savings can be achieved by advising creditors of payments on their bank statements. (However, this facility is limited to 18 digits. Consequently for payment of several in-
voices, a remittance advice is necessary, so the postal costs of cheque despatch are not avoided unless telex can be used).

—Cash flows can be forecast more precisely because the uncertainties of cheque clearance timing are avoided.

—Payments submitted in one set of data input can be released on specific dates staggered throughout a maximum period of one month. This feature enables the release of payments to creditors as they become due, but has not yet been taken up by authorities visited.

At Southampton savings of 30p per payment made are achieved.

143. There will inevitably remain many one-off creditors who must be paid by cheque. Nonetheless, there is evident scope for savings in using BACS for the 20% of payments to regular creditors which cover up to 60% of invoices processed. Adjustments can be made to compensate for cash flow losses. BACS payments are cleared on a specified date, three working days after the initiation of payment; cheques take seven to nine days on average to be presented and cleared. By delaying BACS payments the cash flow position can be equalised compared with cheque payment. Indeed, Wakefield probably gain slightly by their five day delay.

144. Larger authorities should consider adopting a communications link with major suppliers, such as ICL’s TRADANET which Kent has introduced. Essentially the service provided is a posting box through which all users communicate with ICL only, thus overcoming the problems of incompatibility between computers. The advantages are:

(a) Streamlined administration. Current computerised systems of ordering and payment typically require both supplier and purchaser to translate information from machine-readable to manual form for postal notifications, only for the reverse translation to be made by the recipient. These translations increase administrative time taken, and the potential for errors.

(b) Reduced costs for postage, printing and enveloping. Transmission costs 2p per 1000 characters (which covers about five orders with descriptions) plus telephone charges which are minimal if orders are transmitted in bulk. Thus if the average envelope contains five orders to a supplier, savings of around 10p will be made.

Kent’s development and introduction costs were £10,000. The subscription to Tradanet is £2,500 per annum. These costs will be covered if 500 orders per week go through the Tradanet system, i.e. some 10% of their orders. Additional usage is expected to develop, with considerable savings resulting.

145. The use of magnetic tape exchange schemes to pay energy bills should also be considered; 8% of authorities use such schemes, which reduce the administrative costs of payment and provide management information on energy consumption in a convenient form. However, payment is generally required more quickly. Local assessment of the costs and benefits is therefore appropriate.

146. In authorities which charge for off-street car parking, there are three main methods of collecting the resultant income: attendants, pay and display, or through automatic barriers on entry and exit. Some variation can occur within these categories, e.g. attended car parks can be more or less automated; some pay and display car parks have barriers on entry to ensure that a ticket is bought; fully automatic car parks may retain attendants for general supervision.

147. Exhibit 21 (overleaf) shows the net income per space for each of these categories in those authorities where at least 90% of spaces are in

**Streamlining methods of collecting car park income**
one category only. In all, 222 authorities charging for car parking were surveyed. The advantages and disadvantages of the three approaches are as follows:

(a) Automatic collection should have lower staff costs, and less scope for fraud and evasion. However, the difference in staff costs is not as marked as might be expected—some authorities have retained attendants though they have no collection duties. Furthermore, capital and maintenance costs for equipment make full automation viable only in large car parks.

(b) Pay and display is increasingly popular as a low cost method of obtaining income from small parking areas. The main disadvantages are evasion and potential irritation to those who are unsure how long they need to park (some authorities mitigate this by levying a lower excess charge for time expiry than for failure to purchase a ticket).

(c) Attended car parks show the largest spread of costs. Two thirds of attended car parks have salary costs of over £30 per space per annum. In these cases authorities should assess the potential benefits of conversion to pay and display or of further automation for large car parks.

Exhibit 21

EFFECTS OF ALTERNATIVE METHODS OF COLLECTING CAR PARK INCOME, 1985

Net Annual Income per Space (i.e. income less staff costs)

<table>
<thead>
<tr>
<th></th>
<th>London and metropolitan</th>
<th>Other</th>
<th>Shire districts</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of spaces (000)</td>
<td>70</td>
<td>38</td>
<td>279</td>
<td>112</td>
</tr>
<tr>
<td>Number of car parks</td>
<td>510</td>
<td>131</td>
<td>1,995</td>
<td>362</td>
</tr>
<tr>
<td>Average spaces per car park</td>
<td>137</td>
<td>290</td>
<td>140</td>
<td>310</td>
</tr>
<tr>
<td>Average income per space</td>
<td>164*</td>
<td>210</td>
<td>142*</td>
<td>122</td>
</tr>
</tbody>
</table>

* Includes 7% from excess charge notices, season ticket income excluded.
148. There is some relationship between the number of patrollers, the number of excess charge notices issued, and the level of income; the more patrollers there are, the more excess charge notices (ECNs) can be expected per space. The evidence suggests that one patroller should cover no more than 1000 spaces.*

—If fewer than two ECNs (typical shire districts) or three ECNs (city areas) are issued annually for each space, an exercise should be mounted to assess the extent of evasion of charges and the appropriateness of patrolling levels.
—If salary cost per space exceeds £20 annually, authorities should examine the cost effectiveness of their current patrolling arrangements.
—Similarly, investigations are warranted if more than 25% of ECNs are waived in view of explanations such as a ticket having been bought or the machine being faulty. For example, one authority issued ECNs for all incorrectly displayed (though visible) tickets—but its policy was not to require payment in such cases, so this was a waste of administrative effort.

149. Obviously the less often staff are paid the lower payroll administration costs will be. Not only are transaction costs influenced by frequency of payment; but time and motion studies have shown that administrative costs are also affected—whereas the method of payment has little impact on wage clerks’ work. Authorities should therefore aim to move manual workers and claimants away from weekly payment. As Table 25 shows, while county councils have the smallest proportion of weekly paid employees, there is in general very considerable scope for further progress. Further education lecturers are the main category of regular claimant; monthly claims are appropriate, but 20% of claimants are paid more frequently.

### Table 25: Payment Frequencies

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Manual CCs</th>
<th>Manual Others</th>
<th>Staff grades CCs</th>
<th>Staff grades Others</th>
<th>Claimants CCs</th>
<th>Claimants Others</th>
<th>Pensioners CCs</th>
<th>Pensioners Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly</td>
<td>88%</td>
<td>98</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>12</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>fortnightly</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Four-weekly</td>
<td>3</td>
<td>-</td>
<td>5</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Monthly</td>
<td>5</td>
<td>2</td>
<td>94</td>
<td>94</td>
<td>84</td>
<td>78</td>
<td>99</td>
<td>84</td>
</tr>
<tr>
<td>Quarterly</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>6</td>
<td>-</td>
<td>1</td>
</tr>
</tbody>
</table>

150. Similar considerations apply to the payment of creditors. The number of payment runs for paying creditors should be such that:

(a) Payment is made an acceptable period after receipt of certified invoices from service departments. One authority formalises this constraint, with a target of processing 95% of invoices within 10 days of receiving them. However, overall payment speed is primarily determined by the speed of service department processing.

(b) Administratively inconvenient (and less easily controlled) urgent payment procedures are not used routinely. In one authority visited, 60% of payments were classified as urgent; it has now switched from fortnightly to weekly creditor runs.

* Factors such as car park usage and desired patrol frequencies are clearly relevant to assessment of staffing levels. This and other aspects of car parking are considered in A Guide to Car Parking Management, recently produced by the Association of Chief Technical Officers (ACTO).
Savings by combining invoices for the same creditor on one cheque are maximised—subject to the speed of payment required (computer systems combine invoices automatically in this manner). It is possible to combine payments between runs, e.g. only one payment per week to major creditors, even if there are two runs; but this appears to be rare in practice because systems combining invoices are usually based on each run. One possibility would be to have one run for creditors A-N, and the second for creditors O-Z with each run having the facility to process urgent payments outside the normal range.

151. At present local authorities make payments more frequently than similar sized organisations in the private sector, where monthly runs are not unusual but the number of creditors paid is typically much smaller. Table 26 shows the frequency of payment runs, the level of urgent payments, the extent of invoice combination, and the speed of payment. Two thirds of authorities fall into the 'small' category and only 12% are classified as 'large'.

<table>
<thead>
<tr>
<th>Invoices/year</th>
<th>Runs per week</th>
<th>% of authorities</th>
<th>Average % urgent payments</th>
<th>Average invoices per cheque</th>
<th>Average payment speed (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small &lt; 50,000</td>
<td>less than 1</td>
<td>14</td>
<td>20</td>
<td>2.0</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>79</td>
<td>11</td>
<td>1.8</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>2 or more</td>
<td>7</td>
<td>10</td>
<td>1.6</td>
<td>27</td>
</tr>
<tr>
<td>Medium 50-250,000</td>
<td>less than 1</td>
<td>7</td>
<td>19</td>
<td>2.7</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>73</td>
<td>17</td>
<td>2.6</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>12</td>
<td>15</td>
<td>2.4</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>more than 2</td>
<td>8</td>
<td>10</td>
<td>2.1</td>
<td>29</td>
</tr>
<tr>
<td>Large &gt; 250,000</td>
<td>1 or less</td>
<td>52</td>
<td>13</td>
<td>3.3</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>20</td>
<td>8</td>
<td>3.1</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>more than 2</td>
<td>28</td>
<td>12</td>
<td>2.4</td>
<td>35</td>
</tr>
</tbody>
</table>

The analysis suggests some guidelines for sound practice in this area:

(a) Each cheque should cover at least two invoices on average in small authorities, 2.5 invoices in medium-sized authorities or three invoices in large authorities.

(b) No more than 5% of payments should be manually produced urgent cheques. In the smaller districts 90% of urgent payments are manually produced; in counties the position is reversed with 90% of urgent cheques computer produced.

(c) Where urgent cheques are computer produced a higher proportion of urgent payments may be acceptable. Nonetheless these should not exceed 10% of the total. It is quite common to have a daily urgent computerised run in addition to one normal weekly run; this should prevent any significant number of manual payments being made, while avoiding repeated payments to major creditors in the same week.

(d) There is a tendency for urgent payments to proliferate unless tightly controlled. Even where they represent only a small proportion of total payments, such control should not be relaxed.

152. Local authorities pay some £20m to banks annually in commissioning charges (i.e. excluding interest). Reviews of methods and frequency of transactions should reduce these charges as well as securing direct

Negotiating competitive banking terms
administrative savings. It is not easy to compare the charges made to individual authorities because of differences in the service obtained, and because it is difficult to obtain exact information on the make-up of block charges. Banks will usually quote their standard charges for types of transaction but not show how these charges are discounted to reach the actual charge made.

153. In practice, charges seem to be incremental rather than zero-based. Horse trading then takes place around the established figure on the basis of inflation and alterations in transaction levels. This tends to make it difficult, for example, to assess the saving in bank charges resulting from the introduction of direct debit payments. In order to minimise charges, authorities should:

(a) Identify major elements within the block charge. This may not produce an immediate reduction in the charge but it should strengthen the negotiating position at future reviews. For example, Southampton's explicit transaction costing enabled it to ensure that charges were reduced when more automated payment methods were introduced.

(b) Scrutinize the hidden costs and subsidies in services provided both between banks and between branches of the same bank. A survey by Phillips & Drew of authorities' arrangements for loan transactions showed considerable variation in level and structure of charges. For example, half were charged both to raise and repay loans, a third only to repay, the remainder in other ways. Unusual features found include instantaneous crediting (for interest calculation purposes) of all items paid into an account-holding branch; final clearance of items on Saturday which were not cleared at close of business on the preceding Friday night; cash banked not credited to the account until the following day; and a deposit account (immediate access or withdrawal) giving interest at the market call rate—so that money is usually better left there than put out on the market overnight.

(c) Pay particular attention to charges for cash handling and open cheques for housing benefit. These services can easily be the dominant factor in the total charge; one London borough pays £40,000 for its general banking and £167,000 for housing benefit cheques. It may well pay to use Girobank for these services even if other business is at a different bank:

—The Post Office, unlike the clearing banks, requires cash for its own purposes, especially outside London. Girobank claims that consequently it offers cheaper rates for cash handling than other banks, and that this more than offsets any delay in crediting the cash to an account at another bank. Authorities with substantial cash income should therefore obtain a quotation from Girobank to assess the comparative cost.

—Authorities visited found that Girobank charged under 40p for Housing Benefit cheque and encashment against more than 60p quoted by their own banks. Of course, it is more secure and cheaper to use crossed cheques or better still bank transfers.*

(d) Be prepared to move the authority's account. It is worth negotiating vigorously whenever terms are due for renewal (typically every

* The forthcoming CIPFA/Audit Commission working party guide to good practice in housing benefit administration will discuss this area more fully.
year or two). Generally speaking, it is also appropriate to go out
to tender at least every five years, even if charges appear to be
reasonably competitive.

The pattern of banks used varies with authority type, as shown in
Table 27.

<table>
<thead>
<tr>
<th>Table 27: BANKS* USED BY LOCAL AUTHORITIES</th>
<th>Number of authorities by type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>London</td>
</tr>
<tr>
<td>Barclays</td>
<td>6</td>
</tr>
<tr>
<td>Lloyds</td>
<td>1</td>
</tr>
<tr>
<td>Midland</td>
<td>1</td>
</tr>
<tr>
<td>Nat West</td>
<td>8</td>
</tr>
<tr>
<td>Co-operative</td>
<td>9</td>
</tr>
<tr>
<td>Giro</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
</tr>
</tbody>
</table>

* Main account bank shown if authority has two bankers

154. In authorities visited, changing banks had proved relatively pain-
less, although it required substantial preparation and supervision at a
senior level. When going out to tender, local authorities should think
more widely than in terms of the ‘Big Four’ banks—Girobank, the TSB,
the Co-operative Bank and others may be keen to provide an adequate
service at a charge attractive to the local authority. Loans officers should
be consulted about the details of any negotiations and tendering, because
they deal with the bank day to day and may therefore best understand
the impact of differing terms on the management of cash flows.

In general, there is little to choose between banks’ charges; the averages
for all six most-used banks are between 29p—32p per resident for district
councils.

* * *

The objective of the measures described in this chapter and summarised
in Exhibit 22 is to reduce the costs of the cash flow related functions while
maintaining or improving performance. Table 28 suggests performance
measures and benchmark indicators to enable authorities to evaluate local
staffing levels and costs. The work carried out in the last year suggests
that staffing could be reduced by 10% on average were good practice
levels achieved by only half the authorities not currently doing so. This
would generate an annual saving of some £25 million. A further £10-20
million could be saved every year if (say) half of all manual employees
were paid monthly by bank transfer, and use of more automated payments
methods was successfully encouraged.

It is clear that considerable benefits to local authorities could flow from
universal adoption of the steps described in this report. In a typical
metropolitan district, the gains could amount to as much as £500,000 a
year; and in the average shire district, they could be £150,000 a year.
These are not simply theoretical possibilities. In many authorities, local
action to realise gains of this order of magnitude is already in hand as a
result of the local projects now under way. The final chapter of this
report describes the next steps.
Table 28: SUMMARY OF PERFORMANCE INDICATORS FOR CASH FLOW MANAGEMENT—EFFICIENCY

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Benchmark of good practice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rate collection</strong></td>
<td></td>
</tr>
<tr>
<td>Direct ratepayers per FTE staff</td>
<td>&gt; 3,500</td>
</tr>
<tr>
<td><strong>Sundry debtors</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts per FTE staff</td>
<td>&gt; 5,000</td>
</tr>
<tr>
<td><strong>Mortgages</strong></td>
<td></td>
</tr>
<tr>
<td>Mortgages per FTE staff</td>
<td>&gt; 950</td>
</tr>
<tr>
<td><strong>Pay and display car parking</strong></td>
<td></td>
</tr>
<tr>
<td>Spaces per patroller</td>
<td>&gt; 500, &lt; 1000</td>
</tr>
<tr>
<td><strong>Cashiers</strong></td>
<td></td>
</tr>
<tr>
<td>Transactions per FTE staff</td>
<td>&gt; 30,000</td>
</tr>
<tr>
<td><strong>Creditors</strong></td>
<td></td>
</tr>
<tr>
<td>Invoices per FTE administrative staff</td>
<td>&gt; 7,000</td>
</tr>
<tr>
<td>Invoices per cheque</td>
<td>&gt; 2.5</td>
</tr>
<tr>
<td><strong>Payroll</strong></td>
<td></td>
</tr>
<tr>
<td>Employees per FTE staff</td>
<td>&gt; 260</td>
</tr>
</tbody>
</table>

Exhibit 22
RECOMMENDED STEPS TO REDUCE COSTS OF CASH FLOW ADMINISTRATION

- Apply selective checking of invoices, based on value or risk
- Increase use of direct debit for rates
- Encourage payment of employees by monthly bank transfer
- Pay regular creditors by BACS
- Seek tenders for banking services at least every 5 years
- Review number and opening hours of cashiers’ offices
- Consider increasing the use of Giro and clearing banks for collecting receipts
- Increase use of part-time, seasonal staff
- Implement stamp schemes for home help payment
- Avoid raising invoices for less than £5
- Limit urgent payments to 5% of total
- Limit creditor payment runs to one a week

Target: Reduce Administrative Costs by £40-50 Million a Year

Reduce costs per transaction
Reduce costs of receiving cash
Reduce number of transactions
3. The next steps

155. Auditors are now preparing reports to authorities to advise them on how to strengthen their cash flow management, utilising inter-authority comparisons resulting from the questionnaire and detailed consideration of good practices set out in the audit guide*. A total of over 400 projects is now under way. Auditors' findings and authorities' responses to date show that there are worthwhile improvements to be made. Furthermore, the main opportunities depend on adjusting administrative practices and timings, and have minimal implications for staffing levels or capital investment requirements. Table 29 shows the scale of the improvement opportunities that have already been agreed with authorities, as reflected in auditors' local reports.

<table>
<thead>
<tr>
<th>Sample of 20 local project reports, £000/Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
</tr>
<tr>
<td>London boroughs and metropolitan districts</td>
</tr>
<tr>
<td>Shire districts</td>
</tr>
</tbody>
</table>

156. In the short term authorities should review the timing and nature of their action in collecting income and making payments. Immediate improvements are frequently possible. Movement towards more automated methods of payment and receipt requires direct debit and bank transfer facilities to be offered; the benefits of using them then need to be stressed in the long term to maximise take up. In the longer term, authorities should assess the appropriateness of their approach to the cash flow management tasks, e.g. the degree of computerisation and extent to which there is decentralisation.

157. Both members and officers have important roles to play. The division of responsibilities is somewhat arbitrary: some issues may be regarded as a policy matter in one authority, but as a question of administrative procedure in another.

158. However, in most authorities, it will be appropriate for members to take the following steps:

—Make the rate before March 15.
—Adopt a rating resolution which requires only one demand to be sent, and which enables recovery action against late payers to be taken for the full year's rates.
—Ensure that the times at which payment of rates is required and recovery action initiated reflect their policy objectives. Is the priority to minimise the rate or to allow a more relaxed timetable for collection?

* Available at £7, payable in advance, from the Audit Commission, St Lawrence House, 29-31 Broad Street, Bristol BS1 2EX.
—Consider discontinuing reminders for rates in favour of an immediate summons following advertisement that the rate is due.
—Initiate steps to maximise the availability and take-up of automated methods of payment, especially direct debit, for all forms of income.
—Initiate negotiations with employees to pay wages by bank credit, and to review payment frequency.
—Ensure that the number and role of cashiers' offices is appropriate, given trends in workload and changing methods of payment.
—Review the level of excess charge notices for car parking, and introduce a discount for prompt payment.
—Consider how quickly different types of creditors should be paid, with a view to introducing a policy if none already exists.
—Agree the arrangements for explicit reporting to members of the authority's cash flow performance; for a start members should insist on seeing how their authority performs against the benchmarks shown in Tables 13 and 28.

159. Officers must carry responsibility for translating policy into action. The treasurer and chief executive, in particular, will be considering auditor's reports in the light of their answers to questions such as the following:

—Are all straightforward rate demands sent out by March 31, and first instalment payments required in accordance with the advice in paragraph 10? What constraints, if any, prevent the timings being brought forward?
—Do the present timing and nature of recovery procedures reflect the guidance in paragraph 50 onwards?
—Are the procedures for raising and collecting sundry debtor accounts efficient? How many invoices are issued for amounts less than £5 or for intra-authority charges? Could the number of accounts sent be reduced by increased use of payment in advance? Are service, finance and legal department roles appropriate and sufficiently co-ordinated?
—Would additional computerisation be beneficial for sundry debtors, mortgages and excess charge notice collection?
—What progress has the authority made in offering and encouraging use of automated methods of payment and receipt for rates, sundry debtors, mortgages, payroll, creditors, housing benefits and rents?
—How quickly are creditors paid, and why? Are departments' administrative procedures for dealing with creditor payments consistent with council policy? Is there unnecessary duplication? Is there scope for selective checking of invoices? How effectively is the number of urgent payments controlled?
—Have staffing levels in cashiers offices in particular been adjusted in light of trends in workload and changes in methods of payment?
—What steps have been taken, and how seriously, to encourage payment of rates by direct debit and wages and salaries by monthly bank transfer?
—Is there an officer with a clear responsibility to co-ordinate submission of grant claims, and ensure that claims are made promptly?
—How recently was a tender sought for banking services? If more than five years ago, might it be advantageous to seek tenders?
—What routine information do they receive, to enable them to monitor the economy, efficiency and effectiveness with which the cash flow management functions are carried out, against the performance benchmarks suggested in this report.

160. Finally, once auditors have submitted their reports to the authority and the appropriate local action has been agreed they will continue to monitor implementation performance. Every six months, as part of the project tracking review process, the situation in each authority will be assessed; and auditors can be expected to draw members attention to any shortfall against the plans they have agreed. In the unlikely situation where members show no interest, the auditor will have to consider whether to issue a public report. Fortunately, however, the need for such a step is unlikely. The Commission has been most encouraged by the positive reaction of authorities to the potential for worthwhile savings in this important, if not particularly glamorous, aspect of the management of local government.
Appendices

The following appendices are included:
A — List of questions asked in the audit questionnaire.
B — List of authorities named (with their agreement) in this report, because they exhibit some elements of good practice in cash flow management.
C — Measuring the effectiveness of rate collection.
D — Definitions used to assess staff numbers.
E — Deriving local performance indicators.
F — Overview of the centralised creditor payment system in operation at Kent County Council.
Appendix A

CASH FLOW MANAGEMENT QUESTIONNAIRE

This Appendix describes the data collected by the cash flow management questionnaire, analysis of which formed the basis for this report. Data related to 1984-85. The main areas examined (rates, sundry debtors, mortgages, car parking, cashiers, creditors and payroll) all included questions on:

—Staff numbers.
—The degree of computerisation.
—Assessment of financial controls.

The definitions used to assess staff numbers are given in Appendix D. In addition questions asked covered:

Rates

Progress of collections (month by month)
Total collected, excluding internal transfers, crown contributions and county council rates
Number of direct ratepayers
Number of ratepayers paying over £0.5m
Date of rate-making council meeting
Timing of sending demands
Method of dealing with cases in arrears for the old year
Treatment of cases where the amount due depends on housing benefit assessment
Due date of first instalment payments
Amount of prompt payment discount given
Number of instalment payers
Methods of payment used
Timing of reminders
Number of recovery actions (reminders, summonses, distress warrants obtained, distress warrants passed to the bailiff, commitment summonses applied for)
Arrears measure
Secondary measures of workload (changes recorded, enquiries received, written replies made, CVR7s and proposals)
Void rate income and hereditaments affected
Summons cost charged

Sundry debtors

Division of responsibilities (e.g. raising accounts, taking legal action) between departments
Number and value of accounts raised
Arrears measure
Proportion of debit and arrears within the public sector
Number and usual timing of reminders sent
Use of telephone contact with debtors
Number and usual timing of referrals for legal action
Number of cases taken to court

Mortgages

Department responsible
Number and value of loans outstanding
Number of new loans, and loans maturing, redeemed or sold, in 1984-85
Amount due from mortgagors in 1984-85
Number of accounts in significant arrear
Percentage arrears measure
Frequency of payment
Methods of payment used
Timing and nature of usual recovery actions
Number of mortgagors taken to court

**Car parking**
Division of responsibilities (e.g. patrolling, collecting money, excess charge administration) between departments
Number of spaces
Number of car parks
Income collected
Level of excess charges notices (ECNs) levied, and details of discount if offered
Number of ECNs issued and collected
Extent of legal action to collect ECNs

**Cashiers**
Number of cash collection offices and counters
Nature of cashiering duties
Opening hours
Number of transactions dealt with (postal and over-the-counter)

**Creditors**
Number of checks carried out in service and finance departments
Degree of centralisation
Number of invoices processed
Number of cheques produced
Use of magnetic tape exchange and BACS
Frequency of payment runs
Number of queries from creditors
Number of errors found
Speed of payment—policy and observed practice

**Payroll**
Number of employees by type (staff grades, manual grades, MSC schemes, pensioners, claimants) and by frequency of payment
Methods of payment used
Organisation of payroll section (number and type of teams)
Staff turnover
Payment timing

**Government grants/subsidies**
Dates of submission and receipt for a sample of claims
Accuracy of estimates for housing benefit, block grant and MIRAS.
Organisation of grant claims (whether there is an officer responsible for coordinating submission)

**Banking**
Commission charges paid
Bank used
Details of most recent tender or renegotiation of terms

**Computerisation (for major systems)**
Computer 'marks' (using checklist)
Type of hardware
Number of terminals
Software used and date of initial implementation
Method of data input
LIST OF AUTHORITIES NAMED

The following authorities are named (with their agreement) in the report because they exhibit good or interesting practice in some aspect of cash flow management, although not necessarily across the board:

Bassetlaw  Kingswood
Blaby  Leicester
Boston  Leicestershire
Bromley  Lewes
Calderdale  Lewisham
Cambridgeshire  Lincolnshire
Cheshire  Reading
Chorley  Solihull
Colwyn  Somerset
Coventry  Southampton
Derwentside  Southend
Easington  Stockport
Fareham  Tameside
Gravesham  Tynedale
Harlow  Wakefield
Hertfordshire  West Somerset
Hinckley and Bosworth  West Wiltshire
Kensington and Chelsea  Wychavon
Kent

Named from published sources: Guildford, Woodspring.
Appendix C

MEASURING THE EFFECTIVENESS OF RATE COLLECTION

The primary measure used to measure effectiveness of rate collection is the ‘net effective value’ (NEV) of £100 rates due on April 1. This takes account of three factors which prevent an authority spending a full £100 on April 1 in respect of £100 rates due. ‘Losses’ occur through:

(i) Delays in collection. Even if £100 is eventually collected in full, interest will be forgone because collection is spread throughout the year. Data was collected showing monthly totals for rate income excluding internal transfers, county council payments and payments on crown properties. From this information the ‘net present value’ (NPV) at April 1 1984 collected during 1984-85 was calculated using the 1984-85 interest rate of 12%. The interest 'lost' is thus £100 less the NPV figure.

(ii) Amounts not collected in the financial year
For the purposes of calculating the NEV it was assumed that:
—10% of year-end arrears are never collected.
—90% is eventually collected, but represents a full year’s loss of interest.

(iii) Cost of collection. Exhibit 1 shows costs from CIPFA statistics, which give the full costs of collection. To ensure consistency between authorities we preferred in general to use data collected specifically for this project. This was limited to those areas where consistent costs could reliably be captured, namely the salaries of rate collection staff (and payments to external bailiffs), and discount for prompt payment. CIPFA statistics show that employees make up about a third of total collection costs.

On this basis in one typical authority the NEV was £94.06 made up as follows:
£100 due on April 1, less:
—£5.09 interest 'lost'
—£0.65 effect of arrears (3.2% arrears; 10% assumed never collected (= 32p), 90% x 12% interest (= 35p))
—£0.20 costs of collection.

The best performances were by Harlow among district councils (£95.23), and by Wakefield among metropolitan authorities (£94.85).
Appendix D

DEFINITIONS USED TO ASSESS STAFF NUMBERS

Detailed instructions were given in the questionnaire in order to ensure consistency in the definition of tasks covered, so that all those and only those involved with the specified tasks were included. The main features of the definitions used were:

**Rate collection:** housing benefit staff excluded. Staff engaged in (i) inspection/valuation and (ii) void rating and inspection identified separately.

**Sundry debtors:** finance department staff only included, excluding any significant time spent in calculating amounts due (which is usually a service department task).

**Housing mortgages:** administration of all types of housing mortgage, but not staff involved in work leading to the establishment of a mortgage, such as council house sales.

**Car parking:** separate identification of staff involved in (i) patrol of pay and display spaces (ii) attendants’ duties (iii) collecting and counting money from machines or attendants (iv) excess charge administration (v) excess charge legal action.

**Cashiers:** taking over-the-counter payments for rates and general income (in practice housing rent transactions were also included in many authorities), but excluding leisure centres etc. Also dealing with postal payments, counting and banking cash income other than for car parking and public transport, and making miscellaneous payments.

**Creditors:** all checking, sorting and processing of invoices for payment carried out by administrative staff (as opposed to ordering officers), whether in service or finance departments. Also staff involved in cheque production and enveloping.

**Payroll:** processing of pay and maintenance of associated records once hours and bonus are known, including make up and distribution of pay packets, but not employees’ lost time at pay parades. Bonus administration and employees’ time in completing timesheets etc was excluded.
Appendix E

DERIVING LOCAL PERFORMANCE INDICATORS

1. This appendix describes the analysis undertaken using the data collected by the cash flow management questionnaire. Questionnaires received by mid April, completed in whole or part, were included in the analysis. This totalled 368 authorities, and gave a good sample of some 80% of all authority types (10 of the 12 ILBCs, 16 of the 20 OLBCs, 28 of the 36 MDCs, 38 of the 47 CCs, 102 of the 125 DCs with populations over 100,000 and 174 of the 208 DCs with populations under 100,000). The geographical spread was also good; Merseyside and North Lancashire were the only areas where authority response was poor.

2. Following analysis of the questionnaires, auditors were provided with:

— comprehensive statistics (250 pages) by type of authority (inner London, outer London, metropolitan districts, counties, small shire districts (less than 100,000 population) and larger shire districts). These gave feedback related to all questions asked where the quality of data made this possible.

— feedback for individual authorities showing actual performance against good practice guidelines for the most important indicators.

3. These documents included detailed staffing measures derived from a method of analysis called stepwise regression. This examines the variables thought to potentially explain staffing levels, tests them for any distorting interrelationships, and calculates a measure using only those variables which prove significant in explaining staffing levels for the given sample of authorities. The formulae are set so that 25% of authorities have no more staff than the 'low' staffing (good practice) formula gives for their circumstances, and 50% have no more staff than the 'average' formula gives. Low staffing can generally be interpreted as a good practice target achieved by 25% of authorities, but other factors should be taken into account—for example additional staffing may be appropriate if mortgage arrears are escalating and there is thought to be a need for more debt counselling.

4. The following summarises the factors accepted and rejected as explanatory variables. Those rejected are not necessarily unrelated to staffing, but may either correlate with accepted variables or vary too little between authorities to be important explanatory factors. They may nonetheless be important in an individual authority.

**Rate collection**
- Primary: Direct ratepayers
- Secondary: Enquiries received
- Rejected: Payments received, types of payment used, recovery actions, changes, replies made, computer mark, arrears, z-score, financial control assessment, type of authority, scale.

**Sundry debtors**
- Primary: Accounts raised
- Secondary: Computerisation, type of authority
- Rejected: Proportion of periodical accounts, reminders, arrears, z-score, financial control assessment, scale.

**Mortgages**
- Primary: Number of mortgages
Secondary: Computerisation, z-score, extent of arrears cases, scale.
Rejected: Method of payment, financial control assessment, type of authority.

Cashiers
Primary: Number of transactions, opening hours
Secondary: Scale, type of authority
Rejected: Z-score, financial control assessment

Creditors
Primary: Number of invoices paid
Secondary: Queries, type of authority
Rejected: Z-score, financial control assessment, speed of payment, number of checks made, number of errors found, scale.

Payroll
Primary: Number of persons paid
Secondary: Type of authority
Rejected: Categories of employee (staff grades, manual etc), frequency of payment, methods of payment, turnover of employees (starters and leavers), z-score, computerisation, financial control assessment, scale.

The resulting formulae are given in Exhibit E1.
### Exhibit E1  DETAILED STAFFING MEASURES

<table>
<thead>
<tr>
<th>Full time equivalent staff:</th>
<th>Low Staffing (Good Practice)</th>
<th>Average Staffing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rates</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All authorities</td>
<td>$(0.240 \times \text{direct ratepayers (000)}) + (0.025 \times \text{enquiries (000)/year})$</td>
<td>$(0.289 \times \text{direct ratepayers (000)}) + (0.039 \times \text{enquiries (000)/year})$</td>
</tr>
<tr>
<td><strong>Sundry Debtors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County councils (predominantly computerised)</td>
<td>$0.127 \times \text{accounts raised (000)/yr}$</td>
<td>$0.162 \times \text{accounts raised (000)/yr}$</td>
</tr>
<tr>
<td>Other authorities: &gt;8,000 accounts/year, computerised</td>
<td>$0.184 \times \text{accounts raised (000)/yr}$</td>
<td>$0.190 \times \text{accounts raised (000)/yr}$</td>
</tr>
<tr>
<td>&gt;8,000 accounts/year, manual or &lt;8,000 accounts/year</td>
<td>$0.210 \times \text{accounts raised (000)/yr}$</td>
<td>$0.275 \times \text{accounts raised (000)/yr}$</td>
</tr>
<tr>
<td><strong>Mortgages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All authorities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computerised</td>
<td>$(0.627 \times \text{mortgages (000)}) + (0.09 \times \text{z-score}) + 0.39$</td>
<td>$(0.735 \times \text{mortgages (000)}) + (0.16 \times \text{z score}) + 0.8$</td>
</tr>
<tr>
<td>Manual</td>
<td>$(0.98 \times \text{mortgages (000)}) + (0.008 \times % \text{of accounts in arrear})$</td>
<td>$(1.21 \times \text{mortgages (000)}) + 0.045 \times % \text{of accounts in arrear}$</td>
</tr>
<tr>
<td><strong>Cashiers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County Councils</td>
<td>$0.036 \times \text{transactions (000)}$</td>
<td>$0.050 \times \text{transactions (000)}$</td>
</tr>
<tr>
<td>Other authorities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>('position opening hours' = total number of hours cashiering positions are open to public eg two positions for 35 hours = 70 'position opening hours')</td>
<td>$(0.011 \times \text{position opening hrs/wk}) + (0.02 \times \text{over-the-counter transactions (000)/year}) + (0.034 \times \text{postal transactions (000)/year}) - (0.01 \times \text{average transactions (000) over-the-counter per office per year})$</td>
<td>$(0.016 \times \text{position opening hrs/wk}) + (0.022 \times \text{over-the-counter transactions (000)/year}) + (0.038 \times \text{postal transactions (000)/year}) - (0.008 \times \text{average transactions (000) over-the-counter per office per year})$</td>
</tr>
<tr>
<td><strong>Creditors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan authorities</td>
<td>$(0.0628 \times \text{invoices (000)/year}) + 12.2$</td>
<td>$(0.0871 \times \text{invoices (000)/year}) + 15.3$</td>
</tr>
<tr>
<td>County councils</td>
<td>$0.1 \times \text{invoices (000)/year}$</td>
<td>$0.150 \times \text{invoices (000)/year}$</td>
</tr>
<tr>
<td>District councils</td>
<td>$(0.14 \times \text{invoices (000)/year}) + (0.573 \times \text{queries (000)/year})$</td>
<td>$(0.184 \times \text{invoices (000)/year}) + (0.803 \times \text{queries (000)/year})$</td>
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<tr>
<td><strong>Payroll</strong></td>
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</tr>
<tr>
<td>ILBCs</td>
<td>$2.86 \times \text{persons paid (000)}$</td>
<td>$4.44 \times \text{persons paid (000)}$</td>
</tr>
<tr>
<td>OLBCs</td>
<td>$1.84 \times \text{persons paid (000)}$</td>
<td>$2.38 \times \text{persons paid (000)}$</td>
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<tr>
<td>MDCs</td>
<td>$2.22 \times \text{persons paid (000)}$</td>
<td>$2.53 \times \text{persons paid (000)}$</td>
</tr>
<tr>
<td>CCs</td>
<td>$1.05 \times \text{persons paid (000)}$</td>
<td>$1.28 \times \text{persons paid (000)}$</td>
</tr>
<tr>
<td>DCs</td>
<td>$3.90 \times \text{persons paid (000)}$</td>
<td>$4.90 \times \text{persons paid (000)}$</td>
</tr>
</tbody>
</table>

* by more than one instalment or £50, whichever is the greater

Approximately 25% of authorities in each relevant group achieve the 'low' staffing level, and 50% the 'average'. Details of how these figures were derived were included in statistical feedback sent to auditors. This gave fuller analysis of all issues covered by the questionnaire than is contained in this report.
Appendix F

ILLUSTRATIVE EXAMPLE OF A CENTRALISED CREDITOR PAYMENT SYSTEM

KENT COUNTY COUNCIL

Requisitions are made for goods from approved suppliers either by post (details are then entered by VDU centrally), or by computer link (operating for a small but increasing proportion of ordering establishments). Extensive enquiry routines are incorporated to aid entry of requisitions and enable an imprecise request to be converted into a fully specified order. Items are automatically coded to the appropriate head for the relevant cost centre (as defined for each item in the master file), unless a different code is entered. Thus for the vast majority of requisitions no code is entered—so saving time and preventing miscodings.

Once the basic data—item, quantity and ordering establishment—has been captured, the system produces orders (including a copy for the orderer). Delivery is then made direct to the ordering establishment by suppliers. The central purchasing department pays on receipt of invoice without any certification by ordering officers. The checks made are:

(i) that the invoice corresponds to a previous order (exceptions are highlighted automatically on input of invoice details);
(ii) that prices correspond to those agreed with the supplier (exceptions highlighted);
(iii) for a sample of items supplied (selected by the computer) establishments are asked to provide confirmation that goods have been received. The sample is:
   (a) 3.5% of orders valued £10—£400 (selected randomly)
   (b) all orders over £400 (£1750 for fuel)
   (c) the first delivery from a new supplier
   (d) at least one order per year from each supplier
   (e) orders under £10 in two sample weeks per year

These checks replace the conventional invoice certification procedures. This results in much reduced work for ordering establishments. The limits are subject to occasional review.

Once an invoice is approved (having been seen by only the VDU operator), production of remittance advice (combined in bi-weekly runs) and cheque follows automatically in the finance department. Budgetary control data and other management information is extensive.

This system deals with some 120,000 such orders per year, effectively replacing most of the work done in other authorities by ordering establishments (certification), service departments (coding, checking, monitoring) and finance (checking and processing). It involves some 11 full time equivalent staff: five inputting data from postal requisitions, three dealing with queries and problem areas, three administering the proof of delivery checking scheme. Staff costs are thus around 50p per invoice. In comparison, the average traditional system in a county costs about 90p per invoice for administrative staff and requires more checking in schools, for example.
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<td>Code of Local Government Audit Practice for England and Wales</td>
<td>0 11 701258 0</td>
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