

MEDIA RELEASE

25 February 2015

Debt Management

The ACT Auditor-General, Dr Maxine Cooper, has presented the report on **Debt Management** to the Speaker for tabling in the ACT Legislative Assembly.

Dr Cooper says ‘a strategic whole-of-government debt management review is needed to identify efficiencies and improve effectiveness with respect to debts owed to the Territory by non-ACT Government entities. In 2007, the then Chief Minister announced a review but there is no evidence that it was progressed.’

Debts owed to the Territory by non-ACT Government entities (which include community members) are particularly important as if not collected are cash leakages to the Territory.

Dr Cooper said ‘Debts owed to the Territory by non-ACT Government entities while varying over the last five years have ranged from \$307.6 million (30 June 2011) to \$534 million (30 June 2013). During 2009-10 to 2013-14, in each year, around 10 percent of this debt has been at risk of not being collected.’

‘Overdue debts, particularly those of 60 days or more, warrant consideration in the proposed review as the longer a debt is overdue the higher the risk of it not being recovered. While the value of debts of 60 days or more has fluctuated in the last five years, overall there has been a 25 percent increase (\$60 million in 2009-10 to \$75 million in 2013-14).’

Dr Cooper says ‘while a review is called for, within the current arrangements, there are sound procedural and administrative processes for debt management for the five ACT Government entities subjected to detail analysis.’

The five entities were Commerce and Works Directorate, Community Services Directorate, Environment and Sustainable Development Directorate, Justice and Community Safety Directorate and Territory and Municipal Services Directorate.

An extract of the conclusions of chapters and nine recommendations in the **Debt Management** Report No 1/2015 is attached to this media release.

Copies of the **Debt Management** Report No. 1/2015, are available from the ACT Auditor-General’s Office website www.audit.act.gov.au and the Office (please telephone 6207 0833)

Chapter Conclusions

DEBTS OWED TO THE TERRITORY

Debts owed to the Territory by non-ACT Government entities are particularly important, and if not collected are a cash leakage. Debts which are waived are a cash leakage and those that are written-off and impaired are at risk of not being collected. Debts waived, written-off and impaired represent the total revenue at risk of not being collected.

In 2013-14, \$39.4 million in debts were waived, written-off or impaired. This is just over 10 percent of the \$381 million in debts, which is 8.4 percent of total Territory revenue for 2013-14, owed by non-ACT Government entities as at 30 June 2014. While this percentage will vary given the nature of debtor management, it has been around 10 percent for each of the last five years (2009-10 to 2013-14).

During this last five years a total of \$72.4 million in debts owed by non-ACT Government entities had not been collected due to being waived or written-off. While there is a possibility that some of the debts written-off may be collected in future years, the total amount of cash foregone by the Territory over this period is likely to be larger than the \$72.4 million, as this figure does not include debts that have been impaired and also at risk of not being collected.

The longer a debt is overdue, the higher the risk of it not being recovered. Over the last five years the value of debts overdue by 60 days or more that were owed by non-ACT Government entities increased by 25 percent, from \$60 million in 2009-10 to \$75 million in 2013-14. During this same period, total Territory revenue increased by 14.7 percent and the total value of debts owed by non-ACT Government entities increased by 12.5 percent.

While there was a decrease of 55 percent in the total value of debts overdue by more than 60 days between 2009-10 and 2011-12, from \$60 million to \$27 million, there was a significant increase of 178 percent between 2011-12 and 2013-14, from \$27 million to \$75 million.

FRAMEWORK, POLICY AND PROCEDURAL GUIDANCE

Some whole-of-government debt management guidance has been issued by the Chief Minister, Treasury and Economic Development but it is not regularly reviewed and is not readily accessible to all ACT Government entities. ACT Government entities that needed to have had policy and procedural guidance in place for debt management did so, although this varied in scope and coverage.

Chapter Conclusions cont.

ACT GOVERNMENT ENTITIES' DEBT MANAGEMENT PROCESSES

ACT Government entities (Commerce and Works Directorate, Community Services Directorate, Environment and Sustainable Development Directorate, Justice and Community Safety Directorate and Territory and Municipal Services Directorate) which were selected for detailed analysis have overall sound procedural and administrative arrangements for debtor management. This places them in a strong position to be able to effectively manage debts owed to the Territory.

While some issues were identified which need to be corrected, what is needed is the consideration of better practice initiatives that have been implemented in some ACT Government entities for use more widely. This may include a greater use of, for example payment incentives, credit checks and external debt collection agencies. While not all debts owed to the Territory by non-ACT Government entities lend themselves to such initiatives due to social sensitivities, it is important that every effort is made to secure revenue owed. Accordingly, periodically it is important consider how debts could be more effectively prevented and collected.

WHOLE-OF-GOVERNMENT CONSIDERATIONS IN DEBT MANAGEMENT

ACT Government debt management is decentralised, with each ACT Government entity responsible for determining its own policies, procedures and administrative processes. This has led to a mix of administrative practices across ACT Government entities for debtor management. Some ACT Government entities manage the entire debt management process, while others use Shared Services Finance for administrative assistance for debt recovery actions up to 60 days after a debt is overdue. Such arrangements may not be the most effective. Determining if this is the case is best achieved by a strategic whole-of-government review. Such a review has never been undertaken.

Recommendations

RECOMMENDATION 1 DIRECTOR-GENERAL FINANCIAL INSTRUCTIONS (CHAPTER 3)

The Chief Minister, Treasury and Economic Development Directorate (Treasury) should:

- a) periodically review and update the Director-General Financial Instructions; and
- b) make the Director-General Financial Instructions readily available to all ACT Government entities to assist them with drafting their own internal policy and procedural guidance.

RECOMMENDATION 2 ORACLE – PAYMENT INCENTIVES (CHAPTER 4)

The Chief Minister, Treasury and Economic Development Directorate (Shared Services Finance) should modify the Oracle financial management information system to facilitate the processing of payment incentives, if technically feasible.

RECOMMENDATION 3 CONSIDERATION OF BETTER PRACTICE INITIATIVES (CHAPTER 4)

ACT Government entities who manage non-ACT Government debts, and do not have a low risk with respect to the collection of this revenue, should assess their debt management practices against better practice, and modify their practices accordingly.

RECOMMENDATION 4 MONITORING AND REPORTING (CHAPTER 4)

The Justice and Community Safety Directorate and the Environment and Sustainable Development Directorate should improve their debt management monitoring and reporting by regularly preparing whole-of-directorate debt management reports.

RECOMMENDATION 5 FINANCIAL REPORTING OF NON-ACT GOVERNMENT DEBTS (CHAPTER 4)

The Chief Minister, Treasury and Economic Development Directorate (Shared Services Finance) should enhance their debt management reporting to ACT Government entities by separately reporting on debts owed by non-ACT Government entities.

RECOMMENDATION 6 PERFORMANCE INDICATORS FOR NON-ACT GOVERNMENT DEBTS (CHAPTER 4)

ACT Government entities that manage non-ACT Government debts, and do not have a low risk with respect to the collection of this revenue, should develop performance indicators for debts owed to the Territory by non-ACT Government entities.

Recommendations cont.

RECOMMENDATION 7 DOCUMENTATION OF CREDIT NOTES (CHAPTER 4)

The Territory and Municipal Services Directorate (Capital Line Services) should appropriately document credit note approvals. The Directorate's standard 'request for credit note' may be appropriate for use.

RECOMMENDATION 8 TRANSFER OF DEBT RECOVERY RESPONSIBILITY FROM SHARED SERVICES FINANCE TO ACT GOVERNMENT ENTITIES DURING THE DEBT RECOVERY PROCESS (CHAPTER 5)

The Chief Minister, Treasury and Economic Development Directorate (Shared Services Finance) should assess the effectiveness and efficiency of arrangements whereby Shared Services Finance transfers to ACT Government responsibility for managing the recovery of debts overdue by 60 days or more and provide guidance on any needed changes.

RECOMMENDATION 9 WHOLE-OF-GOVERNMENT REVIEW OF DEBT MANAGEMENT (CHAPTER 5)

The Chief Minister, Treasury and Economic Development Directorate should undertake a strategic whole-of-government review of debt management arrangements aimed at more effective and efficient debt management across ACT Government entities. The review should, amongst other things, identify whether there are opportunities to:

- a) consolidate ACT Government entities' administrative roles and responsibilities for debt management;
- b) enhance coordination and/or cooperation in relation to debt collection and recovery practices across ACT Government entities; and
- c) identify and develop a mechanism for the sharing of information on better practice initiatives, especially those developed and implemented by ACT Government entities.