HM Government

Government Functional Standard

GovS 014: Debt

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This standard forms part of a suite of operational standards that set expectations for management within government. Standards may include both mandatory and advisory elements. The following conventions are used to denote the intention:

Term	Intention
shall	denotes a requirement: a mandatory element.
should	denotes a recommendation: an advisory element.
may	denotes approval.
might	denotes a possibility.
can	denotes both capability and possibility.
is/are	denotes a description.

The meaning of words is as defined in the Shorter Oxford English Dictionary, except where defined in the Glossary in Annex B.

It is assumed that legal and regulatory requirements shall always be met.

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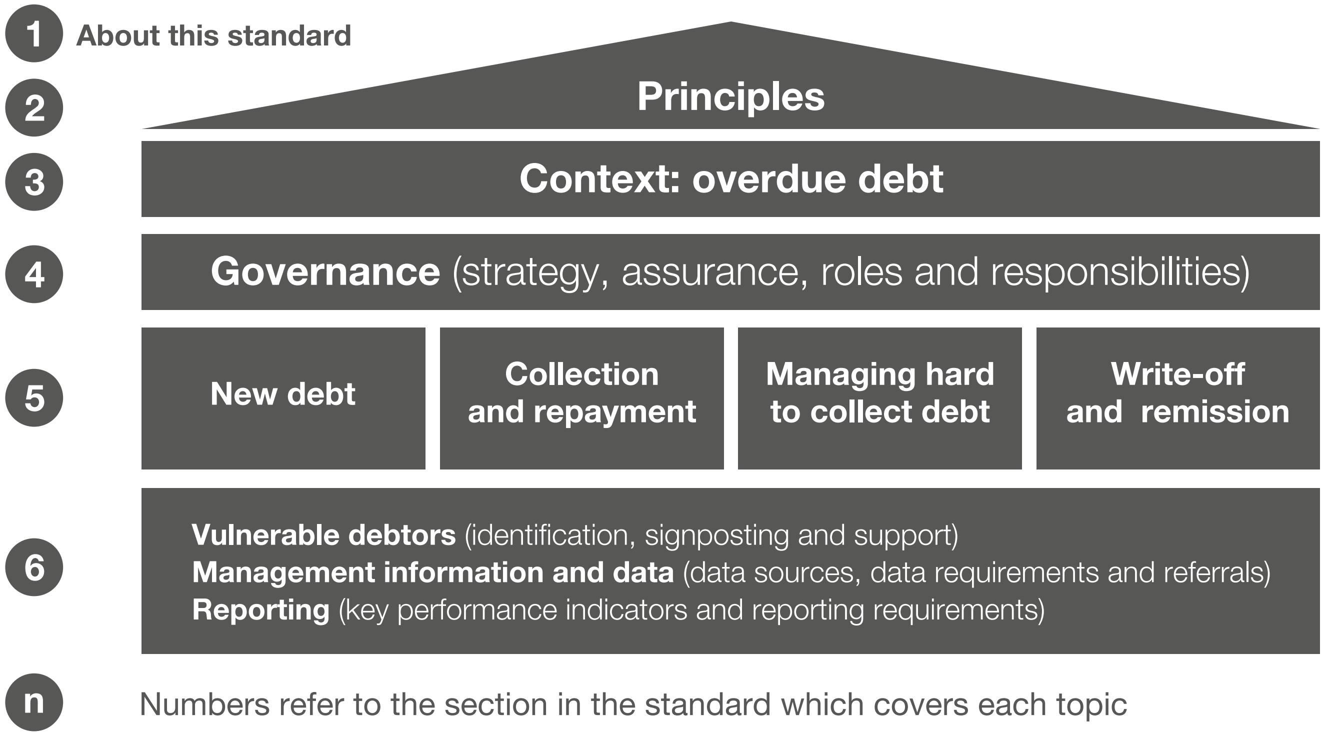

Figure 1. Scope and structure of this standard

1 About this government functional standard

1.1 Purpose of this standard

The purpose of this government standard is to set expectations for the management of debt owed to government departments and their arm's length bodies, to help achieve a more consistent approach, improve capability, minimise losses to the exchequer and ensure taxpayers money is spent in the most efficient and effective way, whilst minimising any unnecessary stress on the debtor.

This standard provides direction and guidance for:

- permanent secretaries, directors general, chief executives of executive agencies and finance leads
- debt strategy and debt policy leads
- debt operational leads and teams
- debt process owners

Note: certain practices listed within this document may already be contracted out to third parties. In such instances the detail within this document should be superseded by any existing commercial requirements. However, moving forward it is expected that parties should align with this standard.

1.2 Scope of this standard

This standard applies to all government departments and their arm's length bodies.

This standard does not apply to debt between government departments or invoices for goods and services that have not passed the due date (see Annex C).

1.3 Government standards references

This standard should be used in conjunction with other government functional standards when appropriate, including:

- GovS 006: Finance
- GovS 007: Security
- GovS 008: Commercial
- GovS 013: Counter Fraud

Note: new functional standards are being created and tested during 2018 and early 2019. All the above standards will be available for use by April 2019.

2 Principles

At all times, those responsible or accountable for managing debt shall ensure:

1. strategic debt management objectives are aligned to government policy, departmental policy and organisational objectives
2. governance, management frameworks and controls are proportionate and appropriate to the debt and the level of prevailing risk
3. accountabilities and responsibilities are defined, mutually consistent and traceable across all levels of management
4. their organisations ability to recover debt is regularly reviewed and optimised
5. debt management practices tackle current aged debt, reduce the aging of debt and prevent the creation of overdue debt
6. fairness to taxpayers and those that do pay on time, by taking a proportionate response to those that don't

7. the impact of debt collection practices on vulnerable debtors is balanced with the need to have the right deterrents in place
8. public service codes of conduct and ethics, and those of associated professions, are upheld

3 Context: Overdue debt

The management of overdue debt owed to government departments and their arm's length bodies is distributed across organisations in government.

Note: 'organisation' is the generic term used to describe a government department, arm's length body, or any other entity within the scope of a functional standard.

Overdue debt is owed by individuals and businesses and comes from a wide range of sources including, but not limited to, overdue tax liabilities, benefit or tax credit overpayments, loans, outstanding fines and penalties and court confiscation orders.

Overdue debt is a receivable that has not been paid by the due date, where the due date is defined as a specified period for payment, or the first date following a specified period of appeal from when a charge is raised.

Note: generally speaking, this is when a payment is missed by one day, or trade receivables missed by 30 days.

See Annex C for an expanded explanation of overdue debt and an explanation of a receivable.

4 Governance

Governance comprises prioritising, authorising, directing, empowering and overseeing management.

4.1 Governance framework

A governance framework shall be established for management of debt across government as a whole, and in government organisations.

The governance framework should include the authority limits, decision making roles and rules, degree of autonomy, assurance needs, reporting structure, and accountabilities and responsibilities, together with the appropriate management frameworks.

The governance of debt related activities should be an integrated part of the organisation's overall governance

4.2 Cross government debt management strategy

The purpose of the cross government debt management strategy is to ensure consistency across government. The strategy should:

- establish an end-to-end approach to managing overdue debt owed to government
- promote a consistent understanding of the HMG debt portfolio
- drive greater use of data and analytics, to maximise the effectiveness of debt management
- promote best practice through the development of guidance and capability

To ensure alignment with this strategy those responsible for debt should actively engage with the senior lead for debt in the centre through co-ordinated forums and knowledge networks.

Note: forums could include the Cross Government Debt Group, the Fairness Group and the Finance Leadership Group Debt Sub-Group.

4.3 Debt management in organisations

Those responsible for debt shall set out their organisation's approach to managing debt through a documented debt management strategy.

The purpose of an organisation's debt management strategy is to set strategic debt management objectives and to outline how debt should be managed in order to achieve these objectives.

The debt management strategy:

- shall be consistent with the cross government debt management strategy
- should align to best practice across government
- should promote (where commercially viable), but not default to, the use of common Government as a Platform (GaaP) services such as Verify, Notify and Pay
- should cover a minimum period of 5 years from the date of draft / refresh
- should be approved by the appropriate board(s) or executive committees and operational leads
- should be submitted to the senior lead for debt in the centre and HM Treasury spending teams for scrutiny and comment
- should take into account a forecast of debt balance data

Note: this should be a forecast or estimate and should not be treated as a target.

Once formally approved, debt management strategies should be shared with those responsible for debt within other organisations to support a collaborative, cross government approach.

Debt management strategies should be reviewed annually by those responsible for debt in order to ensure they remain relevant, and compliant with the guidance set out by the senior lead for debt in the centre and HM Treasury spending teams.

A debt management strategy should cover end-to-end debt management, from debt creation to collection or write-off, and should include, but not be limited to:

- the organisation's vision, aims and objectives for debt management
- a set of strategic goals against which progress is tracked over time
- an outlined use of communication channels or a channel strategy, which considers debtor self service, where appropriate and supported by a suitable IT infrastructure
- a framework of practices that is used to encourage compliance and deal with instances of non-compliance
- an approach to debtor segmentation including segment definitions and criteria
- the practices defined sections 5 and 6 of this standard

Note: a set of strategic goals is not a detailed implementation plan.

The following should be taken into account when developing a debt strategy:

- organisation / function design
- commercial strategies
- change control
- people and professionalism
- management information and reporting
- data and security policies

Note: see 'GovS 007: Security' for more information on security policies.

All debt management strategies shall be consistent with the principles set out within:

- Managing Public Money [1] and the
- Consolidated Budgeting Guidance [2]

Note: the Consolidated Budgeting Guidance does not apply in instances where no budget is held.

4.4 Assurance

Assurance is the systematic set of actions necessary to provide confidence to senior leaders and stakeholders that work is controlled, on track to deliver and aligned with policy or the department's strategy.

Organisations should have a defined and consistent approach to the assurance of debt management.

4.5 Roles and responsibilities

Roles and responsibilities for those working on debt in government should be defined. This includes, but is not limited to, who each is responsible to and what activities, outputs or outcomes they are responsible for.

4.5.1 Senior lead for debt in the centre

The Cabinet Office, alongside HM Treasury, acts as the strategic centre of government.

The senior lead for debt in the centre shall be responsible for the preparation, agreement and distribution of the cross government debt management strategy and for ensuring this strategy is applied in all parts of government, through the communication of good practice.

The senior lead for debt in the centre should also be responsible for:

- developing, maintaining and providing assurance over this functional standard
- engaging with organisations to identify and share best practice
- providing expert advice and support to organisations

4.5.2 Accountable individual in a government organisation

Organisations should have an accountable individual at board level who is responsible for debt.

The accountable individual should provide leadership to ensure the organisation is managing debt effectively. In discharging that responsibility they should:

- work with the organisation to meet this functional standard
- ensure accountability for debt is clearly understood across the organisation
- actively seek out and integrate best practice in debt management
- support delivery of the work of the debt function in the organisation
- ensure the organisation has a senior lead for debt

It is possible for this accountability to be split between different board members. However, where this is the case, those with accountability should be accountable for specific areas of the business (rather than have joint accountability), and this accountability should be recorded and recognised by the board.

4.5.3 Senior lead for debt in a government organisation

Each organisation should have a senior lead with day-to-day responsibility for debt. In discharging that responsibility they should:

- work with the senior lead for debt in the centre to implement the cross government debt management strategy within the organisation

- work with the organisation to meet this functional standard
- co-ordinate, develop, communicate and review the organisation's debt management strategy and related strategic initiatives
- co-ordinate, develop, implement, promote and review the organisation's debt related policies
- ensure others are appointed in additional roles in order to manage debt effectively (see 4.5.4)

4.5.4 Additional roles

Additional roles required to manage debt effectively might include, but not be limited to:

- debt operational lead – responsible for managing resources and administering business practices to deliver effective debt management services
- debt commercial lead – responsible for overseeing commercial relationships to ensure compliance with the organisation's goals
- customer relationship lead – responsible for managing an organisation's relationships and interactions with customers (or debtors)
- finance performance management lead – responsible for developing performance measurement frameworks and analysing the performance of debt management services
- debt process owner – responsible for the overall management of processes within the organisation
- strategic design authority – responsible for defining common design principles and providing assurance that solution designs are fit for purpose, meet requirements and integrate with existing architecture
- operational delivery teams – responsible for the management of debt, at a working level, throughout the debt lifecycle outlined in section 5

Other management and team roles should be defined to suit the needs of the work required, for example those managing the development of specialist services such as enforcement teams, data guardians and data security leads.

5 The debt lifecycle

Organisations should use a single debt management application to account for all debt and process any debt management activity throughout the debt lifecycle (Figure 2).

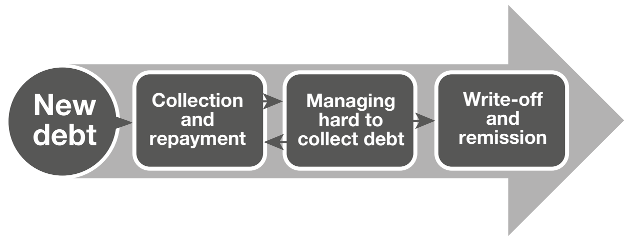

Figure 2 – The debt lifecycle

Where this is not possible, and where legislation and procedural differences allow, a plan should be in place to work towards this.

Handoffs and interfaces with other debt management applications within the same organisation should be defined and minimised.

An integral part of the debt management process is the raising of debt. Debt management applications shall facilitate the raising of debt, either directly within the application or via a referral from another party.

Note: see 'GovS 013: Counter Fraud' for more information on activity to detect fraud and error.

5.1 New debt

Those responsible for debt should document the process for raising debt or receiving debt referrals. This should set out how organisations expect to interact with debt referring bodies and/or the exact steps that need to be taken in order to raise a debt within the debt management application. If the raising of debt is dictated by legislative frameworks, or from an imposition of the court, any additional documentation should not be required.

Where the process for raising debt is dictated by legislation those responsible for debt should ensure that this process is kept up-to-date with legislation.

The time taken between debt raised / referral loaded and recovery action initiated should be agreed by those responsible for debt, documented through service level agreements (or similar) and linked back to debt strategies.

The cause of debt should be understood, documented and accessible to support:

- conversations with the debtor (where this doesn't contradict procurement policy, commercial arrangements or data destruction agreements)
- work to help prevent or deter future debt instances

5.2 Collection and repayment

5.2.1 Negotiation

Organisations should use relevant sources of data and information to make informed decisions about a debtor's individual circumstances, taking into account an individual's ability to pay (see Annex D).

Where legislation permits, operational delivery teams should use a repayment framework or process, documented by those responsible for debt, to support negotiations and decisions.

This framework or process should be supplemented with a:

- documented range of communication channels offered for inbound and outbound debtor communications
- documented range of acceptable payment options (for example: direct debit, Faster Payment or BACS)
- toolset which facilitates assessment of income versus expenditure, including in work and out of work considerations, along with the ability to take irregular income into account

Any negotiations undertaken should consider the total balance owed by the debtor, across all accounts managed by the organisation. To assist with this, wherever policy and technology allows, an aggregated, consistent and holistic representation of the data relating to the debtor should be able to be viewed in one place.

5.2.2 Managing repayment

Collections strategies and processes should be reviewed on an on-going basis by a Strategic Design Authority (or equivalent) within the organisation, with the support of those responsible for debt and relevant internal senior governance boards or executive committees.

Where legislation permits reviews should be built into all repayment plans to re-assess affordability and ensure that sustainable and fair repayment plans remain in place, in line with any judicial decisions.

To avoid triggering unnecessary reviews, those responsible for debt should, where legislation permits, agree and apply tolerance limits for under-payment and over-payment against repayment plans.

Note: for example if a debtor has agreed to pay £100 per month but subsequently only pays £97 per month the plan should not require a review.

To ensure complete clarity for the debtor, those responsible for debt should set out exactly how any monies collected shall be attributed to individual debtor accounts. This should include, but not be limited to:

- a maximum period of time, usually 24 hours, within which any cleared payments received directly from the debtor shall be attributed to the debtor's account (assuming the correct supporting information is supplied)
- a maximum period of time, usually 5 working days, within which any cleared payments made to a third party debt collection agent shall be attributed to the debtor's account (assuming the correct supporting information is supplied)
- a maximum period of time, usually 24 hours, within which any payments which cannot be attributed to debtor accounts are moved into a suspense account
- a time period within which any payments held within the suspense account are reviewed and attribution to debtor accounts attempted
- a clear priority recovery order, which drives payment attribution in cases where multiple debts are owed by the same individual or business

Note: a priority recovery order should be developed unless there is legal advice to the contrary, for example that the debtor shall determine the order in which debt is recovered.

5.2.3 Debtor segmentation

Organisations should use automated debtor or debt segmentation to drive work priorities, optimise interventions (through risk profiling) and trigger debtor communications or alternative collections strategies across multiple segments of debt (subject to system constraints).

Organisations should use data analytics to inform and develop debtor or debt segmentation strategies, informing the prioritisation of collection activities to maximise recoveries and reduce cost.

Organisations should use behavioural insight to inform debtor or debt segmentation and influence debtor communications, driving better outcomes for both government and debtors.

Testing and trialling of new capabilities and alternative collections strategies should be supported by functionality that enables comparison of two or more strategies in order to identify the one that performs the best.

5.3 Managing hard to collect debt

5.3.1 Dealing with non-compliance

Debt management practices should be supported by policies, or legislation, that sets out, but is not limited to:

- minimum and maximum rates of recovery
- a deterrent aspect
- how debt, which has occurred through fraudulent activity, can be recovered
- how fines can be recovered

Organisations shall encourage debtors to voluntarily comply with legislative requirements.

Those responsible for debt should clearly define and document practices that can be operationalised and used to deal with non-compliant debtors.

Key measures covering debtor interaction should be documented by those responsible for debt within a customer charter. The charter should provide a framework further defining what debtors can expect from the organisation, and what their responsibilities are in return.

Note: customer charters can cover a wide range of services, extending beyond debt specific elements. In these instances the documents may be developed outside of the debt function.

To encourage necessary interaction there should be a local rate telephone number available for debtors (and non-fee debt advice services) to use to interact with organisations.

All interactions with debtors and/or their representatives should be recorded and date stamped within the organisations debt management application in order to:

- ensure application users are always up to date with the most recent debtor interaction
- ensure application users can view the service history with a debtor and resolve any account issues or complaints
- minimise miscommunication if the account is handled by multiple application users
- record debtor's needs and preferences

To prevent duplicate debt management activity taking place debtor accounts should be automatically annotated to indicate instances where enforcement activity has been undertaken or the account has been referred to, or from, a third party.

Those responsible for debt should clearly define and document a maximum period of time, usually 24 hours, within which these updates should be applied. Any exceptions to this should also be documented.

Note: for example, where there is an on-going criminal investigation it might not be appropriate to update the debtor's account.

5.3.2 Use of third parties

Organisations should have access to third party debt collection agency services, analytical services and behavioural insight services in order to add capacity and capability wherever needed to support debt recovery, including the management of non-compliant debtors.

To make best use of the government's buying power third party services should be accessed through a framework or similar cross government commercial arrangement and managed by a government department or executive agency.

Commercial arrangements with third parties should be in accordance with GovS 008: Commercial.

The organisation's debt management application should automatically identify situations where access to third party services should be considered, in line with the relevant collection strategy.

Where an address is held debtors should be automatically notified of referral, or intended referral, of their account to a third party where debtor facing debt management activity shall be undertaken. Consideration should also be given to how accounts are managed back in to the organisation following placement.

Note: it is recognised that this might not always be possible. For example where address details are incomplete or unconfirmed.

5.3.3 Enforcement

Those responsible for debt should have access to enforcement services to support debt management, including the management of hard to collect debt, when cost effective to do so.

Those responsible for debt should clearly define supporting rationale, including value limits, for debt to be taken forward for enforcement.

To ensure consistent application of rationale and / or value limits the organisations debt management application should automatically identify situations where enforcement action should be considered, in line with the relevant collection strategy.

Due to the specialist nature of the service any enforcement action should be undertaken by, or in consultation with, specialist enforcement teams.

5.4 Write-off and remission

Organisations should have clear, documented, write-off and remission policies and practices that shall be in line with HM Treasury guidance and legislation.

Note: see Managing Public Money [1] for further guidance.

To ensure regular application of policies and practices, write-off and remission should be part of the end-to-end debt management process and should be built into debt collection processes and automated, wherever policy and technology allows.

All non-automated write-offs should be subject to approval by those responsible for debt before being committed to a debtor's account.

Reasons supporting write-off and remission should be recorded on the debtor's account immediately prior to any activity to adjust the debt balance, or as part of the balance adjustment activity.

6 Debt management practices

6.1 Vulnerable debtors

Operational practices should, where legislation permits, treat debtors in a manner appropriate to their circumstances.

There should be specific policies and practices in place to help identify and deal with those who are considered vulnerable, or those in hardship (see Annex D).

This should include, but not be limited to:

- specific training to help operational delivery teams identify and / or deal with vulnerable debtors or those in hardship
- clearly understood indicators of vulnerability, including financial vulnerability, documented by those responsible for debt

Those responsible for debt should document clear referral strategies and signposting mechanisms to direct vulnerable debtors, or those in hardship, to appropriate internal or external advice and support.

Where legislation permits policies, strategies and practices should make provision for payment holidays, remission processes, longer collection timescales and other alternative collections strategies.

Policies should also consider additional costs, and how these are passed on to the debtor.

Note: for example reduced interest rates or suspension of late payment penalties could be considered.

There could be discreet, specifically trained, internal support teams who can spend more time dealing with vulnerable debtors, or those in hardship, and offer a more personalised service.

Note: it is recognised that this might not always be possible given organisational constraints.

6.2 Management information and data

Those responsible for debt should, where legislation permits, agree and document a mandatory data requirement, tailored to their individual organisation, which should be used within the debt creation process.

Where legislation permits any referrals or new debts which do not include the mandatory data should be rejected and returned to source for remedial activity.

Mandatory data should be appended with a set of optional data, agreed by those responsible for debt, tailored to each organisation.

Further data enrichment shall be supported by appropriate data sharing agreements, utilising the legislative cover provided through the Digital Economy Act [3] where needed.

All data referred or input as part of the new debt process should be validated, with any anomalies identified and resolved. The process for validating data, including any confidence rating applied to individual data items, should be documented by those responsible for debt and data guardians, and reviewed periodically.

To ensure referrals are loaded onto debt management applications in a robust and auditable way, the referral process should be supplemented with a receipting or 'handshake' process, documented and agreed by those responsible for debt and data security leads.

Note: this does not apply to debt raised directly within the organisations debt management application.

To minimise the possibility of error or duplication of data there should be a single data source that supports all management information and reporting within an organisation.

6.3 Reporting

Those responsible for debt should regularly report on debt management activity to an appropriate internal board and HM Treasury spending teams. Reporting should include an agreed set of key performance indicators (KPIs), focused wider than debt recovery, that underpin performance discussions and reporting.

All organisations shall meet the data provision requirements and timescales set out by the senior lead for debt in the centre and HM Treasury spending teams.

To ensure the latest information is always available to operational teams reporting should be updated in real-time, or within an acceptable period set by those responsible for debt.

The reporting catalogue should be reviewed regularly by those responsible for debt and redundant or duplicate items removed.

Note: see 'GovS 006: Finance' for more information on reporting, including reference to use of the Financial Reporting Manual.

A. References

ID	Description
1	Managing Public Money, HM Treasury (2013)
2	Consolidated Budgeting Guidance, HM Treasury (2018)
3	Digital Economy Act (2017)

B. Glossary

Term	Definition
Aged debt	A debt that is overdue by 181 days or more.
Debtor	A person or organisation that owes money to another party.
Handshake	Handshaking is a technique of communication between two entities. A simple handshake might involve the receiver sending a message saying “I received your last message and I am ready for you to send me another one.”
Overdue debt	Overdue debt is a receivable that has not been paid by the due date, where the due date is defined as a specified period for payment, or the first date following a specified period of appeal from when a charge is raised. Generally speaking, this is when a payment is missed by 1 day, or trade receivables missed by 30 days.
Payment Holiday	A period within which payments do not need to be made.
Receivable	A receivable is money owed to the government and is represented as an asset. In financial statements these are categorised between current (receivable within 12 months), and non-current (receivable after 12 months or more).
Remission	Remissions are debts capable of recovery but the department has decided not to pursue the liability on the grounds of value for money or hardship. As with a write off, this would be recorded in the annual report and accounts as a reduction in the value of the receivable, or as an expenditure.
Write-off	Writing down of a receivable balance in the annual report and accounts below its original value. Only receivables that are considered irrecoverable can be written off, although they could still legally be collectable. Court fines and confiscation orders can be cancelled as a result of a judicial decision, and will be written off. These will all result in a charge to the Income and Expenditure account and a reduction to the receivables balance.

C. Explanation of a receivable and of overdue debt

Explanation of a receivable

A receivable is money owed to the government and is represented as an asset. In financial statements these are categorised between current (receivable within 12 months), and non-current (receivable after 12 months or more).

Receivables exist as a result of a transaction which has happened, such as the delivery of a service or good that hasn't been paid for yet i.e. the cash has not been exchanged. It can also be the result of a payment being made which shouldn't have been and is now recoverable, such as a benefit or tax credit overpayment, or a fine or loan has been issued. The income will have already been recognised in the financial statements. For DWP loans, the income is recognised at the recovery date.

Receivables are assessed for their collectability and shown in the financial statements net of a provision for impairments and debt written off.

Receivables are a normal part of how finance flows between organisations. It is natural for there to be a time lag between a chargeable event and the cash changing hands.

When a receivable is recognised there is usually a date when the receivable has to be paid by – the due date. It is only when this agreed due date has passed, plus any formal appeal period, that the receivable will become overdue.

Explanation of overdue debt

Overdue debt is a receivable that has not been paid by the due date, where the due date is defined as a specified period for payment, or the first date following a specified period of appeal from when a charge is raised. Generally speaking, this is when a payment is missed by 1 day, or trade receivables missed by 30 days.

This overdue debt is legally collectable and enforceable. Overdue debt only includes receivables that have passed their due date, and all appeal processes.

Overdue debt does not include receivables being recovered as part of an agreed payment process that have not past their due date. This includes receivables which are being netted off future payments, such as tax credit cross recovery and coded out debts, and deductions from an on-going benefit award, or other method agreed with the debtor i.e. direct debit, on-going direct payments, etc.

When more than one deduction is being taken from an on-going award, all deductions will be classed together and will not be considered overdue, as long as these deductions continue in the future.

Recovering a loan, fine, confiscation order, or other court financial imposition as part of an agreed plan within an agreed timeframe, that was established before the receivable became overdue, will also not be classed as overdue debt.

D. Principles of fairness for government debt collection

The government aims to be conscious of the impact debt collection practises have on vulnerable customers and customers in hardship. The Government also needs to ensure fairness to taxpayers and those that do pay on time, by taking a proportional response to those that do not. We also need to ensure we have the right deterrents in place.

Our aim is to ensure repayment plans are affordable and sustainable. This should balance the need to maximise collections, while taking affordability into account. This may be achieved by using relevant sources of data and information to make informed decisions about a customer's individual circumstances and their ability to pay. Where appropriate, this process could include:

- An assessment of income versus expenditure to create a tailored and affordable repayment plan based on in work and out of work considerations, including the ability to take irregular income into account;
- Consideration of the need for forbearance in cases of vulnerability and hardship;
- Where a vulnerable customer is identified, they should be given appropriate support and advice, which may include signposting to non-fee paying debt advice agencies;
- Government should deal openly with non-fee paying debt advice agencies who are helping customers in debt; and
- Communication should clearly set out relevant information to enable the customer to take action, and encourage them to engage with the Government.