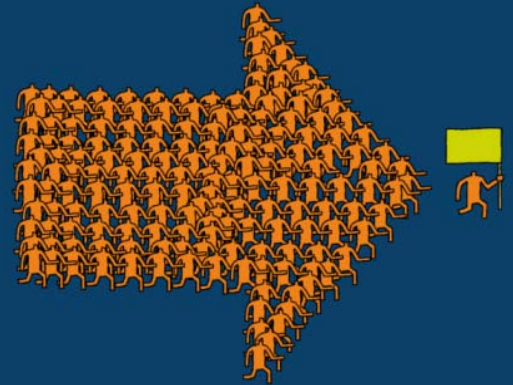


CHANGE OF DIRECTION



Julie Cave examines credit management performance



Cave: Managing Director of Credit Management (Law) Ltd

A wind of change is blowing through the legal world and the quick to react have filled their sails and are on course for calmer waters. Chambers are becoming more entrepreneurial in order to increase business, whilst protecting profits and mitigating financial risk.

A glance at the accounts can give an instant image of chambers' performance and as the sales ledger can account for 40 *per cent* or more of assets, many sets are turning their focus to credit management in order to counter growing cash-flow risks.

To some, credit management simply means debt collection, but to the wise it is a comprehensive and invaluable set of management practices, carefully devised and infinitely adaptable to provide maximum financial stability – especially during periods of economic uncertainty.

Introducing the aged debt

The primary tool used in credit management is the aged debt report as it details all billed fees that have been issued but have yet to be paid. When addressing overdue accounts, or analyzing cash flow, it is important that the aged debt determines the position in the specific overdue period (age band) from the date of the fees note and calculates this using the specific number of days allowed before payment becomes due for

each work type. The result is a single report providing a management summary of all bills raised.

A chambers that operates terms of business for all instructions will have clarity on payment due dates and therefore will find it easier to create an accurate report. Whilst specialist software makes creating the reports quick and easy, it is possible to use a simple spreadsheet package. Once the basic data is input, sorting the data in different ways allows the development of a package of detailed reports that can be produced as required. Regular analysis of the aged debt and making comparisons of snapshots taken at each month end becomes a useful opportunity for action planning and setting goals for financial targets.

Costs arising from aged debt balances

Clearly, having unpaid fees ties up revenue that could be used elsewhere and therefore an aged debt with high overdue balances has a cost to chambers. In effect, the aged debt represents credit granted to debtors for the period that it remains outstanding. Interest on capital is lost for the overdue period. As tax is payable on services billed, rather than services paid for, this incurs further cost. A lack of cash flow may lead to barristers resorting to obtaining a loan against the value of the aged debt. Several financial companies and banks offer this facility, but again at a cost to

chambers. Last but not least, there is the hidden cost of clerks spending more time than necessary chasing unpaid fees.

In addition to enabling chambers management to set priorities on fees recovery, manage lock-up, set targets that deliver financial strategy objectives, monitor payment trends and feed data into cash flow forecasts, there are a range of other benefits that working with the aged debt can deliver.

Furthermore additional reports useful for maximizing cash flow include debts analyzed by reason code, and disputes analyzed by reason code.

Debts by reason code

There are many reasons for debts remaining unpaid, such as client's temporary cash flow problems, quality of service, or fees note not received. If reason codes are set up and applied to each unpaid bill, it is possible to calculate the sum ultimately recoverable and how much debt will need be written off. It will also become apparent if there are any training needs leading to quality issues and identify those who will benefit from assistance with fee collection. Once the reasons for non-payment are known, appropriate resource can be applied to get the cash flowing again.

Debt situations are often temporary, so it is preferable to remain on good terms with the "debtors" that can be retained and returned to "client" status.

A typical aged debt report

			Overdue period								
Client	Barrister	Ac No	Total	Current	< 30 days	31 - 60 days	61 - 90 days	91 -120 days	> 120 days	Overdue	
A	1	A01	£4,714.49	£0.00	£2,466.02	£2,248.47	£0.00	£0.00	£0.00	£4,714.49	
B	1	A02	£88,326.73	£88,326.73	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	
C	2	B12	£10,360.58	£0.00	£0.00	£0.00	£0.00	£0.00	£10,360.58	£10,360.58	
D	2	B31	£209,131.35	£598.00	£89,694.46	£80,413.79	£2,332.20	£8,282.45	£27,810.45	£208,533.35	
E	3	C01	£7,715.85	£0.00	£4,375.40	£3,340.45	£0.00	£0.00	£0.00	£7,715.85	
F	3	C22	£35,679.90	£0.00	£5,493.80	£12,214.20	£7,781.09	£7,486.96	£2,703.85	£35,679.90	
G	4	C24	£187,872.25	£3,303.73	£0.01	£0.00	£0.00	-£261.92	£184,830.43	£184,568.52	
H	4	C31	£3,104.32	£0.00	£0.00	£0.00	£0.00	£0.00	£3,104.32	£3,104.32	
Total			£546,905.47	£92,228.46	£102,029.69	£98,216.91	£10,113.29	£15,507.49	£228,809.63	£454,677.01	
			100.00%	16.86%	18.66%	17.96%	1.85%	2.84%	41.84%	83%	

Notes

- Column A contains the name of the client - eight have accounts billed not all of which are overdue
- Column B contains details of the Barrister acting on each case - our example shows four Barristers with two clients each with bills unpaid
- Column C contains the account number with the alpha prefix denoting the case type. There are four Barristers working on three case types with eight accounts unpaid
- Column D contains the sub total of each clients unpaid bills with the grand total of all unpaid bills in row 10
- Column E contains values for only bills that have not yet fallen overdue - the grand total for all clients is shown in row 10
- Columns F to J the shaded columns, contain values for bills that remain overdue for the age band denoted at the head of the column in row 1
- Column K contains the subtotals by client of all overdue bills as well as the grand total for all overdue bills in bold in row 10
- Row 10 shows the subtotals of all clients by age band, the total overdue value in column K and the grand total in column D
- Row 11 shows each age band total as a *per cent* of the grand total

The headline figures

- * 83 *per cent* of all fees billed are overdue
- ** 16.86 *per cent* of fees are not yet overdue - these should be included in any fee income estimates for future months
- *** The majority of overdue fees (41.84 *per cent* valued at £228k) have remained unpaid for more than 120 days
- Case types B & C are showing a greater risk of late payment than type A

Disputes by reason code

A report identifying all “disputed” invoices recording the reason for the dispute, supported by notes of action taken in each case, enables the CEO or senior clerk to progress matters through to a resolution in the shortest timeframe. Put simply, having removed the reason for non-payment, cash flows again.

Monthly progress reviews ensure that matters never stagnate. These can also double up as skills audits and opportunities to praise individuals for work well done.

to communicate with clients. If client contact is made throughout, rather than just when a problem arises, dealing with financial issues will be much less stressful.

When handled well, difficult calls concerning disputes, or even fees recovery, can lead to stronger relationships and more business. It is important to see these calls as an information gathering exercise - many such conversations lead to market intelligence being gained and when shared with the relevant personnel, further instructions result.

be an integral part of chambers management practice. There are tangible benefits to enhancing the skills of staff working with this tool. Exploiting the information gained will directly enhance the speed of cash flow, help rehabilitate temporary debtors, crystallize perception of client service, identify opportunities for obtaining further instructions and improve client retention. Accordingly there is a clear case that they make a direct contribution to profit.

Client communication

Regular review of the reports provides an additional opportunity

Conclusion

Credit management, with the aged debt at its heart, should

Julie Cave

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