

Somerset County Council
Audit Committee – 21 June 2018

Debtor Management and End of Year Performance

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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

- 1.1. This report reviews the recovery of outstanding debts (monies owed to SCC) for the 2017/2018 financial year, including the performance and position at year end. The report also shows the latest available position in terms of outstanding debts and their composition as at the end of April / May 2018.
- 1.2. The achievement of good performance in this area is linked to the County Plan in relation to “bring in more funding and resources”.

2. Issues for consideration

- 2.1. Members are asked to comment on the position in relation to outstanding debt performance at the end of the financial year and previous month.

3. Background

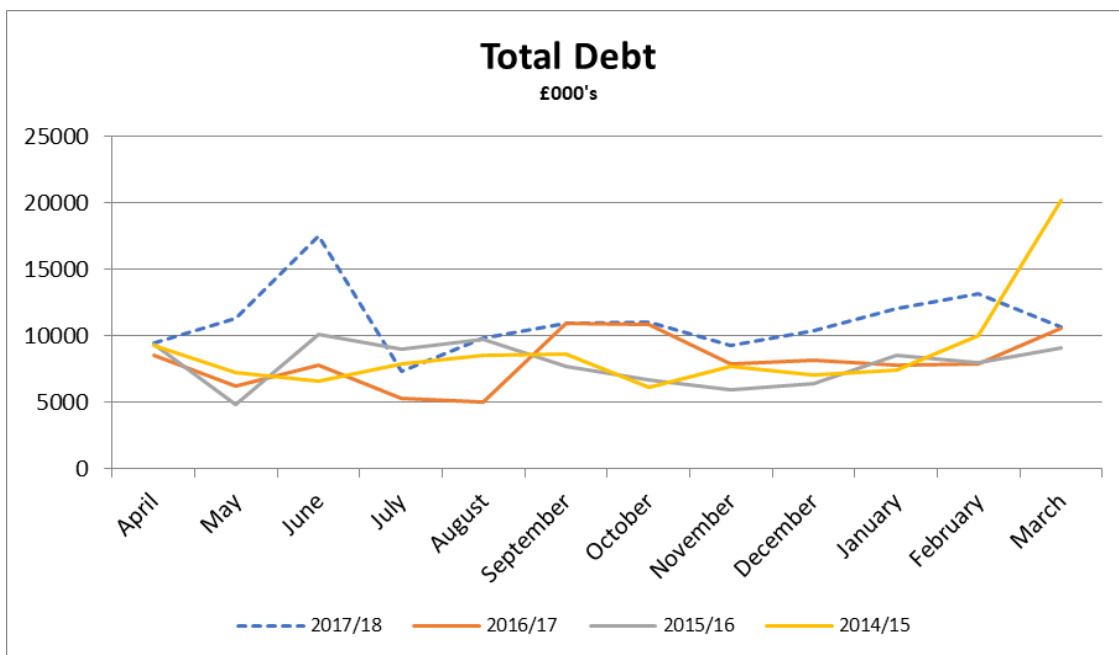
3.1. Headline figures as at 31st March 2018

Services’ total net outstanding debt reported on the Accounts Receivable system stood at **£10.647m** as at 31st March 2018. This compares with a figure of £10.583m as at 31st March 2017.

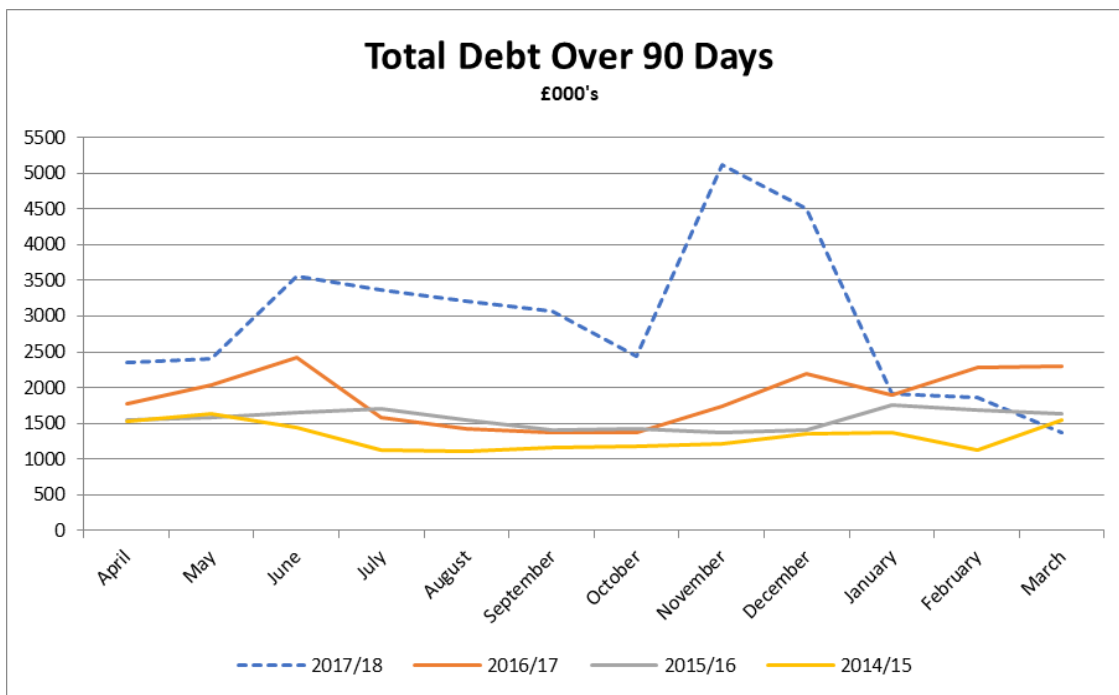
The percentage of debts over 90 days as at 31st March 2018 was **12.92%**, which compares to 21.47% over 90 days as at 31st March 2017. A breakdown of the larger debts and debtors by category is included below. Our long-term target, which would demonstrate a strong performance, is 15%.

The graph below shows the total debt outstanding over the last 4 years. The total debt figures for 2017/2018 (the dotted line) show that the amount of debt outstanding during the last financial year was consistently higher than on previous year.

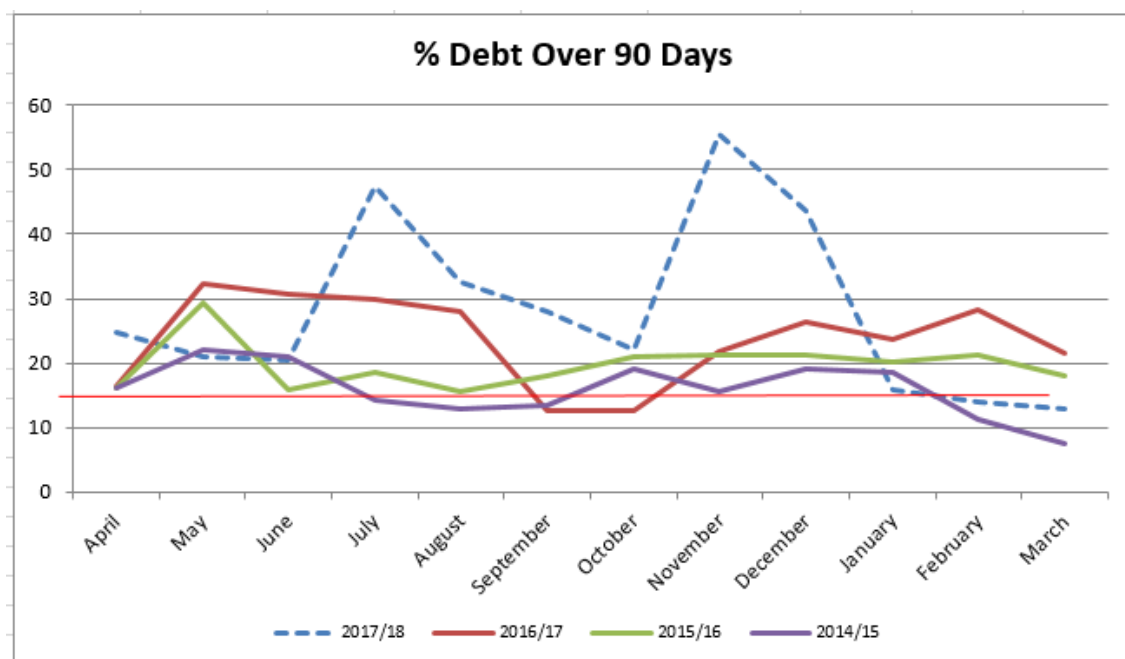
In itself, outstanding debt is not an issue for the County Council, and it would not be a problem if the total amount of fees and charges raised at any one time were to increase as services sought to maximise income.



The graph below shows that, whilst our outstanding debt is higher, the last quarter of 2017/2018 showed a marked improvement in collecting the debts before 90 days have elapsed. Members will recall previous reports for the summer period last year, where the difficult to collect debts were excessive. The roll-out of the new Income Code of Practice (from November's Audit Committee meeting) is also clearly having an impact.



As a result, the percentage of debts over 90 days old has decreased significantly in the final quarter of 2017/2018 as per the graph below. This is the best quarter for the particular performance indicator since the final quarter of 2014/2015.



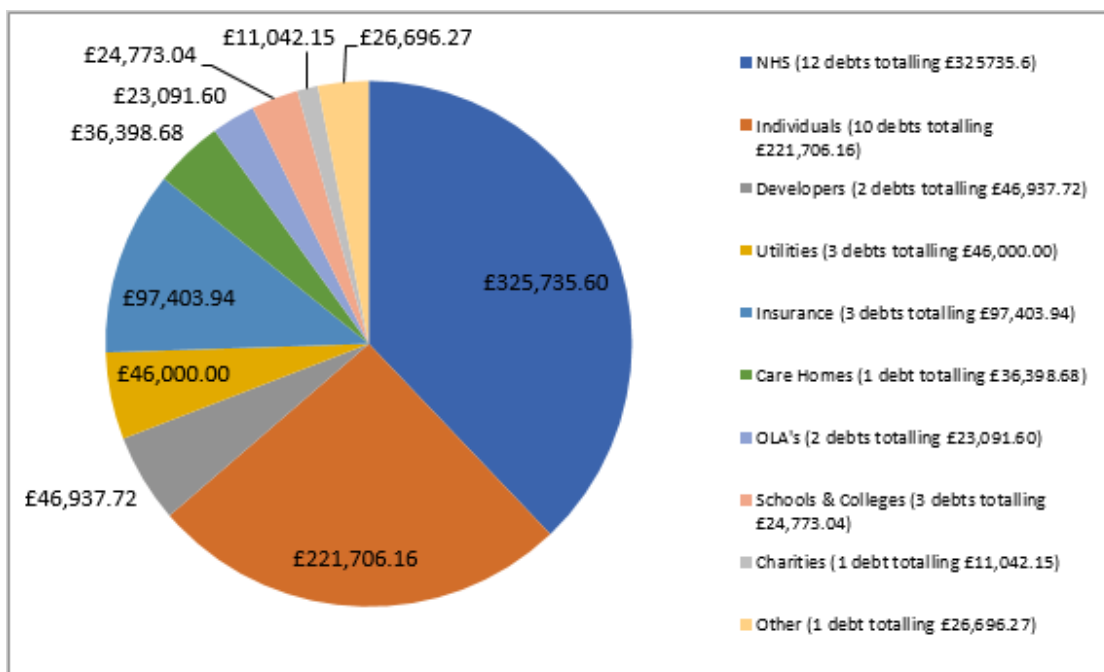
3.2. Breaking down the year end debt position

At the year end, the over 90 days debt totalled £1.376m. Thirty-eight of these debts were over £10,000 in value, and these large debts comprised **£0.860m**, or 62.5% of the total debt over 90 days. This again represents significant progress since the last Debt Management report to Audit Committee, where the value of debt over 90 days and over £10,000 in value was **£1.355m**.

The pie chart below demonstrates the category of debt and value making up these large debts at 31st March 2018.

The composition of this large and older debt is as per previous reports in 2017/2018, with health debts still being the largest single contributor. However, even this figure is a substantial reduction on previous months, where this was regularly in excess of £1m.

As at the start of June, 13 debts of these large debts recorded at 31st March 2018 had been paid from this figure, with a total value of £0.330m. This included 7 health debts cleared (£0.202m).



3.3. Year End Write-Offs

One of the key measures that we bring to Audit Committee when reporting year end is the amount and reasons for debts being written off. Figures that come from the Accounts Receivable system have shown a consistent performance in this area when compared to previous years.

The measure we have again used is the gross debt raised, less any credits raised against this figure such as for reissues, errors and so on. Officers believe that this is probably a more accurate value of collectable debt raised than simply the gross debt raised.

The net debt raised was £87.320m, and the net write-offs were £0.221m, giving a **99.75% collect rate**. This is very much in line with previous years' performances – 2015/2016 was 99.82% and 2016/2017 was 99.86%.

3.4. Causes of write-offs

The new Income Code of Practice now requires a suitable reason for write-offs to be made, in addition to having the necessary authority to do so. The write-off form has been redesigned for 2017/2018, and therefore the amount in "Other" has been better analysed than in previous years. (It is still possible that there might be a certain amount of overlap between "Not cost effective to pursue" and "All debt options exhausted").

The causes are analysed in the table below: -

Reason Quoted	2016/2017	2017/2018
Not cost effective to pursue	13.82%	42.25%
All debt options exhausted	23.91%	27.06%
Deceased	24.35%	17.55%
Unenforceable	11.60%	9.23%
Insolvent/bankrupt/administration/liquidation	6.51%	1.19%
Other	19.80%	2.71%

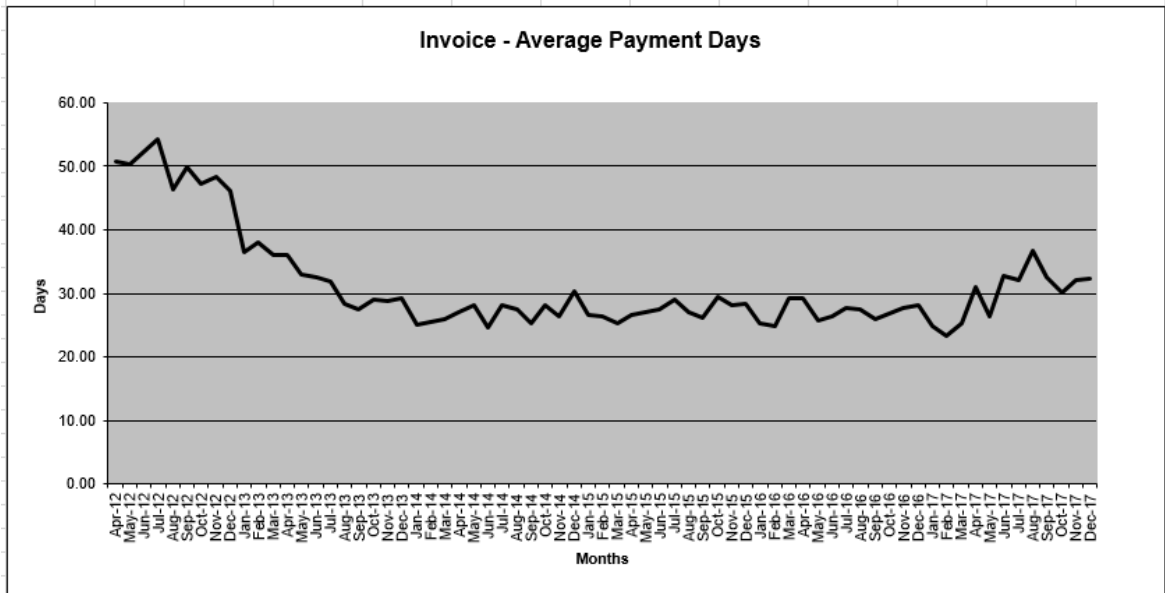
“Other” covers a wide range of reasons, such as when we are unable to trace a debtor, Court Orders, where a settlement is reached, where an error has been made (by us), service decisions not to pursue, exchange rate differences or when the Statute of Limitations has been reached.

The single most common cause for write-offs remains a simple economic test. At a certain point in the process, depending on the outstanding value, the costs of proceeding with legal debt recovery (i.e. the costs and fees of issuing court proceedings, which may not be recoverable), can outweigh the amounts to be recovered. Typically, such smaller debts have been pursued up to the “Letter Before Action stage”, when a decision is made whether they are indeed cost effective to pursue. The new Income Code of Practice sets out the relevant values for not pursuing debts when it becomes uneconomical.

It is not yet clear whether the Pre-Action Protocol relating to debts from individuals and sole traders is impacting on our write-offs.

3.5. Average payment days

The other criterion that officers consider important in debt collection is the calculation of the average number of days for an invoice to be paid. Obviously, this cannot be calculated until a sufficient period of time has elapsed to allow for debts to be paid, so our latest analysis is for December 2017 at 32.34 days.



Whilst this is an improvement on the summer months, this still needs to be brought down, and the further roll-out of training and embedding of the Income Code of Practice should improve this performance. This figure has been (just) in excess of 30 days for 6 consecutive months of analysis.

3.6. Latest debt figures and significant debts outstanding

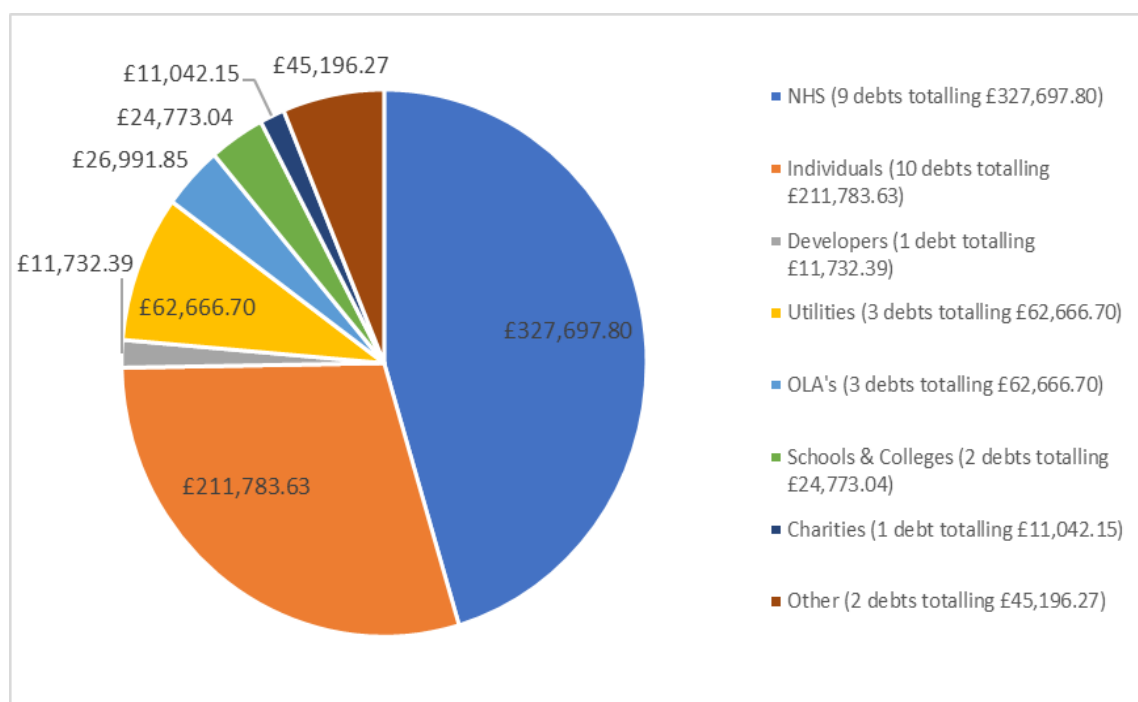
Services' total net outstanding debt reported on the Accounts Receivable system stood at **£11.355m** as at 30th April 2018. This compares with £11.535m as at 30th April 2017.

Debt over 90 days stands at **£1.035m** as at 30th April 2018, which equates to just **9.11%** of the total debt. This compares with £2.356m as at 30th April 2017, which was 20.43% of the total debt. The 9.11% performance is the best that we have ever recorded.

3.7. Breakdown of latest debt figures

There is a total of 31 debts over 90 days old and over £10,000 as at the end of May 2018. In total, these larger, older debts total **£0.722m**.

The breakdown of these larger debts is very similar to the end of year figures, albeit that both the number and the value are slightly less:-



4. Consultations undertaken

4.1 Debt management is considered monthly at the Finance and Performance Management Team meetings. Debt is also regularly reported to Cabinet.

5. Implications

5.1 If debt is not collected promptly it greatly increases the risk that it may need to be written off which has an impact on the revenue budgets of services. It will also have a (smaller) impact on cashflow costs for the County Council.

6. Background papers

- 6.1.** Previous reports to Audit Committee, including the Income Code of Practice (November 2017).
- 6.2.** Pre-Action Protocol documentation and requirements.

Note For sight of individual background papers please contact the report author