

Somerset County Council  
Audit Committee 30 January 2020

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## Debtor Management

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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 the Council) and the current performance. The analysis below is based on the total of annual debt raised which is between £120m - £135m. The monthly outstanding debt can range between £7-20m.
- 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 December 2019.

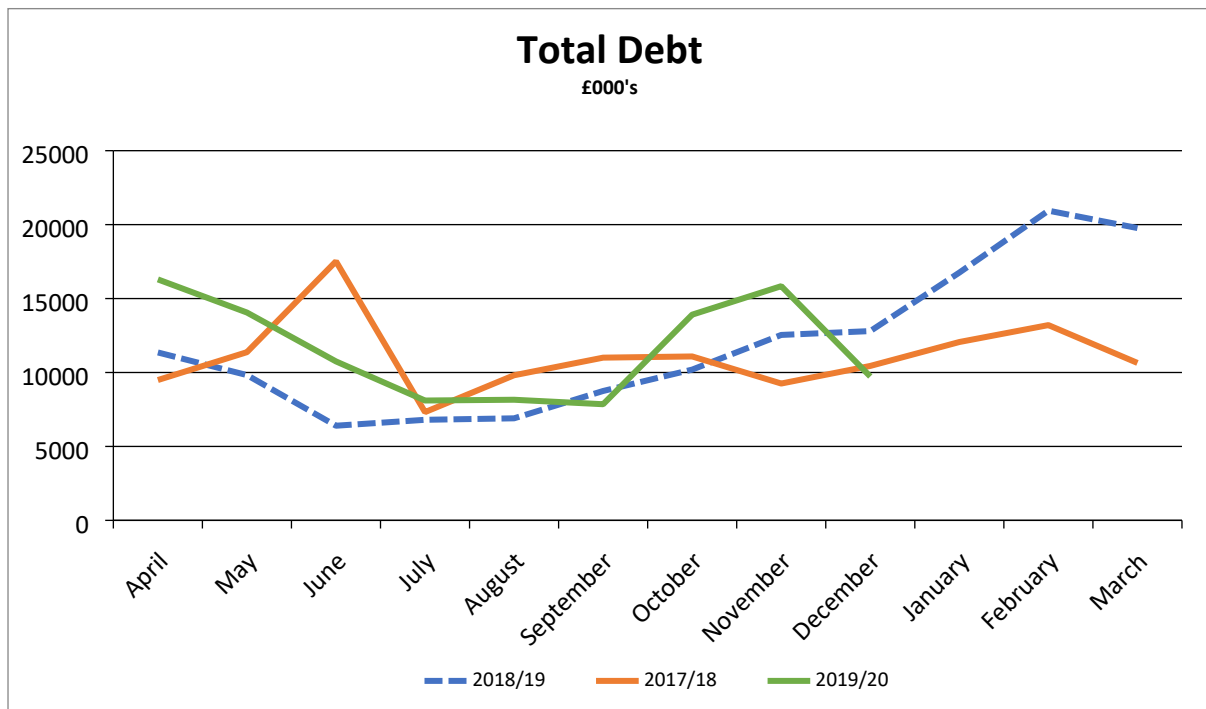
### 3. Background

#### 3.1. Headline figures as at 31 December 2019

Services’ total outstanding debt reported on the Accounts Receivable system stood at **£9.730m** as at 31 December 2019. This compares with a figure of £12.832m as at 31 December 2018, and £8.105m, which was the 31st July 2019 figure in the last report to Audit Committee in September 2019.

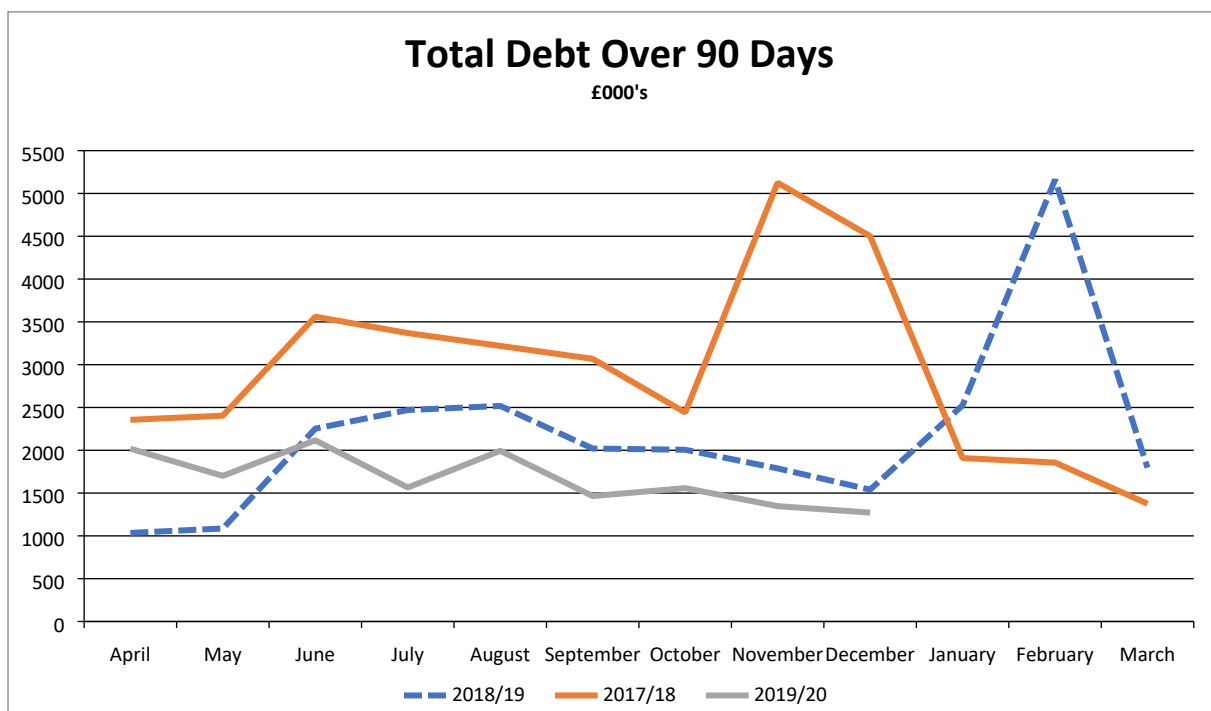
**Graph 1** graph below shows the total debt outstanding over the last 3 years. The debt figures for 2019/20 (the green line) shows that the amount of debt outstanding has slightly increased since the last report to Audit Committee. However, this has significantly reduced again during the last month.

**Graph 1: Total debt outstanding by month for each of the last three years**



**Graph 2** below show that the total debt over 90 days has continued to reduce over the previous period, from £1.565m at the end of July 2019, with a peak in August 2019 of £1.994m then reducing to £1.272m at the end of December 2019. This still shows a reduction in debt over 90 days from the same time last year. This debt continues to be closely monitored.

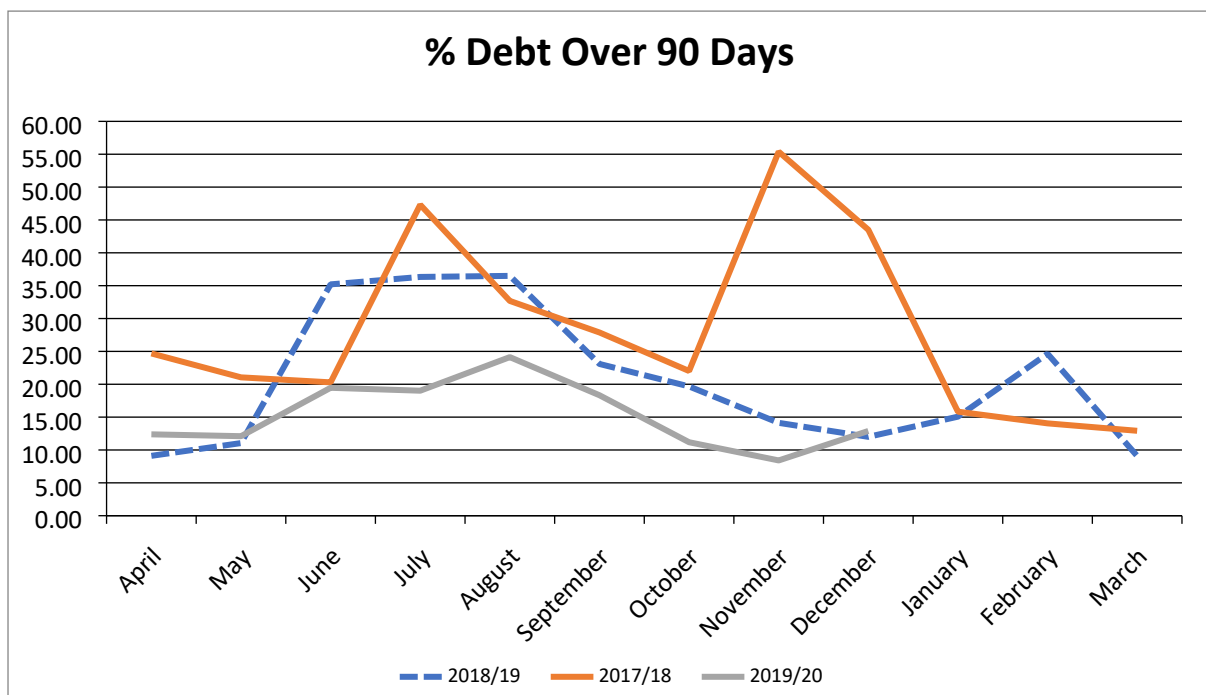
**Graph 2: Debt over 90 days outstanding by month for each of the last three years**



**Graph 3** shows the total level of debt has slightly increased which affects the percentage of debts over 90 days. This results in an increase in the percentage of total debt over 90 days, which sits at **12.89%**, at the end of the period, below the 15% figure (established when Somerset was part of a local authority benchmarking club on debt), which is generally taken to be the sign of strong performance, and was previously agreed with Audit Committee as the local target.

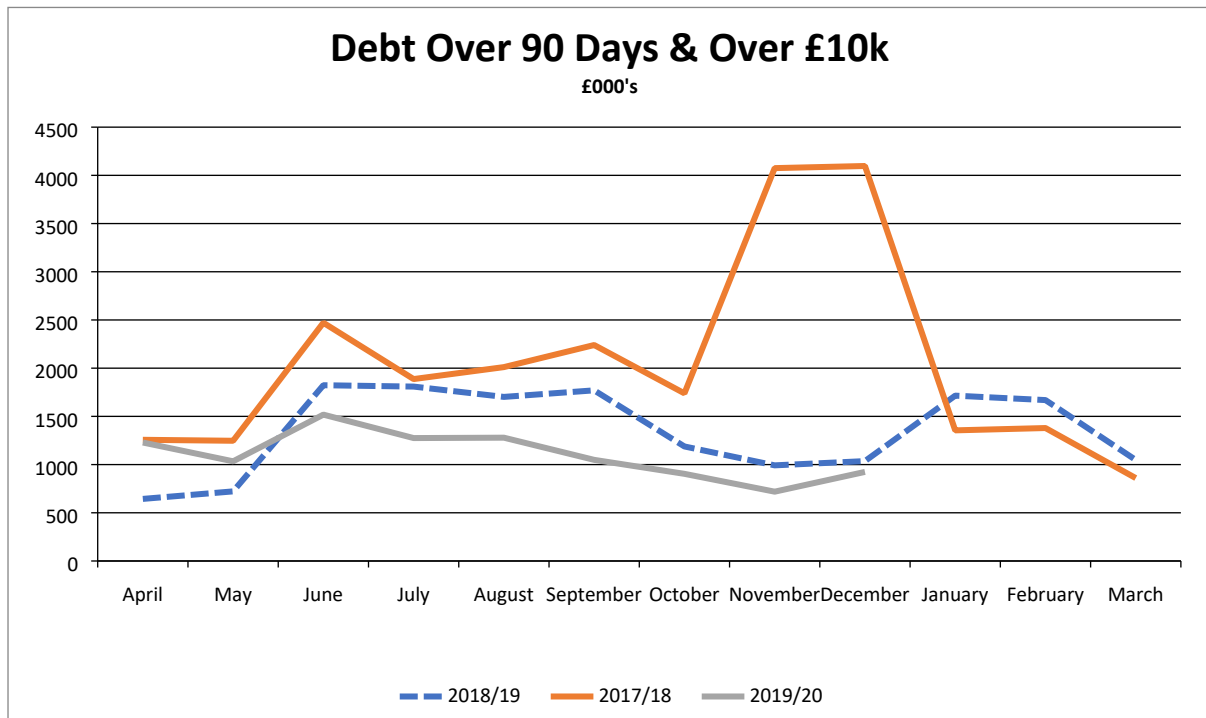
The percentage above represents an increase on 30 November 2019 which stood at 8.41%. However, this is still a decrease from the 31 July 2019 figure of 19.02%, which was in the last report to Audit Committee.

**Graph 3: Percentage of debt over 90 days by month for each of the last three years**



A further test, illustrated in **Graph 4** below, is to consider debts over 90 days and over £10,000, which are higher risk in that they are both aged and significant. This shows a small decrease since the last report to Audit Committee and the debt values are still lower at this point compared to the previous two years recorded on this graph.

**Graph 4: Debt over £10,000 and over 90 days for each of the last three years**



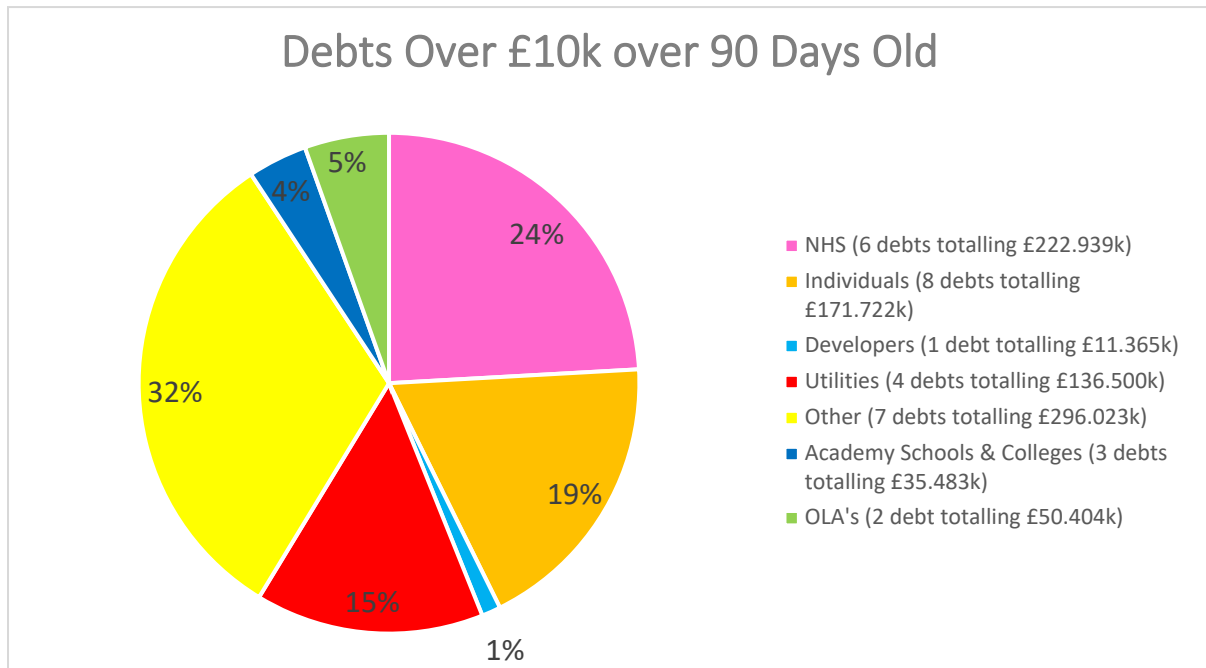
### 3.2. Breakdown of larger debt figures

There was a total of **31 debts** that are both over 90 days old and over £10,000 in value as at the end of December 2019, as shown in **chart 1** below. The number of large, older debts has remained relatively low in recent months, the figure was as high as 94 prior to the launch of the Income Code of Practice in November 2017.

The breakdown of these debts shows a small decrease in number of debts with the NHS and individuals since July 2019. However, they remain the largest both in terms of numbers and in terms of value. Many of these are complex, sometimes involving the estates of deceased former care receivers. NHS debts remain well below levels experienced previously, when they were often in excess of £1m. Members will recall that there are improved processes in place with the NHS, with a portal between us to ensure that the debt information reaches the right person to speed up payment.

The other notable improvement has been reduction in the number of debts outstanding from both Other Local Authorities (OLA's) and Utilities.

**Chart 1: Source of over £10,000 debts over 90 days old**



Members can be assured that all these debts are being pursued in line with the Income Code of Practice (ICOP).

A review of the smaller value of debts over 90 days old reveals that the types of debt remain consistent with previous analyses – provision of care, utilities (such as New Roads and Street Works), transport provision, library charges and services provided, (such as Scientific Services), some Property charges.

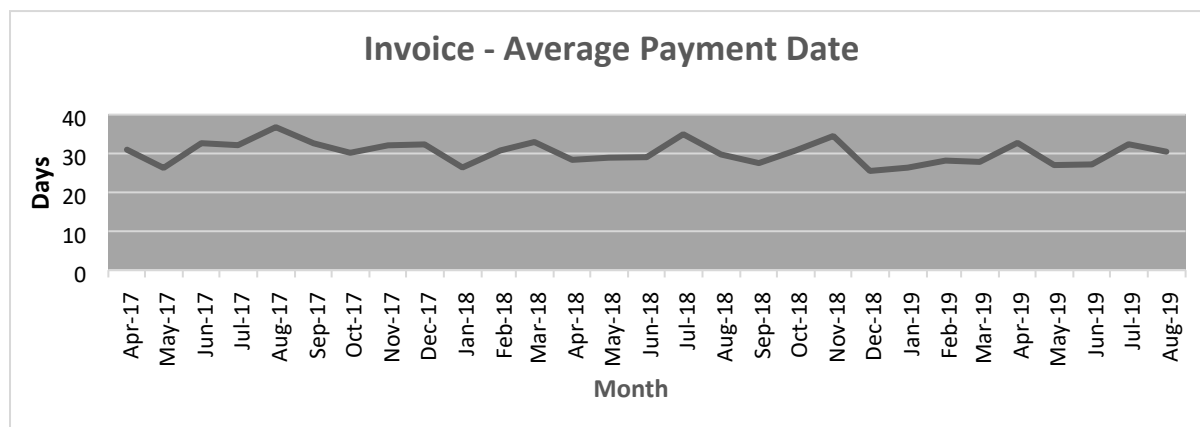
The Legal Debt Recovery Officers are still confident that the Pre-Action Protocol (appendix to the ICOP) introduced by the Courts in 2017 has not greatly delayed the collection of debts from individuals and sole traders.

### **3.3. 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. 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 invoices raised in August 2019 (note: this a snapshot position on a month by month basis, not cumulative).

August's figure is 30.47 days. This figure has been around the 30 days mark since the worst position was reported in August 2017. **Graph 5** illustrates that.

**Graph 5: Trend in average payment days**



### **3.4. Recent Accounts Receivable audit from SWAP**

(the Councils Internal auditors), finalised its 2018/19 Accounts Receivable audit in March 2019. This concluded a partial Assurance, with medium priorities for recommendations, which was disappointing given that the Income Code of Practice had been in force for over a year, and that Accounts Receivable staff have provided significant training to Debt Chasers, often tailored to specific services' needs.

In response, the Income Code of Practice was “re-launched” with minor amendments. This re-launch was supported by a significant number of mandatory training sessions for all Debt Chasers, emphasising that the Code is mandatory and an escalation route for ongoing non-compliance lies directly to the Strategic Manager – Corporate and Deputy S151 and on to the Interim Finance Director. During the training sessions held in May and June 2019, all Debt Chasers were seen, and response was very positive.

Since these sessions were held, Accounts Receivable have continued to support services with training and advice on Debt Management issues. An updated version of the ICOP has recently been published (Dec 2019).

The Legal Debt Recovery Officers, alongside the Accounts Receivable team continue to help support areas across all aspects of Debt Management with more consistent, pro-active intervention on a quarterly basis for areas of non-compliance.

The partial audit report has been brought back to the Audit Committee (November 2019) as part of the Partial Audits assurance process, and the next Audit is underway with the final report due in March 2020. Progress will be reported to this committee as part of future Debt Management performance reports.

#### **4. Consultations undertaken**

- 4.1 Debt is regularly reported to Cabinet as part of quarterly Budget Monitoring.

#### **5. Implications**

- 5.1 If debt is not collected promptly it 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