

## **Debtor Management**

Service Director: Jason Vaughan, Director of Finance

Lead Officer: Donna Parham, Interim Strategic Manager – Corporate Finance

Author: Nicola Saunders – Exchequer Team Leader, Finance

Contact Details: [DParham@somerset.gov.uk](mailto:DParham@somerset.gov.uk)

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 £120 - £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 consider and comment on the position in relation to outstanding debt performance at the end of April 2020.

### **3. Background**

#### **3.1. Headline figures as at 30 April 2020**

Services' total outstanding debt reported on the Accounts Receivable system stood at **£10.087m** as at 30 April 2020. This compares with a figure of £16.296m as at 30 April 2019, and £9.730m, which was the 31st December 2019 figure in the last report to Audit Committee in January 2020.

The percentage of debts over 90 days as at 30 April 2020 was 31.2%, which represents an increase compared to the end of March which stood at 18.4%. The value of the increase in outstanding 90-day debt was £0.55m.

#### **3.2 Impact of Covid-19**

A decision was made to suspend debt recovery from 23 March 2020 for up to 3 months in order to support individuals, residents. and businesses during the COVID-19 pandemic. During this period:

- Invoices continued to be sent;
- Reminders were suppressed;
- The Recovery Team continued to liaise with individual residents and companies that contacted the Council to agree a longer payment plan or if in severe

difficulties agree up to a three-month payment-holiday subject to reviewing their income and expenditure.

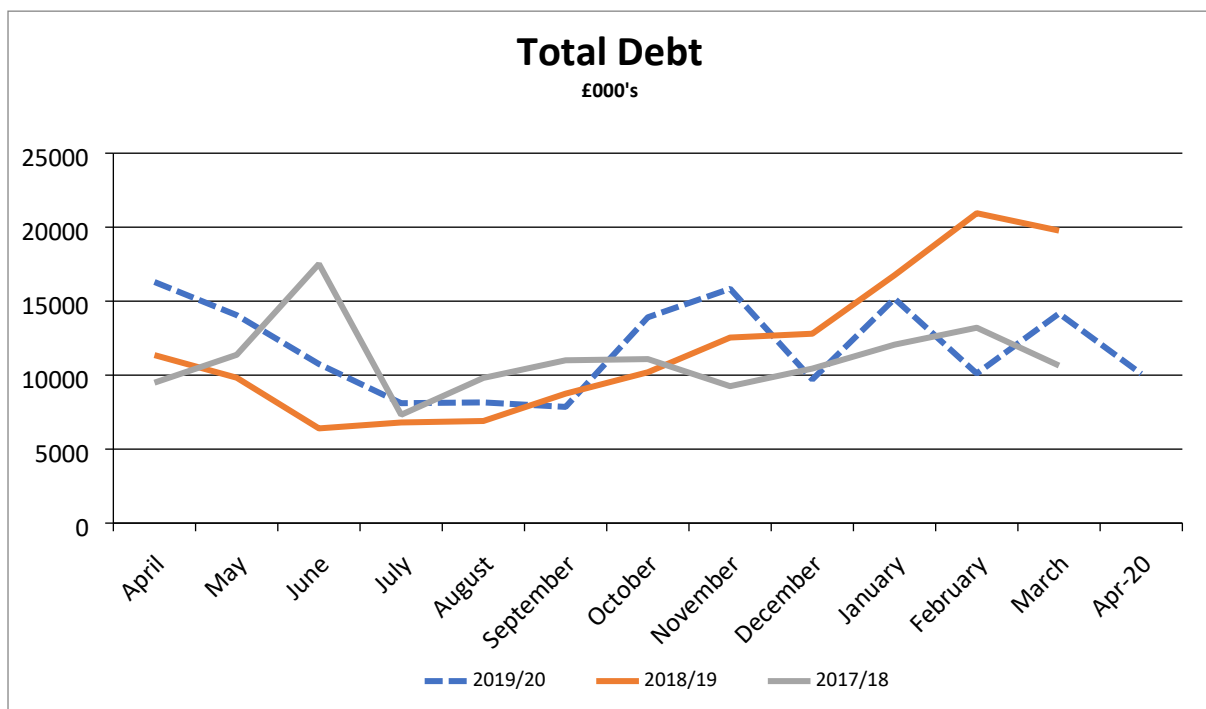
This provided individuals, residents and companies with some breathing space while ensuring that the Council continued to collect debts wherever possible. It also reflected that invoices are delivered by post and many companies were not currently working at their registered buildings to receive them.

Customers are currently being contacted by letter with regards to outstanding debts and any subject to legal debt recovery proceedings to encourage them to contact the Council to discuss payments and repayment plans going forward. The normal debt recovery process is expected to start again at the end of June 2020.

The graphs below show April 2020 as an additional month to show the impact of Covid-19 on debt collection and explain the increase in the overall value of 90-day debts.

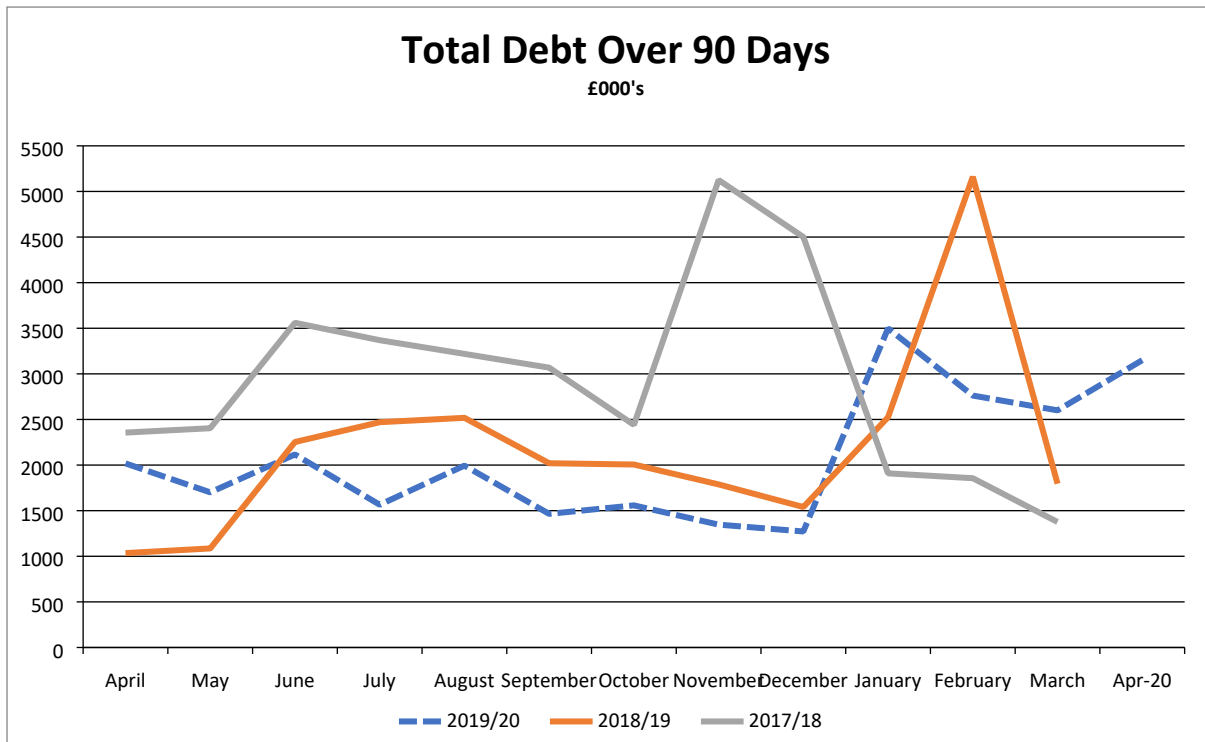
**Graph 1** graph below shows the total debt outstanding over the last 3 years. The debt figures for 2019/20 (the dotted line) shows that the amount of debt outstanding has remained much the same since the last report to Audit Committee. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

**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 increased over the previous period, from £1.272m at the end of December 2019, with a peak in January 2020 of £3.499m then reducing slightly to £3.150m by the end of April 2020. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

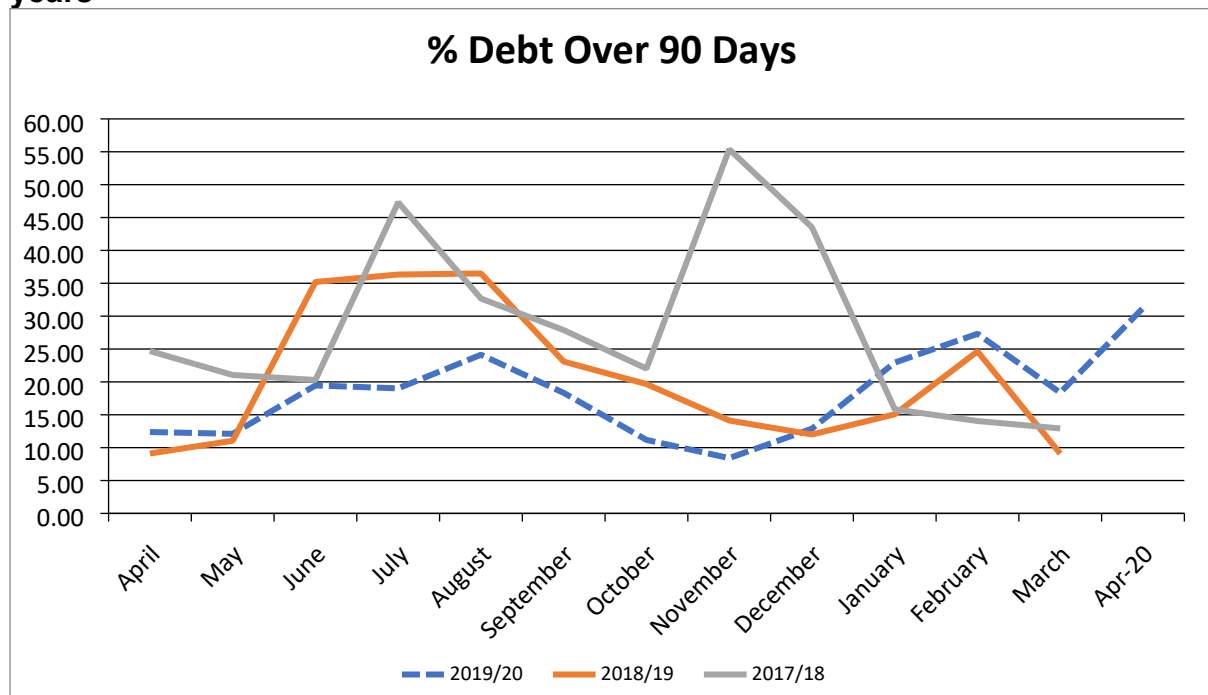
**Graph 2: Debt over 90 days outstanding by month for each of the last three years**



**Graph 3** shows the total level of debt has 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 **31.23%**, at the end of the period, above 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.

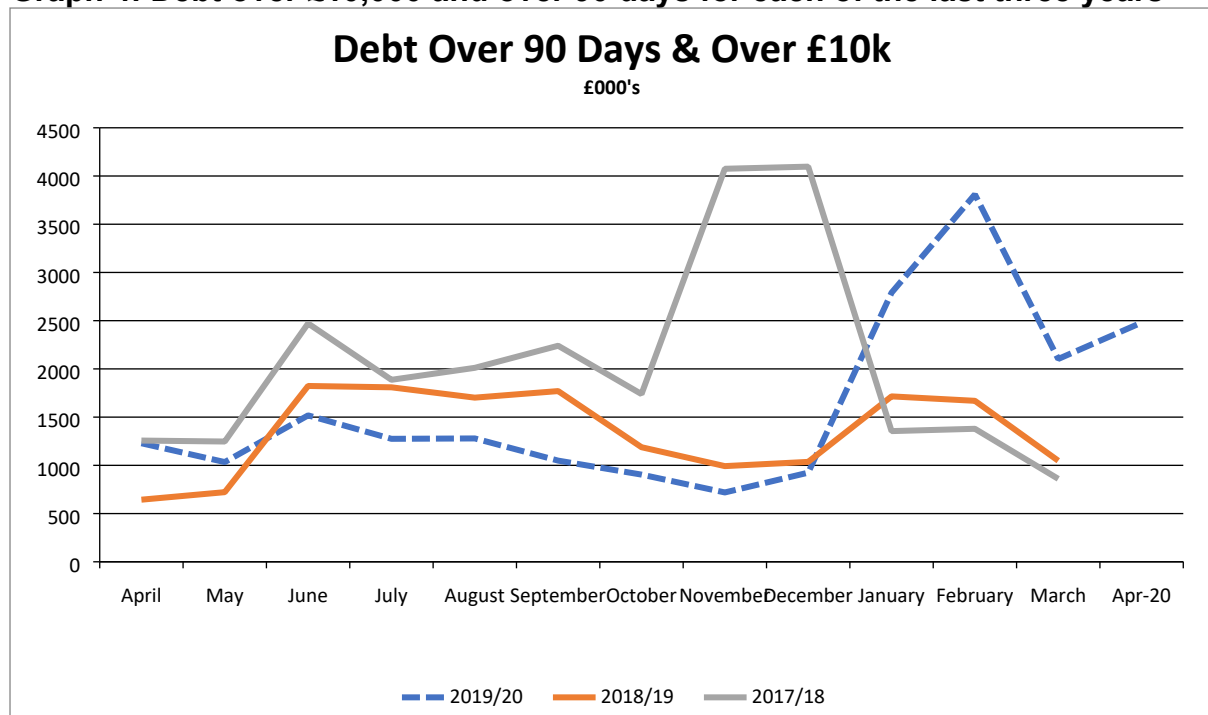
The percentage above represents an increase on 31 March 2020 which stood at 18.36%. This also shows an increase on from the 31 December 2019 figure of 12.89%, which was in the last report to Audit Committee. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

**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 an increase since the last report to Audit Committee and the debt values are higher at this point compared to the previous two years recorded on this graph. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

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

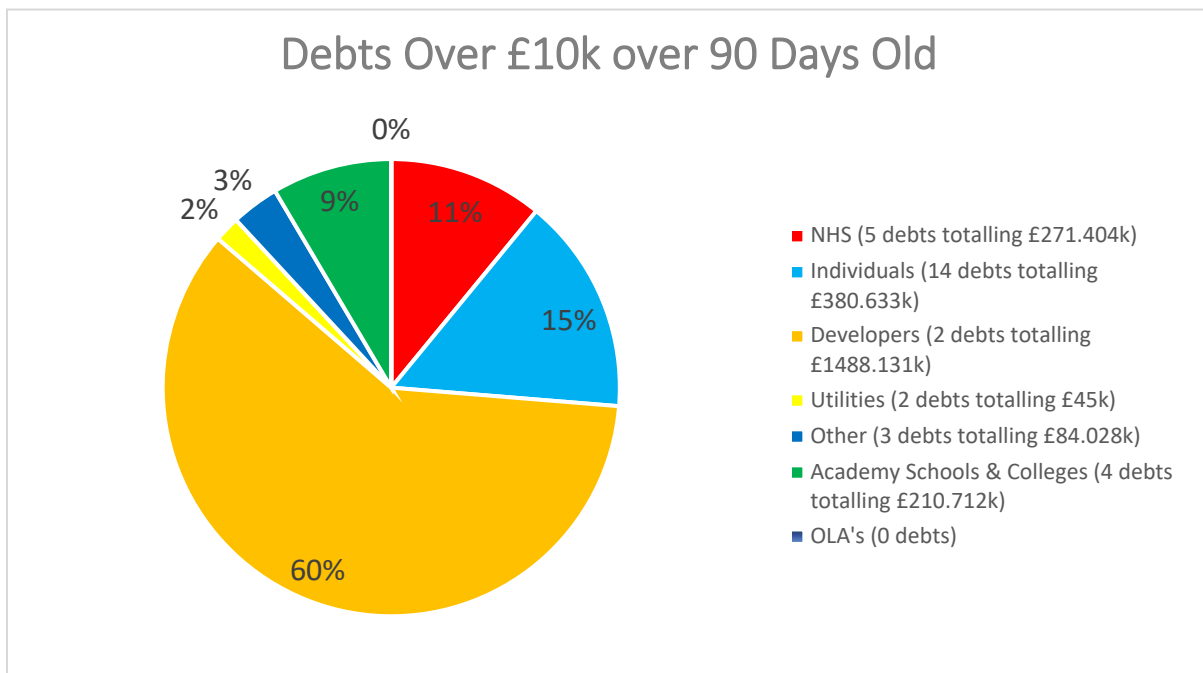


### 3.3. Breakdown of larger debt figures

There was a total of **30 debts** that are both over 90 days old and over £10,000 in value as at the end of April 2020, 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 an increase of debts across all areas. This report has been reviewed since the end of April and two further individual debts totalling £69.342k has been cleared. Many of these debts 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.

**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.

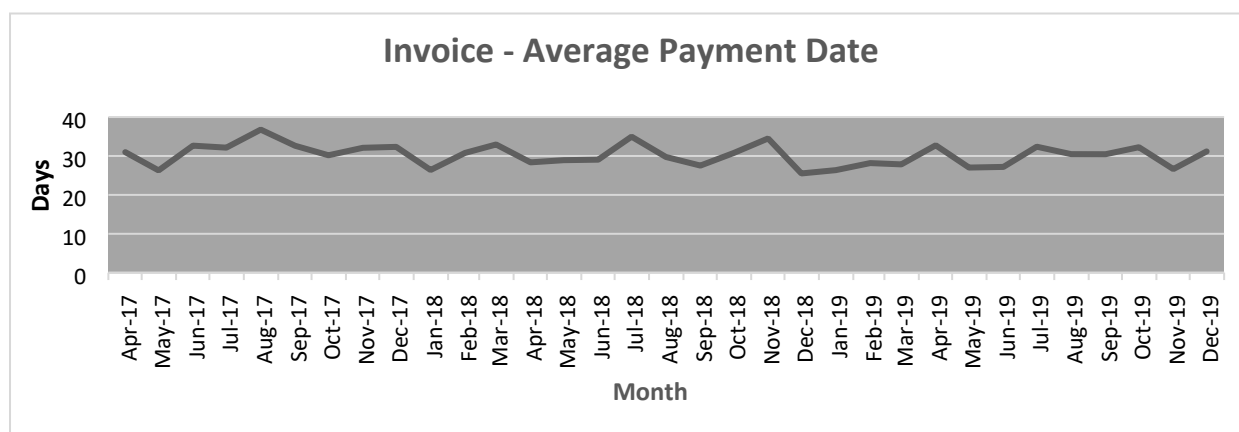
The Legal Debt Recovery Officers are still confident that the Pre-Action Protocol (appendix to the ICOP) introduced by the Courts in 2017 has not greatly delayed the collection of debts from individuals and sole traders.

### 3.4. 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 (N.B. this a snapshot position on a month by month basis and not cumulative).

December's figure is 31.17 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



### 3.5. Recent Accounts Receivable audit from SWAP

SWAP (the Councils Internal auditors), finalised its 2019/20 Accounts Receivable audit in February 2020. This concluded a partial assurance, with medium and low priorities for recommendations, which was disappointing given that the Income Code of Practice is now well established, and that Accounts Receivable staff have continued to provide significant training to Debt Chasers, often tailored to specific services' needs. Despite the work of the Accounts Receivable team a continued lack of overall service compliance is being reflected within the audit.

The actions agreed that received partial assurance were:

- The Exchequer Manager should contact all budget holders to outline ICOP requirements and to confirm whether nominated debt chasers are in place for all Sales Offices. Any new debt chasers should receive ICOP training. The Authorisation List should be updated with any information received and then be subject to regular reviews;
- The Exchequer Manager should meet with nominated debt chasers to determine why 7-day letters are not always issued in line with agreed timescales, and to agree a consistent practice going forward. This may necessitate a review of the Code of Practice for Income Management (ICOP);

- The Exchequer Manager should meet with nominated debt chasers to determine why they do not always record recovery action in SAP and to agree a consistent practice going forward. This may necessitate a review of the Code of Practice for Income Management (ICOP). Management should also consider exploring the possibility introducing a workflow process for debt management and recovery into within the financial management system;
- The Exchequer Manager should work with the Legal Debt Recovery Officers to review the timescales for debt referral and update them in the ICOP if necessary. This could include setting criteria for what constitutes a meaningful recovery plan. Greater emphasis should be placed on Sales Offices seeking advice from LDROs, so that the LDROs have advance awareness of problematic debts. Once this has been reviewed and timescales confirmed, and expectations should be communicated effectively and enforced for all sales organisations.
- We recommend that the Exchequer Manager updates the Code of Practice for Income Management (ICOP) to include the required timescale for issuing a credit note and specify that credit notes should be authorised in line with the Authorisation List. Authorisers for all Sales Officers should be agreed.

The Income Code of Practice has been updated and training sessions were held in May and June 2019. The training sessions were attended by all Debt Chasers and response was very positive. Despite this the most recent audit highlighted the requirement to investigate further into why there isn't full compliance with the ICOP in some service areas. There will be a more regular review of the Authorisation List held in the Accounts Receivable team and a note to all debt chasers reminding them of the importance to record notes on SAP. A reminder will also be issued to debt chasers reminding them of the defined timescales for processing of refunds and credit notes. Individuals and services will also be contacted by the Section 151 officer for non-compliance and will be required to take remedial action. This will then be monitored closely over the following months.

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. 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