

Somerset County Council

Audit Committee

24 September 2020

Debtor Management

Service Director: Jason Vaughan, Director of Finance

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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 £7m-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 July 2020.

3. Background

3.1. Headline figures as at 31 July 2020.

Services’ total outstanding debt reported on the Accounts Receivable system stood at **£6.219m** as at 31st July 2020. This compares with a figure of £8.105m as at 31st July 2019, and £10.087m as at the 30th April 2020 reported at the last Audit Committee in June 2020.

The percentage of debts over 90 days as at 31st July 2020 was 42.72%, which represents a fractional decrease to the end of June which stood at 42.88%. The value of the decrease in outstanding 90 day debt was £1.779m.

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.

From 24 June the suspension was lifted, and normal debt recovery procedures were resurrected. Before this date, the following action took place:

- Customers were contacted prior to this date to be informed that debt recovery would be commencing at the end of June;
- The letter detailed the intended action and allowed the customer to open discussions around repayment plans and any financial difficulties

The letter was positively received and prompted customers to contact the authority to discuss repayment plans.

Unfortunately, we did have some reminders for the Transport service that were sent to customers in error. These have been dealt with on a case by case basis by the service team.

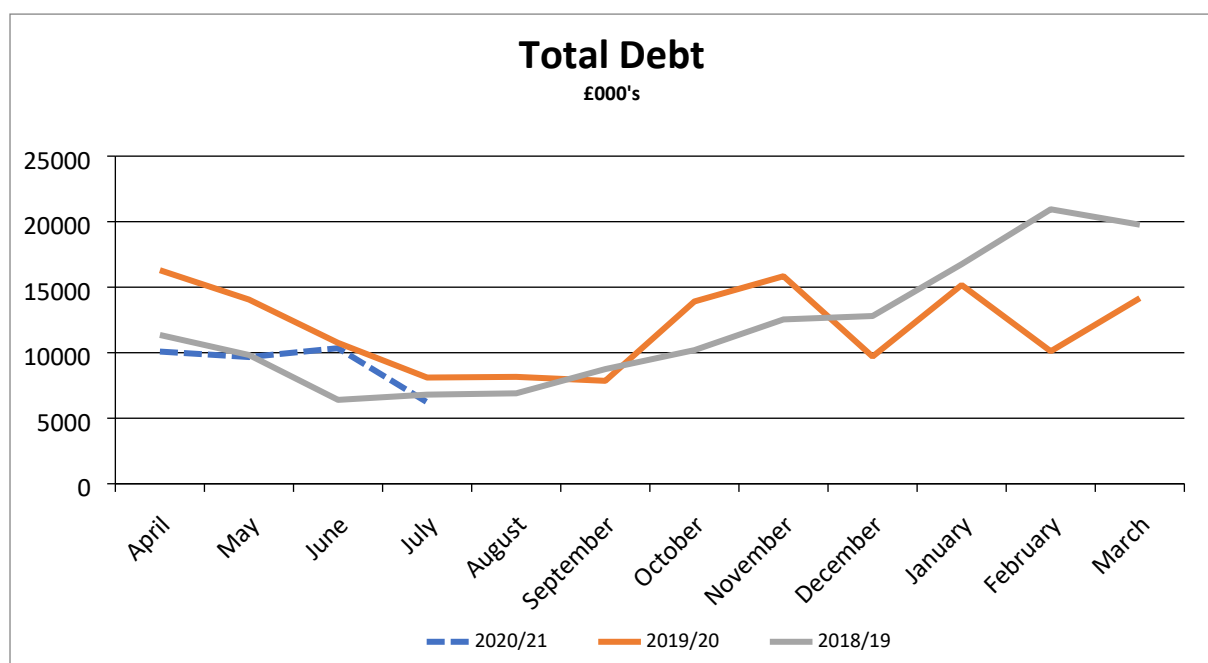
Discussions have also taken place with the service to ensure that customer accounts are updated correctly and that no further reminders are inadvertently despatched to customers.

The Accounts Receivable and Sap Support teams are regularly monitoring this and will report any findings to the Finance Director. This monitoring will be in place and any findings reported to the service for remedial action.

The current value of debt has decreased albeit our percentage of debt over 90 days has increased since April. This would be expected after the 3 month suspension of debt recovery and it will take time to work towards our previous targets. This will be closely monitored each month and we are actively liaising with Services to closely monitor and maintain previous debt recovery actions.

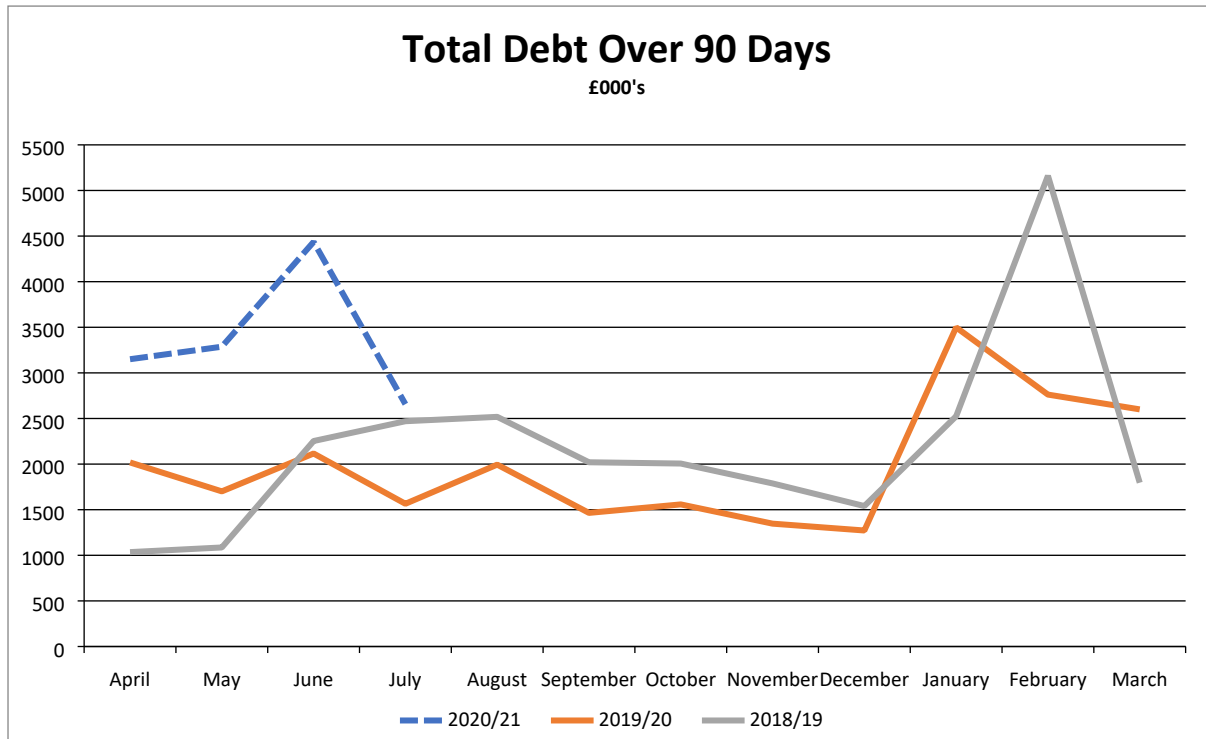
Graph 1 graph below shows the total debt outstanding over the last 3 years. The debt figures for 2020/21 (the dotted line) shows that the amount of debt outstanding has significantly decreased since the last report to Audit Committee.

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



Graph 2 below shows that the total debt over 90 days has decreased over the previous period, from £3.150m at the end of April 2020, with a peak in June 2020 of £4.436m then reducing to £2.657m by the end of July 2020.

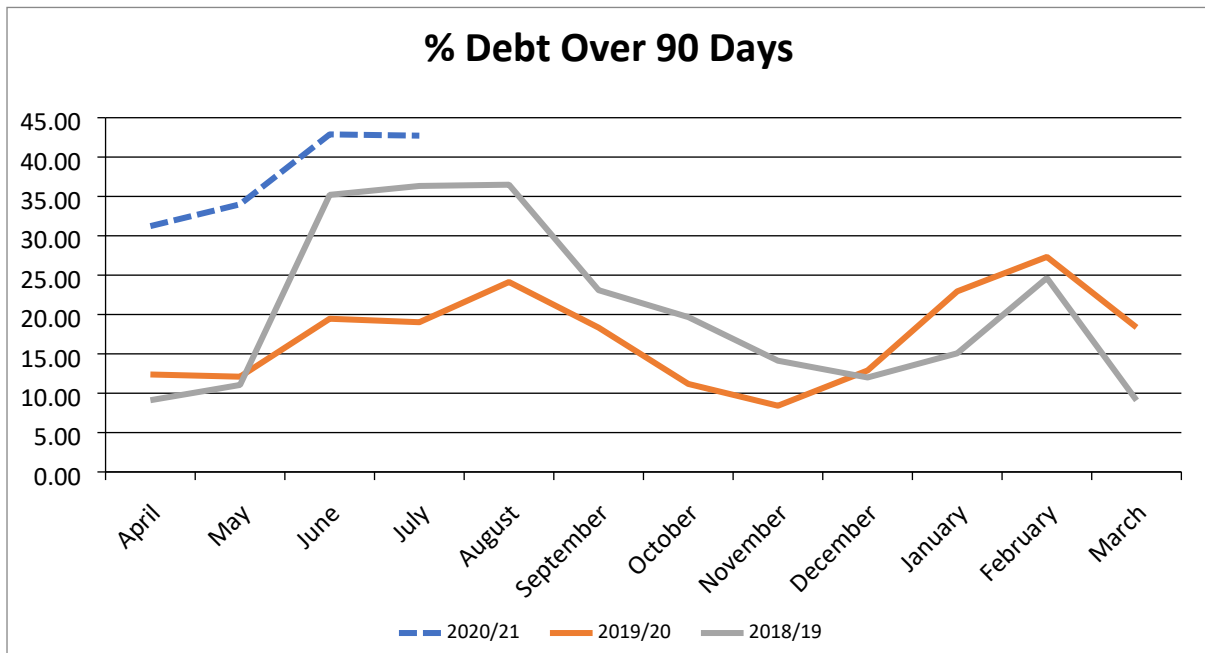
Graph 2: Debt over 90 days outstanding by month for each of the last three years



Graph 3 shows the total level of debt is higher than in 2019 and 2018. The percentage of total debt over 90 days, currently sits at **42.72%** at the end of the period, in comparison to 19.02% in July 2019 and 36.33% in 2018. It is well 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. However, this has been impacted by our suspension of debt recovery referenced above.

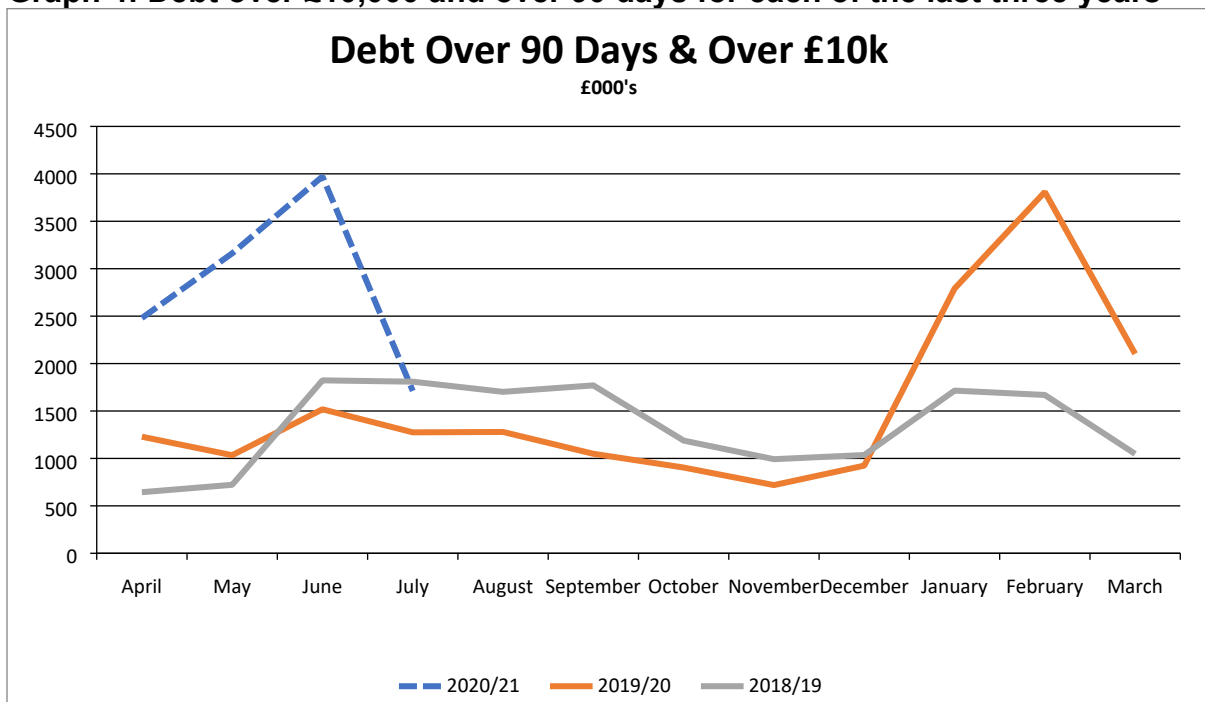
The percentage above represents a slight decrease after a spike in June which stood at 42.88%. This is likely due to a return to business as usual for debt chasing and debt recovery. Although the current percentage does show an increase from the 30th April 2020 figure of 31.23%, which was in the last 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 decrease since the last report to Audit Committee although the graph does demonstrate a significant spike in May/June, which is likely caused by the impact of costs relating to the COVID 19 pandemic. On a positive note, the debt values have now returned to a relatively consistent level 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

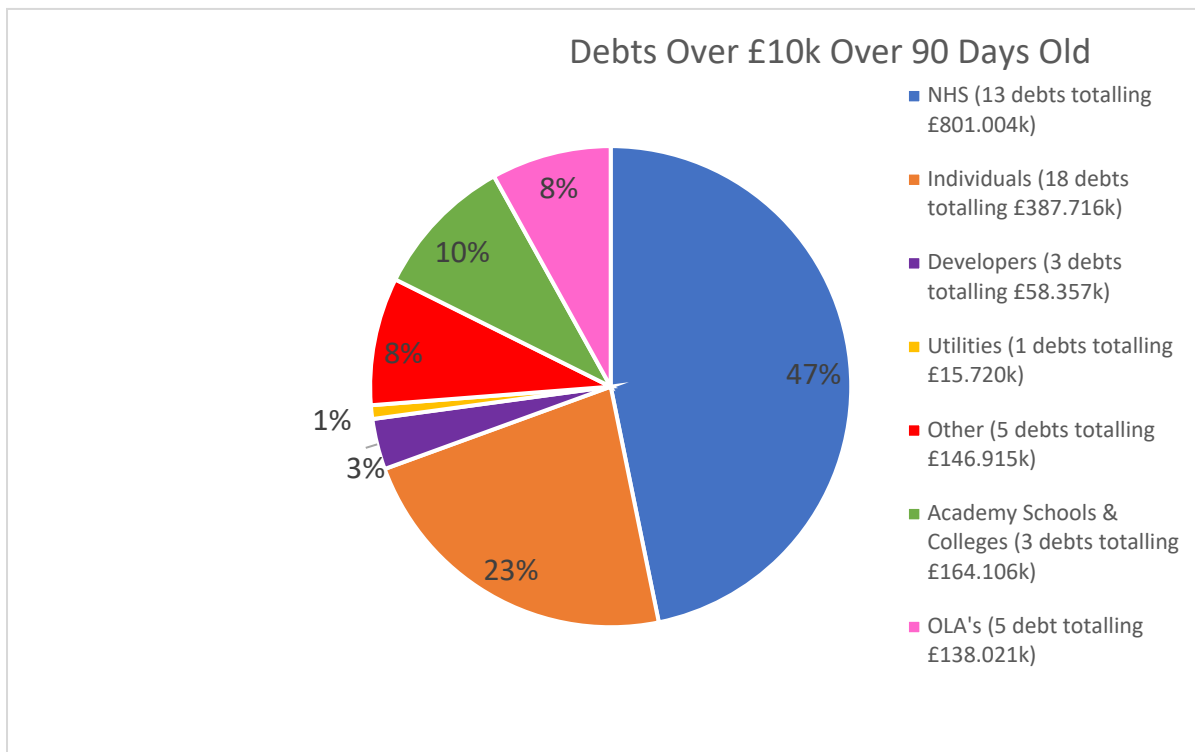


3.3. Breakdown of larger debt figures

There was a total of **49 debts** that are both over 90 days old and over £10,000 in value as at the end of July 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 July and the amount of higher value aged debts has decreased by 8, including 6 NHS debts, which has reduced the value of NHS debts by almost half. However, the total value of Debts over 90 days and over £10,000 has increased by £348,351. 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.

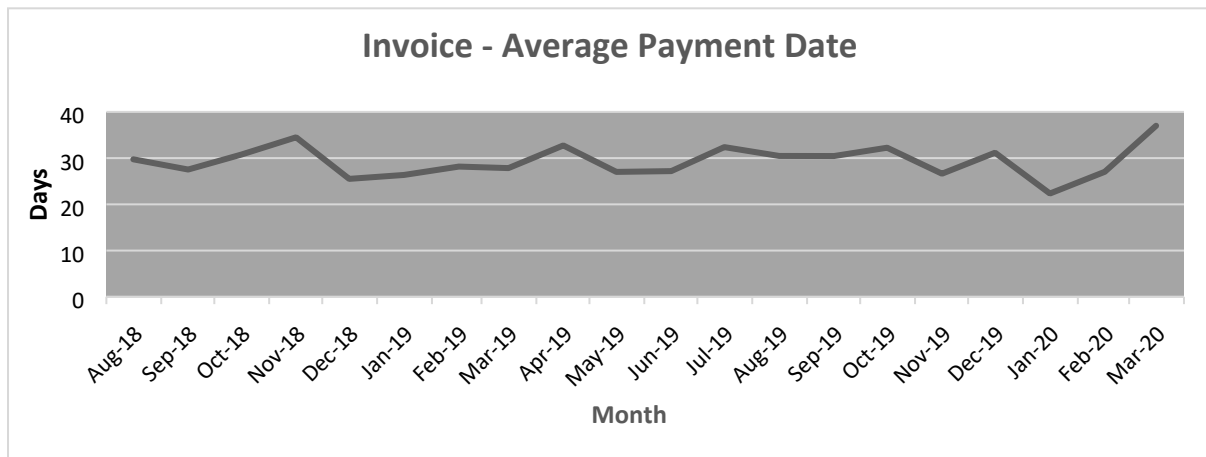
The Legal Debt Recovery Officers are still confident that the Pre-Action Protocol (appendix to the ICOP) introduced by the Courts in 2017 has not greatly delayed the collection of debts from individuals and sole traders.

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 March 2020 (N.B. this a snapshot position on a month by month basis and not cumulative).

March's figure is 37 days. This figure has been around the 30 days mark since the worst position was reported in August 2017. **Graph 5** illustrates the trend.

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. This was disappointing given that the Income Code of Practice is now well established, and that Accounts Receivable and Legal Debt Recovery staff have continued to provide significant training to Debt Chasers, often tailored to specific services' needs. Despite the work of the Accounts Receivable and Legal Debt Recovery teams a continued lack of overall service compliance is being reflected within the audit.

The actions were reported to the Committee in June and have been slightly delayed due to the suspension of debt recovery and other priorities and these have now been amended accordingly on JCAD (corporate risk management system). An update will be made to the next Audit Committee on progress.

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 (December 2019).
- 6.2. Pre-Action Protocol documentation and requirements.

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