

Somerset County Council

Audit Committee

28 January 2021

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 to £135m. The monthly outstanding debt can range between £7m to £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 2020.

3. Background

3.1. **Headline figures as at 31 December 2020.**

Services’ total outstanding debt reported on the Accounts Receivable system stood at **£8.517m** as at 31st December 2020. This compares with a figure of £9.704m as at 31st December 2019, and £6.219m as at the 31st July 2020 reported at the last Audit Committee in September 2020.

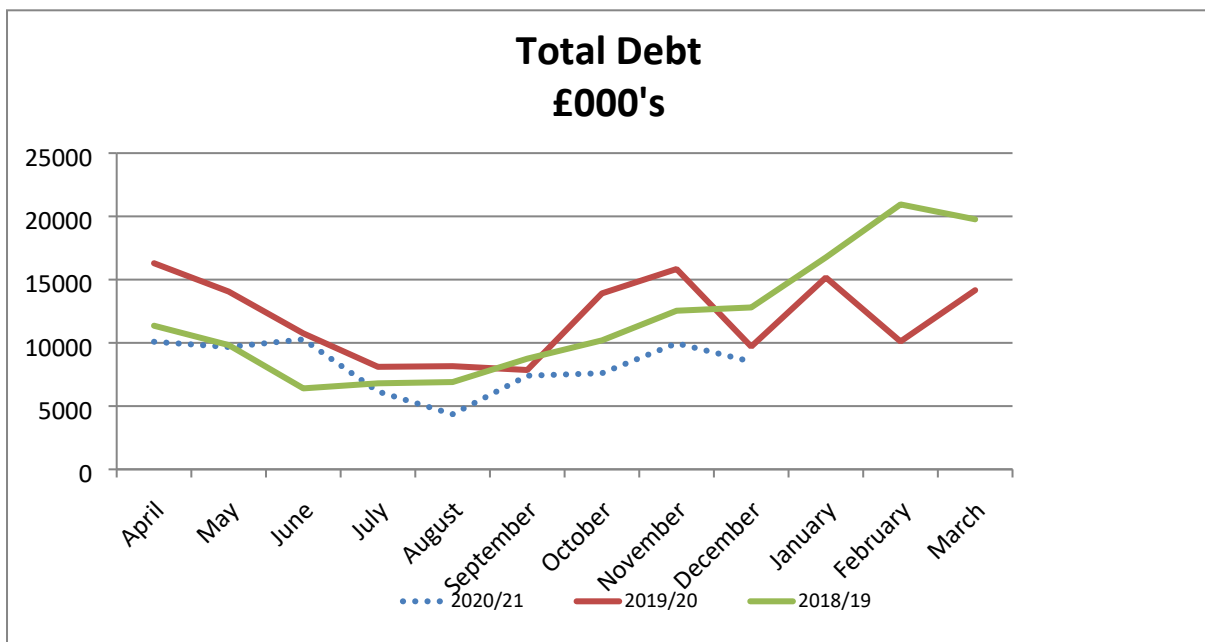
The percentage of debts over 90 days as at 31st December 2020 was 16.40%, which represents a significant decrease of that reported to Committee in September, when it stood at 42.72%. The value of the decrease in outstanding 90 day debt was £1.236m.

3.2 **Impact of Covid-19**

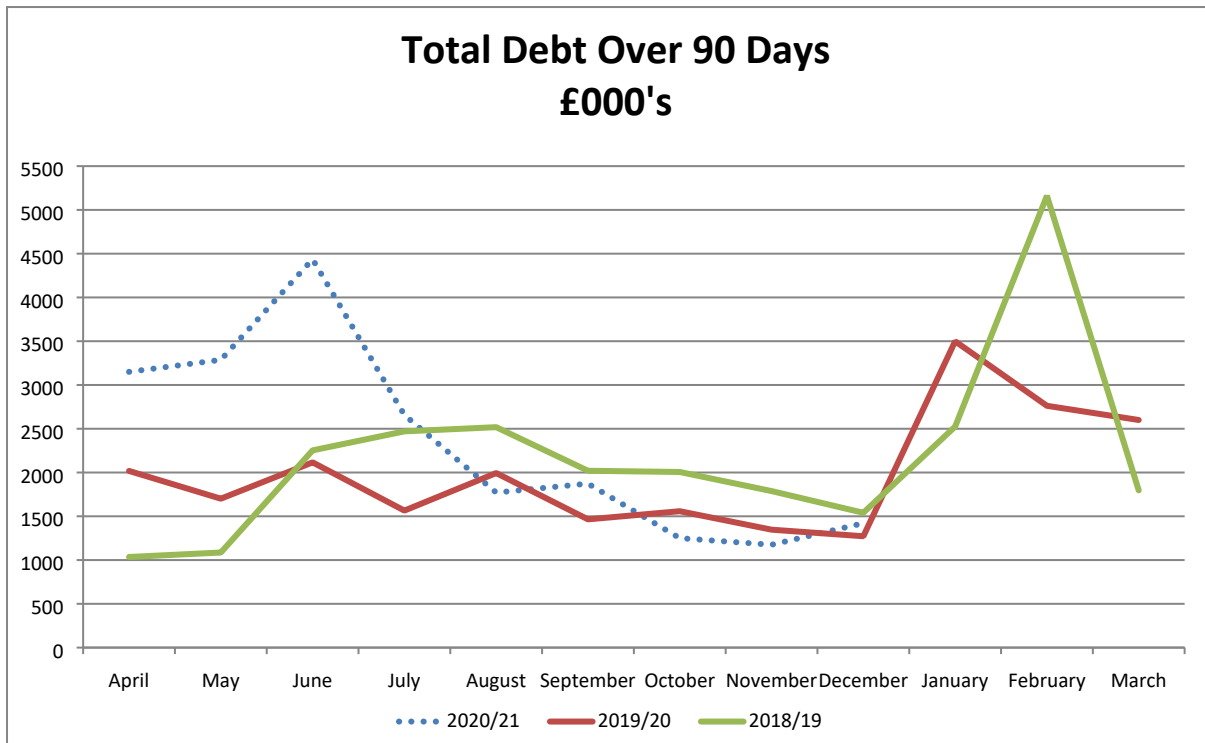
A decision was made to reinstate debt recovery from 24 June 2020 after a 3 month period of suspension in order to support individuals, residents and businesses during the COVID-19 pandemic. As is known we are under another national lockdown which will have implications for consistent and timely debt recovery and as an Authority we are exercising a mindful approach to chasing debt in this period.

Graph 1 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 increased since the last report to Audit Committee.

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



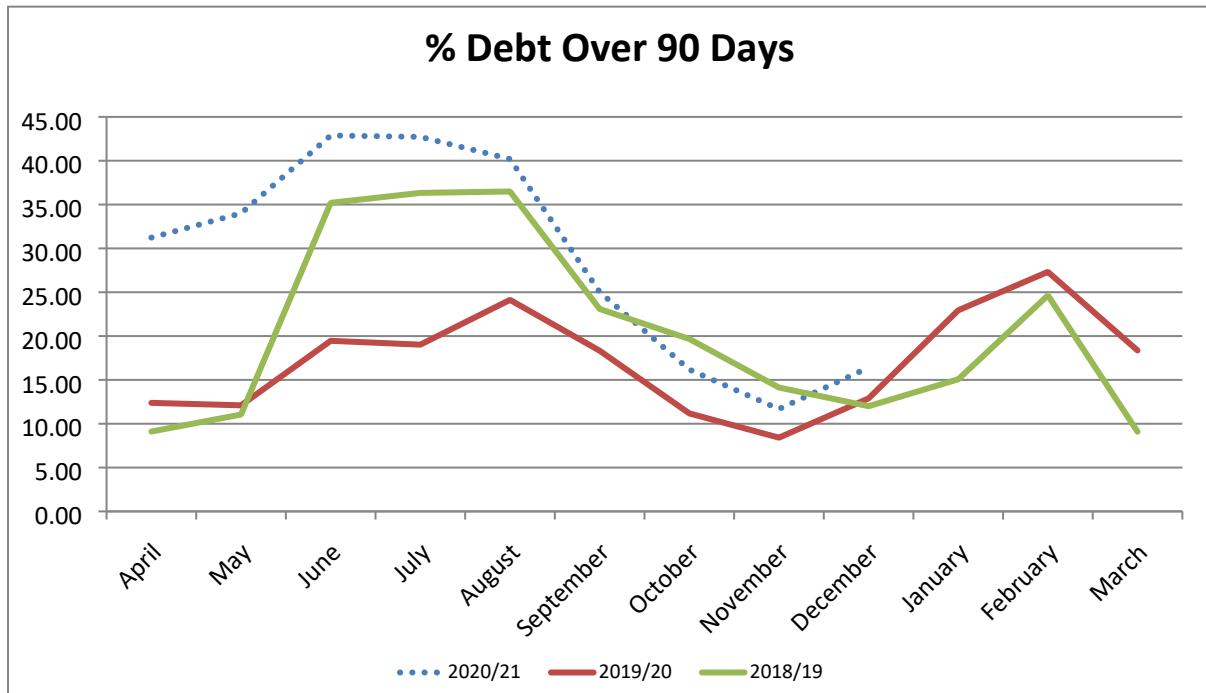
Graph 2 below shows that the total debt over 90 days has decreased over the previous period, from £2.657 at the end of July 2020, with a peak in September 2020 of £1.873m then reducing to £1.421m by the end of December 2020. **Graph 2: Debt over 90 days outstanding by month for each of the last three years**



Graph 3 shows the total level of debt over 90 days as a percentage of total debt is higher than in 2019 and 2018. The percentage of total debt over 90 days, currently sits at **16.40%** at the end of the period, in comparison to 12.89% in December 2019 and 12% in 2018. It is currently slightly 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 aged debt at 90 days remains comparable to previous years, however, the total debt is managed at a lower level than previous years which creates a slightly higher percentage for comparisons. The percentage performance for aged debt over 90 days has been impacted by our previous suspension of debt recovery referenced above and the continued ongoing financial impact of the pandemic.

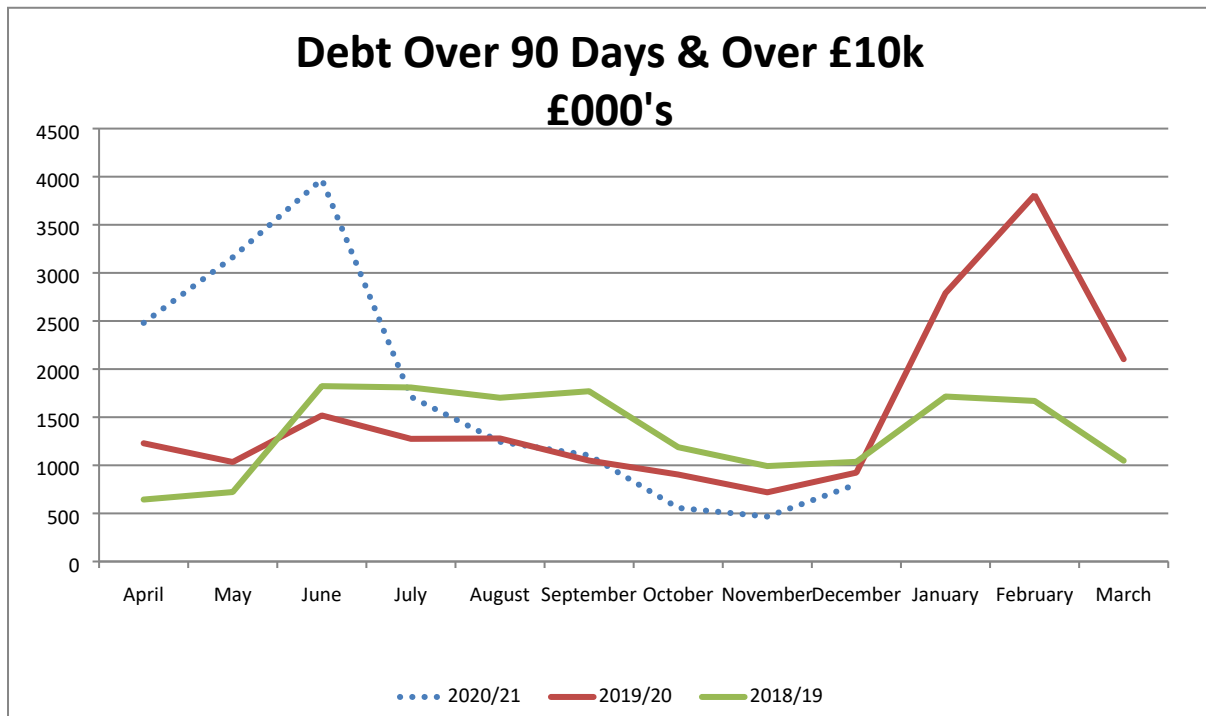
The percentage below represents a significant decrease after a spike between June and August when the percentage stood between 42.88% and 40.22%. Following a return to business as usual for debt chasing and debt recovery, we have seen a significant decrease in the total percentage debt over 90 days, as predicted. Although the current percentage does show an increase from previous years, providing we can continue to chase and recover debt in the usual way, we would anticipate that these levels will reduce.

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 significant increase since the last report to Audit Committee. However, the graph does demonstrate a significant spike in October and again in December, as it did 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 did begin to drop between July-September and again in November. It is therefore expected that levels will begin to drop once again, as lockdown restrictions are eased and the economy begins to recover.

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

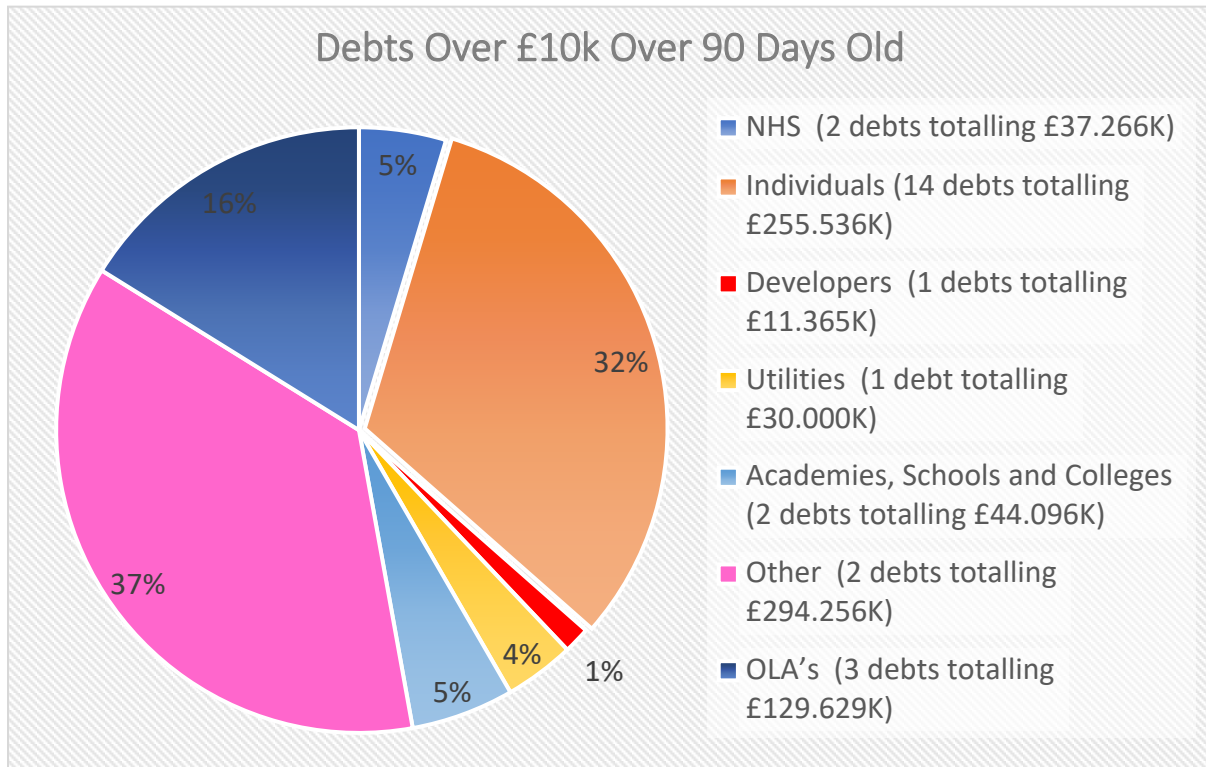


3.3. Breakdown of larger debt figures

There was a total of **27 debts** that are both over 90 days old and over £10,000 in value as at the end of December 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 a decrease in number of debts across all areas. The total value of Debts over 90 days and over £10,000 has decreased by £909,690 since reporting to you in September. Many of these debts are complex, sometimes involving the estates of deceased former care receivers. NHS debts have decreased further from when we last reported. There were a total of 13 debts, totalling £801,004 at the end of July 2020 compared with just 2 debts totalling £37,266 at the end of December 2020. 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).

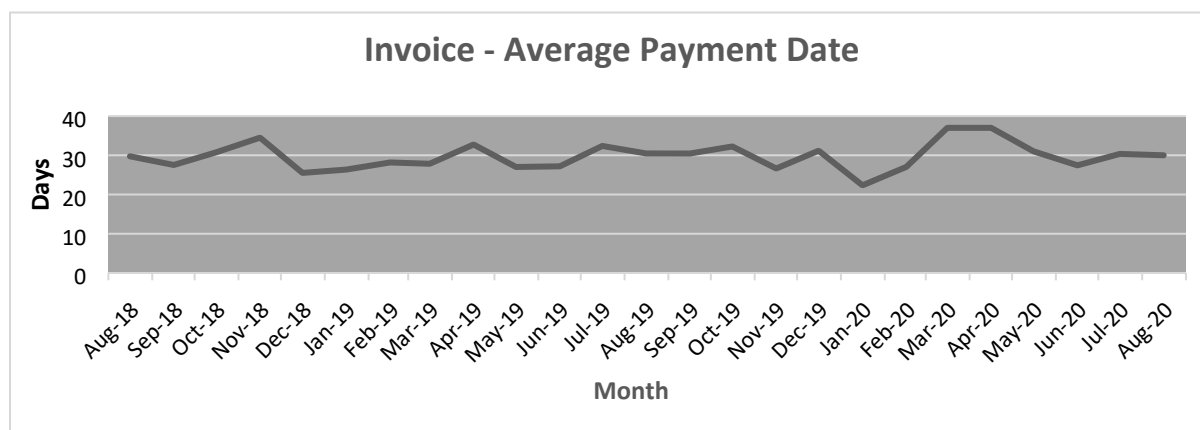
A review of the smaller value of debts over 90 days old reveals that the types of debt remain consistent with previous analyses – provision of care, utilities (such as New Roads and Street Works), transport provision, library charges and services provided, (such as Scientific Services), some Property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

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

August's figure is 30 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

As reported in September, 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. The Income Code of Practice is now well established, and the Accounts Receivable and Legal Debt Recovery staff have continued to make available training, advice and support to Debt Chasers, this is often tailored to specific services' needs. In addition, the Accounts Receivable Team have proactively contacted debt chasers and highlighted significantly overdue debts that require action in line with the Income Code of Practice. The Accounts Receivable Team and Exchequer Service Manager have met with SWAP and it has been established that the next Audit will focus more heavily on service compliance with ICOP. However, due to the ongoing impact of COVID-19 Pandemic on the Council's debt levels and ability to recover debt, the 20/21 Accounts Receivable Audit has been postponed until further notice as it will be not be possible to accurately review service compliance due to the interruption to BAU throughout 2020 and into 2021. This will be reviewed with the internal auditors on 29th January 2021.

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