Appendix 'B'

Analysis of Outstanding Debt Position

Introduction

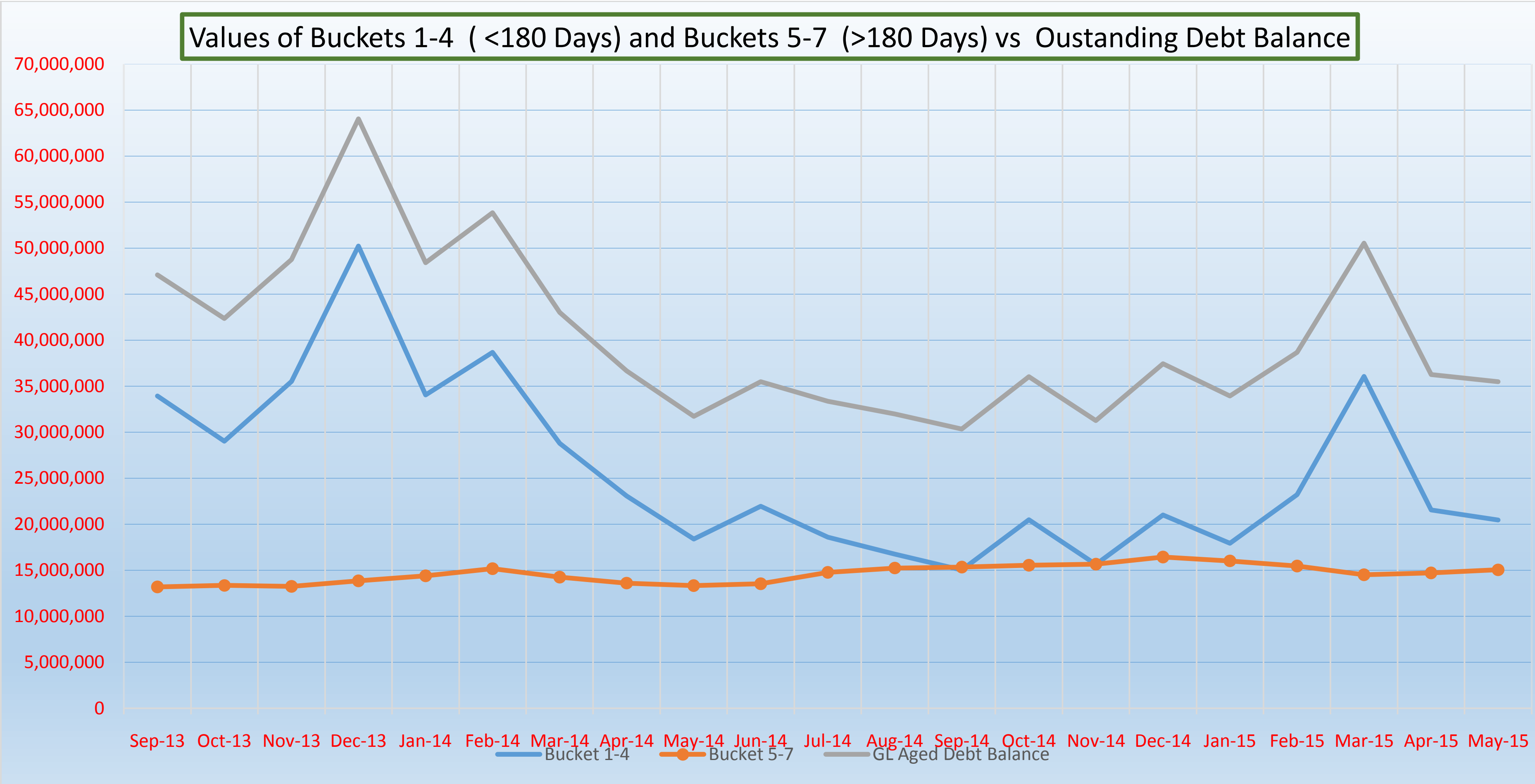
A key performance indicator that has been used over the past two years in relation to Debt Management has been the "Level of Outstanding Debt owed to the County Council". This is a performance indicator that can be a little misleading at times, as there are seasonal variations as debtors are raised within the financial year. Appendix 'B' therefore contains additional analysis to demonstrate the underlying trends and themes of the County Council's debt stock. It is proposed that the performance indicators and graphs shown in this Appendix are in future presented in conjunction with the current key performance indicator to better indicate the performance levels of the County Council in relation to Debt Recovery.

The Appendix is broken down into 3 key sections:

a) Outstanding Debt Balance Analysis
b) Outstanding Debts over 180 days (6 Months)
c) Bad Debt Provision Analysis

a) Outstanding Debt Balance Analysis

Graph 1



Graph 1 demonstrates the trends and seasonal nature of all debtors held by the County Council. When classifying debts into the groups of outstanding time periods these are called "buckets" and are shown in the table below:

Debt "Bucket" Classification	**Outstanding Debt Time Period**
Bucket 1	1 – 30 days
Bucket 2	31 – 60 days
Bucket 3	61 – 90 days
Bucket 4	91 – 180 days
Bucket 5	181 – 365 days
Bucket 6	366 – 730 days
Bucket 7	2 years +

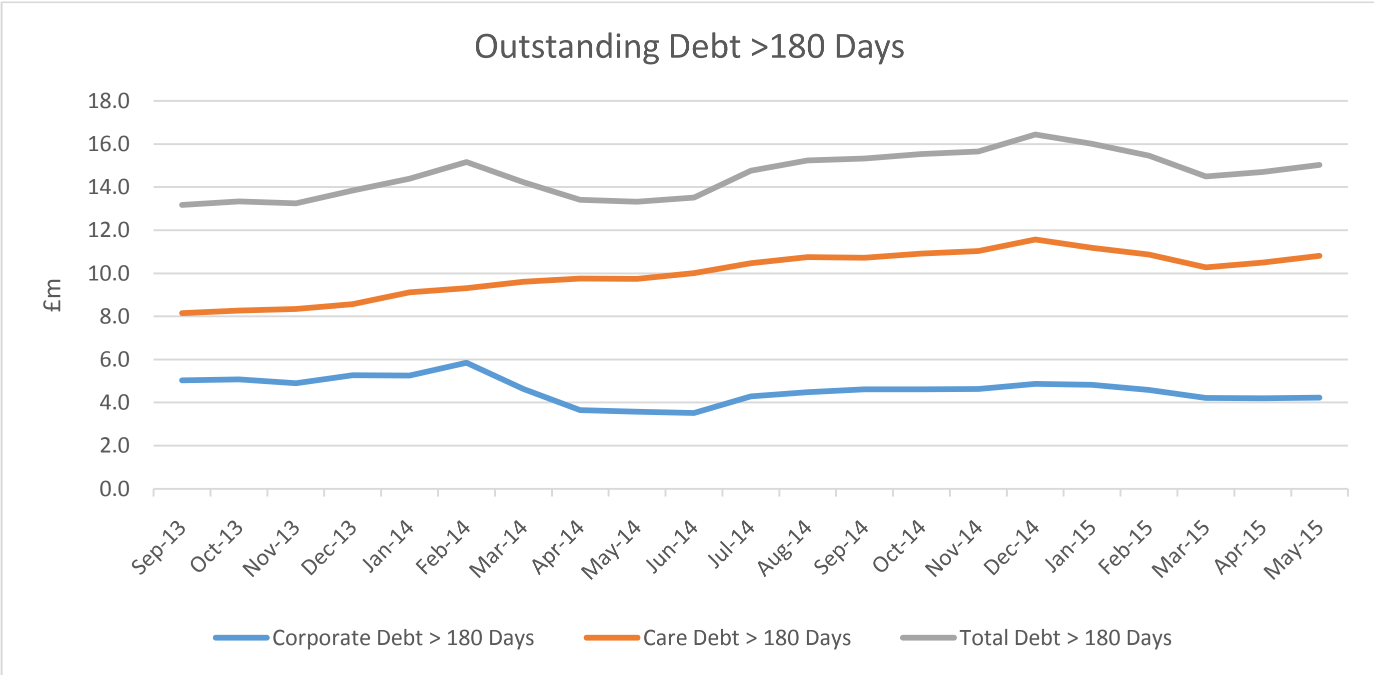
The graph shows that the value of outstanding debts directly correlates with the level of outstanding debt that is within "buckets" 1 – 4 (short term outstanding debt). This therefore means that although the level of outstanding debt may significantly spike in particular months the majority of this debt is within the early outstanding time periods and therefore the probability of collections is high. The majority of debts owed to the County Council are paid within the first 6 months.

The graph also indicates that the level of outstanding debt over 6 months old has remained relatively constant over the last 18 months. This is the area that will be the focus of the Debt Collection Team over coming months, as there is a critical need to avoid debts increasing over 6 months, as the probability of achieving collection is much lower once it is outstanding for this length of time.

Prior to the implementation of the new Accounts Receivable IT system, a significant cleanse of the debt stock over 6 months old has taken place as detailed in the main body of the report (this is shown in the graph with a slight downward trend in the debt stock over 6 months old over recent months). Once the new IT system is fully implemented this should mean that the Debt Collection Team can allocate more resource to focus on those debts that are over 6 months old (or heading towards 6 months old) and target recovery of these debts, rather than being concerned with the shorter term debts which have a much higher probability of being paid. Each month there are debtors of an average value of £570k who move into the "over 180 days" category, however on average this "bucket" has only increased by £57k each month due to the recovery of older debts by the Debt Collection Teams and the writing off of debts that were uneconomical to pursue.

b) Outstanding Debts over 180 days (6 Months)

Graph 2



Graph 2 provides details of the types of debt that are currently outstanding over 180 days and the trends over the last 18 months for this older debt.

The graph above clearly demonstrates that there is a link between the trends in overall debt outstanding over 180 days and care debts that are outstanding over 180 days. The corporate debts that are over 180 days old have remained fairly constant over the past 18 months and do not appear to reflect the trend in the overall outstanding debt over 180 days.

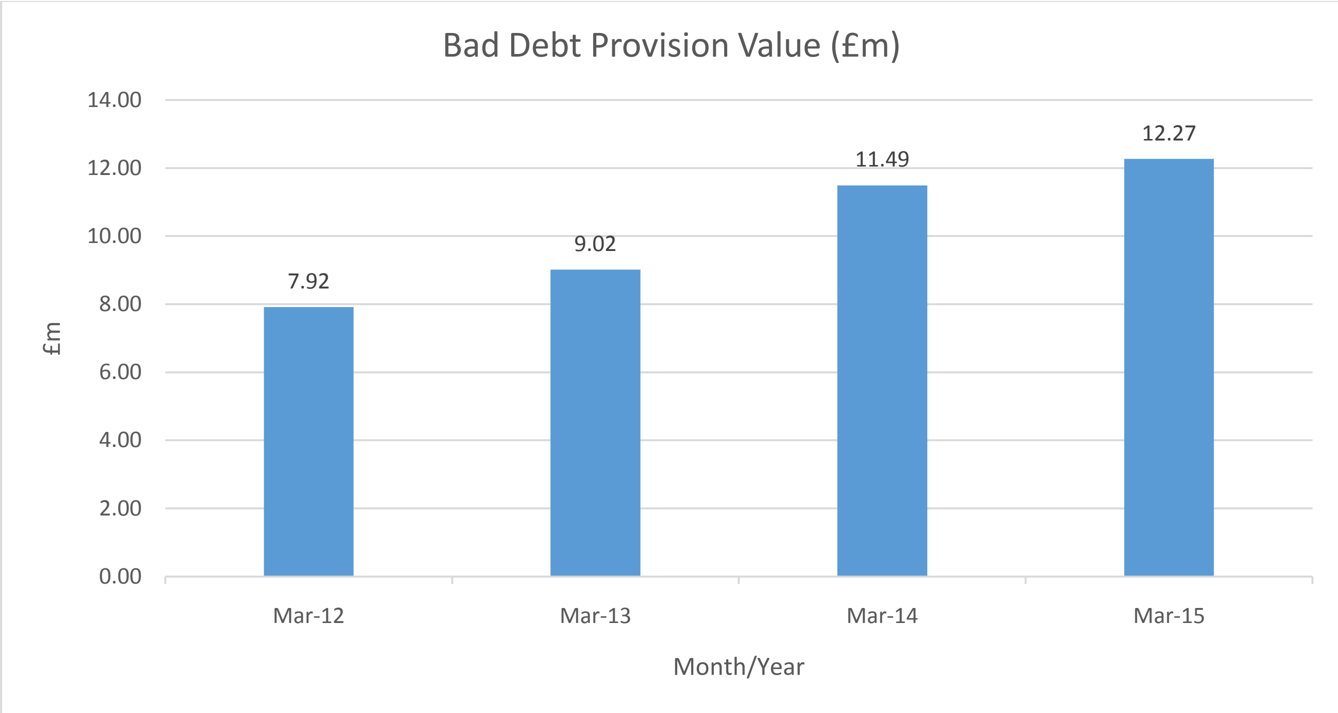
As stated above, each month there are care debtors of an average value of £570k who move into the "over 180 days" category, however on average this "bucket" has only increased by £57k each month over the past 12 months due to the recovery of older debts by the Debt Collection Teams and the writing off of debts that were uneconomical to pursue. The aim of the Debt Collection Team will be to reduce the amount of care debts moving into the "over 180 days" category.

The increasing care debts are a key focus for the County Council over the next 6 months, as following the implementation of the Care Act it is anticipated that the volume of service users and carers eligible for care will increase which will result in more care bills being raised. Once the new IT system is implemented this should enable debt collectors to focus on these older unrecovered debts rather than shorter term debts with a much higher probability of recovery.

A newly established Care Debt Board which contains members of Financial Resources, Legal Services and Operations and Delivery have held their first meeting to review the Top 100 Outstanding Care Debts and discuss a strategy for each individual debt to achieve recovery of significant outstanding amounts.

c) Bad Debt Provision Analysis

Graph 3



The consistent approach and utilisation of the Bad Debt Provision that was implemented in 2013/14 has resulted in increasing Budget Holder awareness of outstanding "older" debts and provides a transparent, prudent but realistic provision that reflects the outstanding "bad debt" (outstanding over 6 months) position of the County Council.

The Bad Debt Provision is based on the probability of collection once a debt is outstanding for over 6 months. In order to create the provision a charge is made to the service budget that has raised the debtor that has not been paid.

Although the provision has increased over the past 2 years this does demonstrate that the County Council has prudently set aside funds to cover those debts that may result in being written off when it becomes uneconomical to pursue the debts any further.

For a debt to be written off this must be the last resort for the County Council and we must have pursued all avenues available to try and recover each individual debt. However, there are occasions where the chance of recovery is very low and it is uneconomical to pursue a debt any further, this would result in the debt being written off following the necessary approval process.