

## Appendix 4

### Subject: Miscellaneous Debt Update March 2016

#### 1. LATEST ARREARS POSITION – MERTON'S AGED DEBTORS REPORT

1.1 A breakdown of departmental net miscellaneous debt arrears, as at 31 March 2016, is shown in column F of Table 1 below.

Sundry Debtors aged balance – 31 March 2016 – not including debt that is less than 39 days old

Department a	39 days to 6 months b	6 months to 1 year c	1 to 2 years d	Over 2 years e	Mar 16 arrears f	Dec 15 Arrears	Direction of travel
	£	£	£	£	£	£	
Env & Regeneration	540,122	188,068	124,049	220,335	1,072,574	1,187,696	↓
Corporate Services	139,711	63,595	23,658	176,429	403,393	356,127	↑
Housing Benefits	675,286	1,255,089	914,017	1,283,039	4,127,431	3,749,990	↑
Children, Schools & Families	165,505	63,599	-10,612	190,587	409,079	314,276	↑
Community & Housing	896,536	771,344	1,143,891	1,783,628	4,595,399	4,636,004	↓
Chief Executive's	0	0	0	0	0	480	↓
CHAS 2013	54,108	16,263	18,789	4,619	93,779	129,393	↓
<b>Total</b>	<b>2,471,268</b>	<b>2,357,958</b>	<b>2,213,792</b>	<b>3,658,637</b>	<b>10,701,655</b>	<b>10,373,966</b>	<b>↑</b>
<i>Mar-15</i>	<i>2,369,079</i>	<i>1,423,960</i>	<i>1,937,947</i>	<i>3,216,610</i>	<i>8,947,596</i>		
<i>Variance Mar 15 to Mar 16</i>	<i>102,189</i>	<i>933,998</i>	<i>275,845</i>	<i>442,027</i>	<i>1,754,059</i>		<b>↑</b>

1.2 Since the position was last reported in December 2015, the net level of arrears, i.e. invoices over 39 days old, has increased by £327,689.

1.3 The net level of level of arrears has increased by £1,754,059 when compared to the position at the end of March 2015.

- 1.4 The above table shows the separate debt owed to CHAS 2013 Ltd.
- 1.5 The main increase in debt relates to housing benefit overpayments which have increased by £377,441 since last reported. The work being done on this area is detailed later in the report.
- 1.6 The increase in Corporate Services debt is due to re-charges owed to the South London Legal Partnership, although the majority of this has been recovered in April 2016.
- 1.7 Table 2 below shows the total net level of arrears for the last five years – not including debt that is less than 39 days old

Sundry debt March 2012 to March 2016 – not including debt that is less than 39 days old

Department	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016
	£	£	£	£	£
Env & Regeneration	471,420	724,076	719,101	812,515	1,072,574
Corporate Services	297,252	460,526	378,135	330,763	403,393
Housing Benefits	2,836,237	3,137,325	3,075,051	3,150,380	4,127,431
Children, Schools & Families	125,154	317,776	339,885	370,008	409,079
Community & Housing	2,713,370	3,784,562	4,528,492	4,146,018	4,595,399
Chief Executive's	0	0	500	0	0
CHAS 2013			88,590	137,912	93,779
<b>Total</b>	<b>6,443,433</b>	<b>8,424,265</b>	<b>9,129,754</b>	<b>8,947,596</b>	<b>10,701,655</b>

- 1.6 The figures in table 2 (above) show that the major area of increase in debt over the four year period is housing benefit overpayments and Community and Housing. It should be noted that the amount of housing benefit paid out has increased over this period. In 2008/09 £61.3 million was paid out and just under £100 million was paid in 2015/16. The level of Community and Housing debt over 39 days has increased by just under £1.88 million in the four year period.
- 1.8 The increase in debt for Environment and Regeneration is mainly due to increases in Town Planning, Environmental Health and Trading Standards and Waste debts. These three service units have seen a total of £950,000 increase since March 2012.
- 1.8 The action being taken to recover the largest debts is outlined below

## 2 THE PROCESS FOR COLLECTION OF MISCELLANEOUS DEBT

- 2.1 In considering the current levels of debt, it is important to outline the general process Merton currently has in place to collect its arrears. In general terms the process has 5 stages, as detailed below, although processes employed vary by debt type. It is important to note that most debtors can not pay their outstanding liabilities other than by payment arrangements. Once a payment arrangement has been made it can not be changed without the debtors consent.

### The process for collecting debt

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Invoice issued to debtor with 30 days allowed for payment.	After 30 days and following two requests for payment, a final warning notice is issued and the case passed to the Debt Recovery team.	The debt and debtor is evaluated to ensure the most effective recovery action is taken to attempt recovery. This will include contacting debtors' direct and collecting payment or agreeing repayment plans and passing the debt to collection agents to collect on our behalf, bankruptcy proceedings, attachment to benefit etc.	If the debt remains unpaid then County Court action is taken by the Debt Recovery team's solicitor who administers this process.	The final stage is consideration of the debt for write-off if all other attempts to collect the debt have failed.

## 3 DEBT OVER ONE YEAR OLD

- 3.1 Debt over 1 year old has increased by £554,557 since the end of December 2014, an increase of 9.38%.

### Debt over 1 year old compared to December 2014

Department	Dec 2014	Mar 2016	Variance	% Variance
Env & Regeneration	£451,983	£343,557	-£108,426	<b>-31.56</b>
Corporate Services	£283,173	£235,489	-£47,684	<b>-20.25</b>
Housing Benefits	£1,781,334	£2,212,800	£431,466	<b>19.50</b>
Childrens, Schools & Families	£263,050	£202,772	-£60,278	<b>-29.73</b>
Community & Housing	£2,565,992	£2,888,542	£322,550	<b>11.17</b>
Chief Executives	£500	£0	-£500	<b>0.00</b>
CHAS 2013	£9,384	£26,813	£17,429	
<b>Total</b>	<b>£5,355,416</b>	<b>£5,909,973</b>	<b>£554,557</b>	<b>9.38</b>

- 3.2 The majority of debt over 1 year old is for Community and Housing debts and housing benefit overpayments.
- 3.3 The debt for Community and Housing over a year old has increased by £322,550 since December 2014.
- 3.4 Over the past few years council staff have been working closely and following new processes to manage this debt. This work involves regular joint meetings between the financial assessments, social services, client financial affairs and debt recovery teams to review the debts of individual clients and establish action plans for each one.
- 3.5 These actions include, but are not limited to: early intervention from social workers to prevent debts from getting out of control and to ensure that clients are supported earlier to get their finances in order; as part of their induction all new Social Workers spend time with the Financial Assessment Team, to understand how financial assessments are carried out; social workers also check to see if there any safeguarding issues around non-payment of bills and work very closely with the Welfare Benefits Officer; there is more use of credit checks and land registry checks when assessing/investigating debt issues; increased involvement from the client financial affairs team to take appointeeship for those without capacity or appropriate deputyship; Increased identification of cases where we will consider legal action to secure the debt and generally to share information and support each other in the collection and prevention of this debt. Although the debt has grown the actions being taken are mitigating the impact.
- 3.6 The total debt figure for Community and Housing, including debt that is less than 39 days old, is £5.95 million. Of this £4.638 million is Community Care debt. Of the Community Care debt £0.65 million is under 39 days and therefore no formal recovery action has taken place other than issuing an invoice and reminder. Of the remaining £3.988 million debt which is older than 39 days just under £1.0 million is secured debts against charging orders or deferred payment arrangements, £0.925 million is where the council has deputyship or awaiting probate, £0.3 where court action is taking place or there are queries on the invoices and a further £0.37 million has repayment arrangements in place. We are actively working on securing the remaining debt by similar means.
- 3.7 A new working group chaired by the Director of Community and Housing has been set up to monitor Community Care Debt and to work across departments to improve processes and ensure best practice is in place to maximise collection of debts at all stages.
- 3.8 The table below shows the breakdown of Community Care debt by recovery action

## Total Community Care Debt by recovery action as at March 2016

<b>Community Care Debt</b>	<b>31 March 16</b>	<b>Percentage at stage</b>
Invoice stage	656,084	14%
Charge & Deferred Payment	995,753	22%
Payment arrangement	372,108	8%
Probate, DWP & Deputyship	925,447	20%
Court action	147,886	3%
Dept or service query	154,802	3%
No action secured	1,386,446	30%
<b>Total Debt</b>	<b>4,638,526</b>	

- 3.9 There is £1.3 million of other Community and Housing Debt, this is made up of £430,000 of debt owed to Mascot although the vast majority of this is debt under 39 days old. There is also £645,000 debt owed to Housing and Social Services Accountancy team, which is mainly due from Merton CCG and some debt owed from other councils. Just over £400,000 of this debt is over 39 days old and is being pursued.
- 3.10 The total amount of housing benefit debt is £7.973 million, this figure includes £4,127,431 within the sundry debtors system as reported in 1.1 above and the debt still within the housing benefit system.
- 3.11 It has been previously reported that the Department of Work and Pensions commenced a "Real Time" Information initiative at the end of September 2014 which was aimed at identifying overpayments of housing benefit. The DWP have compared housing benefit claim data and HMRC data and over the six month life of the initiative highlighted 900 cases for Merton where there were data discrepancies.
- 3.12 In May 2015 the second phase of the initiative commenced and we are receiving approximately 150 cases per month.
- 3.13 As at the end of March 2016, £2.625 million of overpayments have been identified and created. A number of cases have resulted in overpayments of over £10,000 and have been referred to the Internal Audit team and the new joint DWP Fraud team.
- 3.14 Where possible these overpayments are being recovered from on-going benefit payments. We are entitled to deduct between £10.95 and £23.35 per week from on-going housing benefit dependant on circumstances. Where the change has resulted in housing benefit being cancelled or nil entitlement we contact the claimants employer and are paid a percentage deduction of their salary each month. So far we have over £180,000 set up to recover in this way.
- 3.15 A further tranche of these cases will be started from May 2016.

- 3.16 The Department of Work and Pensions commenced another initiative in the final quarter of 2014/15. This initiative is where council's are encouraged to identify fraud and error within the system and have been awarded set up funding and on-going funding based on achieving performance targets. This initiative is being extended for 2016/17.
- 3.17 The Council met its target for December 2014 to March 2015 and obtained £22,000 in additional funding and exceeded the upper target for the first quarter of 2015/16 and received £23,000 in additional funding. The second quarter target for 2015/16 was not achieved although the third quarter target was achieved and a further £14,000 additional funding received.
- 3.18 These two initiatives and the normal churn of claims has resulted in the level of housing benefits debt increasing and it is very likely that it will continue to increase.
- 3.19 Although the overall housing benefit debt has increased there has been an increase in the amount of debt either being recovered from on-going benefit or on arrangements, with £3.1 million being recovered from on going benefit by reducing current housing benefit payments. This figure has increased by £0.3 million since reported in September 2015. Just under £4.9 million is on a payment arrangement or recovery from on going benefit
- 3.20 The table below shows breakdown of all housing benefit overpayments by recovery action.

Total Housing Benefit Debt by recovery action from April 2015 to March 2016 by quarter

	<b>Jun-15</b>	<b>Sep-15</b>	<b>Dec-15</b>	<b>Mar-16</b>
Invoice and Reminder stage	542,969	814,303	1,571,934	1,205,885
On-going recovery	3,070,965	2,839,286	3,237,225	3,105,644
Payment Arrangements	1,514,546	1,324,634	1,606,401	1,792,340
No Arrangements secured	2,325,949	2,255,792	1,608,915	1,870,006
<b>Total HB Debt</b>	<b>7,454,429</b>	<b>7,234,015</b>	<b>8,024,476</b>	<b>7,973,875</b>

- 3.21 We have continued to review and target all housing benefit debt. We have tried to improve the procedures at the beginning of the process when a debt is first identified by ensuring that invoices are raised as soon as possible to give the best chance of recovery, we are targeting debtors who are now in work and we will be applying to recover the overpayments from their employers and we are looking at the oldest debts to consider if they are still collectable. However, it should be noted that a lot of the housing benefit debt is very difficult to recover as

the Council's powers of recovery are very limited unless the debtor works or owns their own property.

- 3.22 The table below shows the amount of debt written off in accordance with financial regulations and scheme of management in 2014/15 and the first quarter of 2015/16.

Debt written off in 2014/15 and 2015/16 by debt type

	2014/15	2015/16				
	Total	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
<b>Debt type</b>						
<b>Sundry Debt</b>	£347,726	£0	£223,528	£263,937	£94,372	<b>£581,837</b>
<b>Housing benefit overpayments</b>	£1,050,105	£194,200	£98,421	£102,565	£115,166	<b>£510,352</b>
<b>Council Tax</b>	£526,881	£177,455	£252,263	£337,514	£184,048	<b>£951,280</b>
<b>Business Rates</b>	£790,373	£0	£0	£387,475	£272,039	<b>£659,514</b>
<b>Total</b>	<b>£2,715,085</b>	<b>£371,655</b>	<b>£574,212</b>	<b>£1,091,491</b>	<b>£665,625</b>	<b>£2,702,983</b>

- 3.23 Of the business rates debt written off in 2014/15 just over £400,000 related to businesses that went into liquidation and for 2015/16 £392,000 related to businesses that went into liquidation and therefore it was not possible to collect the rates.
- 3.24 Towards the end of 2014/15 an exercise was commenced targeting the highest housing benefit debts with the aim of agreeing payment arrangements where possible and where appropriate writing debts off. This included many large overpayments, some identified through fraud activity where the prospect of collecting the debt was minimal. In some instances payment arrangements were put in place for 5 years and the remainder of the debt written off. If circumstances change of the debtors or after 5 years all payments are made there is the option of writing part or all of the debt back to collect.
- 3.25 Although the debt written off within 2014/15 does not relate to one specific year it should be noted that in 2014/15 the council was collecting a net debt of £101 million in council tax (this includes the GLA portion), a net debt of £87.8 million in business rates (this includes Business Rates Supplement) and approximately £44 million raised through sundry debts.
- 3.26 Every effort is made to collect all outstanding debts and debts are only written off as a last resort. The council is still collecting some council

tax debts that are greater than 6 years old or will have secured the debts against properties where possible.

#### 4. PROVISION FOR BAD AND DOUBTFUL DEBTS

4.1 Provision has been made available for writing off bad and doubtful debts held within the ASH and housing benefits systems. These provisions are £2.83m for ASH miscellaneous debt and £6.29m for debt held in the housing benefits system, making a total General Fund provision for bad and doubtful debts of £9.12m. Clearly, every attempt is made to collect debts before write-off is considered. The current level of provision is analysed in the table below.

4.2 The Council adheres to the requirements of the SORP when calculating its bad debt provisions. Merton's methodology is to provide on the basis of expected non collection using the collection rates for individual departmental debt, and the age of the debt. Where collection rates improve or the average age of debt decreases, this impacts favourably on the bad debt provision.

#### Provision for Bad and Doubtful Debts

Department	Total Provision	
	At 31/03/2015 Re-stated	At 31/03/2016
	£000's	£000's
Env & Regeneration	332	377
Corporate Services	432	342
Housing Benefits	5,694*	6,287
Children, Schools & Families	90	121
Community & Housing	1,996	1,995
<b>Total</b>	<b>8,544</b>	<b>9,122</b>

\*The housing benefit provision at 31/03/2015 had previously been reported as £6.344m, which included £0.650m to cover a probable repayment to central government arising from the audit of the housing benefit grant claim. A review of bad debt provisions in 2015/16 determined that this £0.650m is not provision for a bad debt. Therefore, the 31/03/15 provision has been re-stated to £5.694m.

#### 5. EXECUTIVE SUMMARY / CONCLUSION

5.1.1 Merton's total level of miscellaneous debt arrears i.e. invoices over 39 days old, as at 31 March 2016 is £10,701,655.. The net level of arrears, when the matter was last reported in December 2015 was 10,373,973.

## 6. TOTAL DEBT DUE TO MERTON

The total amount due to Merton as at 31 March 2016 is detailed in table 6 below.

Total debt outstanding as at 31 March 2016 and compared with previous periods over the past 12 months

	<b>Mar-15</b>	<b>Jun-15</b>	<b>Sep-15</b>	<b>Dec-15</b>	<b>Mar-16</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Miscellaneous sundry debt Note 1	14,201,393	10,837,854	10,443,846	11,272,021	16,281,729
Housing Benefit debt	7,070,861	7,454,428	7,234,014	8,024,475	7,973,874
Parking Services	2,143,597	2,197,074	2,120,147	2,026,990	2,236,486
Council Tax Note 2	3,730,152	5,281,972	4,554,084	3,954,459	3,696,585
Business Rates Note 3	638,077	1,758,523	1,741,972	1,502,441	1,112,781
<b>Total</b>	<b>27,784,080</b>	<b>27,529,851</b>	<b>26,094,063</b>	<b>26,780,386</b>	<b>31,301,455</b>

Note 1 This figure differs from the amount shown in Table 1 as it shows all debt, including that which is less than 39 days old.

Note 2 Council tax debt does not include the current year council tax collection.

Note 3 Business rates debt does not include the current year business rates collection

- 6.1 The overall debt outstanding has increased by £3.51 million in the past 12 months compared to the end of March 2015.
- 6.2 The areas where there has been the largest increase are miscellaneous sundry debts which has increased by £2.08 million although £1.0 million of this increase is for debt under 39 days, housing benefit debt by £0.9 million and business rates debt by £0.73 million.
- 6.2 Detailed breakdowns of the Council Car Parking figures are shown in the Table 7 below:

**Table 7 – Car Parking Aged Debtors – March 2016**

Age of Debt	Outstanding £	Number of PCNs

