

Appendix 9

Subject: Miscellaneous Debt Update June 2015

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

1.1 A breakdown of departmental net miscellaneous debt arrears, as at 30 June 2015, is shown in column F of Table 1 below.

Table 1 – Debtors aged balance – 30 June 2015 – 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	June 15 arrears f	Mar 15 Arrears	Direction of travel
	£	£	£	£	£	£	
Env & Regeneration	319,976	176,500	85,869	314,649	896,994	812,515	↑
Corporate Services	86,022	15,407	29,273	159,426	290,128	330,763	↓
Housing Benefits	690,662	730,201	570,001	1,205,144	3,196,008	3,150,380	↑
Children, Schools & Families	845,150	-36,582	178,968	8,297	995,833	370,008	↑
Community & Housing	1,568,397	837,778	1,070,095	1,600,448	5,076,718	4,146,018	↑
Chief Executive's CHAS 2013	0	0	0	0	0	0	↓
Total	3,630,593	1,735,843	1,955,265	3,287,964	10,609,665	8,947,596	↑
<i>Jun-14</i>	<i>2,787,041</i>	<i>1,623,136</i>	<i>2,239,234</i>	<i>2,849,993</i>	<i>9,499,404</i>		
Variance Jun 14 to Jun 15	843,552	112,707	-283,969	437,971	1,110,261		↑

1.2 Since the position was last reported in March 2015, the net level of arrears, i.e. invoices over 39 days old, has increased by £1,662,069.

1.3 The net level of level of arrears has increased by £1,110,261 when compared to the position at the end of June 2014.

- 1.4 The above table shows the separate debt owed to CHAS 2013 Ltd.
- 1.5 Children's Schools and Families have had an increase of £625,825 since March 2015 and Community and Housing an increase of £930,700.
- 1.6 The Children's Schools and Families increase in debt is due to one invoice of £670,434 raised against the London Borough of Lambeth for recoupment of SEN charges. This debt is no longer outstanding as it was paid on the 7 July 2015 just after the reporting period ended.
- 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

Table 2 – net miscellaneous debt June 2011 to June 2015 – not including debt that is less than 39 days old

Department	June 2011	June 2012	June 2013	Jun 2014	June 2015
	£	£	£	£	£
Env & Regeneration	367,217	315,756	811,346	884,512	896,994
Corporate Services	268,063	527,423	623,983	858,227	290,128
Housing Benefits	2,312,383	2,993,179	3,173,011	2,685,560	3,196,008
Children, Schools & Families	180,184	536,458	133,712	367,884	995,833
Community & Housing	3,178,216	3,326,862	4,183,231	4,589,395	5,076,718
Chief Executive's	3,900	0	3,000	500	0
CHAS 2013	0	0	0	113,826	153,984
Total	6,309,963	7,699,678	8,928,283	9,499,904	10,609,665

- 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 2014/15. The level of Community and Housing debt over 39 days has increased by just under £1.9 million in the four year period.
- 1.7 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.

Table 3 – 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 £153,504 since the end of June 2014, an increase of just 2.93%.

Table 4 – Debt over 1 year old compared to June 2014

Department	June 2014	June 2015	Variance	% Variance
Env & Regeneration	£401,573	£400,518	-£1,055	-0.26
Corporate Services	£236,451	£188,700	-£47,751	-25.31
Housing Benefits	£1,883,880	£1,775,145	-£108,735	-6.13
Childrens, Schools & Families	£22,079	£187,266	£165,187	88.21
Community & Housing	£2,472,093	£2,670,544	£198,451	7.43
Chief Executives	£500	£0	-£500	0.00
CHAS 2013	£73,152	£21,059	-£52,093	
Total	£5,089,728	£5,243,232	£153,504	2.93

- 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 £198,451 since June 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 £5.6 million. Of this debt £0.5 million is under 39 days and therefore no formal recovery action has taken place other than issuing an invoice and reminder. Of the remaining £5.1million debt which is older than 39 days just over £1.0 million is secured debts against charging orders or where the council has deputyship. In addition a further £0.65 million has repayment arrangements in place. We are actively working on securing the remaining £3.45 million debt by similar means.
- 3.7 In the past quarter we have received total payments of over £80,000 on three accounts from the estates of the debtors and over £50,000 on two accounts where the council holds deputyship.
- 3.8 The total amount of housing benefit debt has increased to £7.45 million, an increase of just over £0.38 million since last reported in March 2015.
- 3.9 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

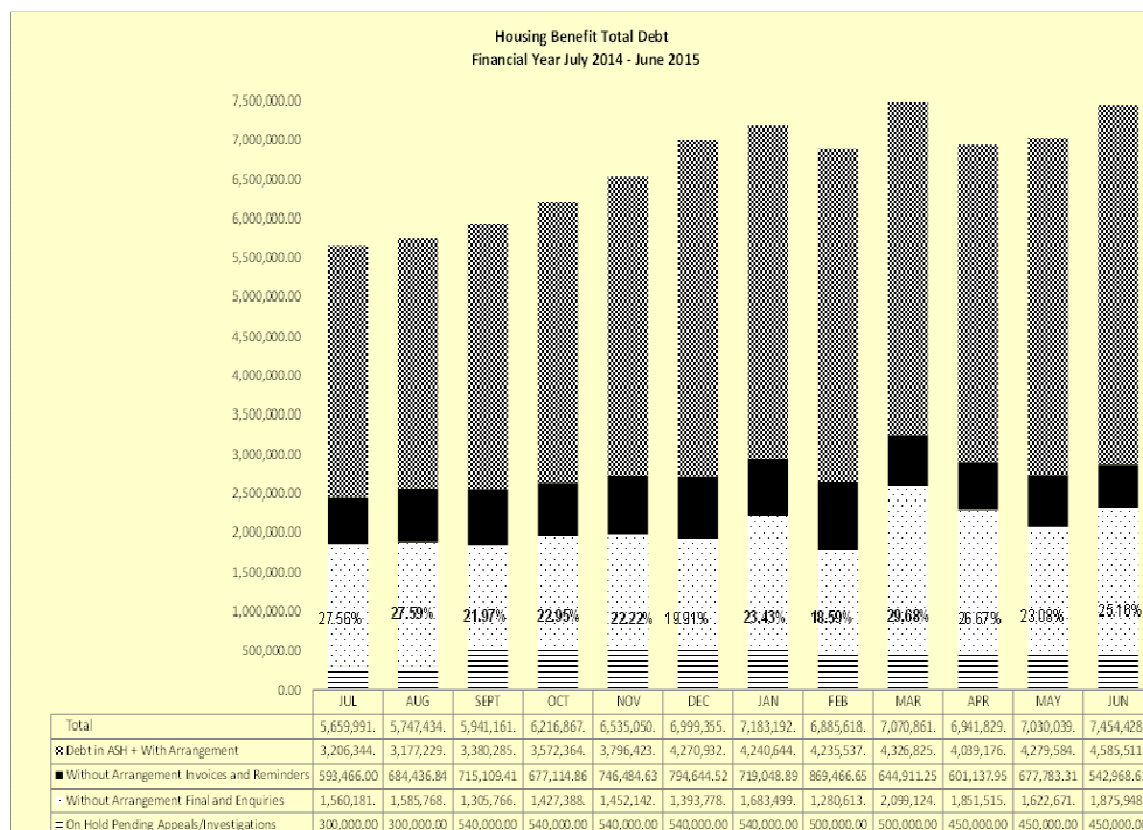
and HMRC data and over the six month life of the initiative highlighted 900 cases for Merton where there were data discrepancies.

- 3.10 This initiative finished in February 2015 and just over 900 cases were reviewed. In the vast majority of cases there has been a reduction in housing benefit paid out and some very large overpayments of housing benefit where the claimant has failed to notify of their change in circumstances. In total just over £1.0 million of overpayments have been identified and created and we have identified a number of cases where Merton employees or employees of neighbouring boroughs have failed to advise of changes to their income or that they have started new jobs. 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.
- 3.11 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 £125,000 set up to recover in this way.
- 3.12 In May 2015, the second phase of the “Real Time” Information initiative commenced. The council will receive approximately 150 cases per month until January 2016. Already large overpayments are being identified from these cases.
- 3.13 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 will run until at least March 2016. The Council has not yet received its final performance data for the final quarter of 2014/15. The provision data indicates that the council has exceeded the required target and is likely to receive between £20,000 and £25,000 in additional grant for achieving this. An update of progress will be provided in the next quarterly report.
- 3.14 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. Between April 2015 and June 2015 over £1.4 million of overpayments were identified. During the same period just over £0.72 million has been recovered through the housing benefit system either through the recovery of overpayments against on going benefit or off set against new awards of housing benefit.
- 3.15 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. £3 million is being recovered from on

going benefit (increased from £2.6 million when last reported) by reducing current housing benefit payments. Just under £4.6 million is on a payment arrangement or recovery from on going benefit.

- 3.16 The graph below shows breakdown of all housing benefit overpayments by recovery action.

Graph 1 – Total Housing Benefit Debt by recovery action from July 2014



- 3.17 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.
- 3.18 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.

Table 5 - 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
Sundry Debt	£347,726	£0				£0
Housing benefit overpayments	£1,050,105	£194,200				£194,200
Council Tax	£526,881	£177,455				£177,455
Business Rates	£790,373	£0				£0
Total	£1,317,254	£177,455	£0	£0	£0	£177,455

- 3.19 Of the business rates debt written off in 2014/15 just over £400,000 related to businesses that went into liquidation and therefore it was not possible to collect the rates.
- 3.20 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.
- 3.21 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.
- 3.22 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 £2.85m for ASH miscellaneous debt and £6.34m for debt held in the Housing Benefits system, making a total General Fund provision for bad and doubtful debts of £9.19m. Clearly, every attempt

is made to collect debts before write-off is considered. The current level of provision is analysed in the table below.

- 4.3 The Council adheres to the requirements of the SORP when calculating its 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.

Provision for Bad and Doubtful Debts

Department	Total Provision	
	At 31/03/2014	At 31/03/2015
	£000's	£000's
Env & Regeneration	335	332
Corporate Services	498	432
Housing Benefits	3,981	6,344
Children, Schools & Families	54	90
Community & Housing	1,782	1,996
Total	6,650	9,194

- 4.4 The £2.363m increase in the Housing Benefit debt provision is due to:

- an increase of £1.7m in outstanding Housing Benefit debt itself, to £7.07m (see Graph 1 at Paragraph 3.16)
- advice received from the Council's external auditors, EY, recommending that the provision be set at 90% of outstanding debt, to reflect that much Housing Benefit debt is very difficult to recover.

5. EXECUTIVE SUMMARY / CONCLUSION

- 5.1.1 Merton's total level of miscellaneous debt arrears i.e. invoices over 39 days old, as at 30 June 2015 is £10,609,665. The net level of arrears, when the matter was last reported in March 2015 was £8,947,596.

6. TOTAL DEBT DUE TO MERTON

The total amount due to Merton as at 30 June 2015 is detailed in table 6 below.

Table 6 – Total debt outstanding as at 30 June 2015 and compared with previous periods over the past 12 months

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
	£	£	£	£	£
Miscellaneous sundry debt Note 1	13,448,226	14,437,902	14,039,675	14,417,437	14,211,557
HB debt in Benefit system Note 2	2,681,440	2,818,432	3,339,481	3,679,980	4,144,016
Housing Rent Note 3	102,001	101,388	101,253	24,174	23,027
Parking Services	2,497,703	2,388,584	2,240,338	2,143,597	2,197,074
Council Tax Note 4	5,011,408	4,444,360	4,100,330	3,730,152	5,281,972
Business Rates Note 5	3,397,378	2,635,958	1,351,593	638,077	1,758,523
Total	27,138,156	26,826,624	25,172,670	24,633,417	27,616,169

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 This is the housing benefit debt within the benefits system

Note 3 This is former tenants rent arrears – leaseholder debts are included in miscellaneous sundry debt

Note 4 Council tax debt does not include the current year council tax collection.

Note 5 Business rates debt does not include the current year business rates collection

- 6.1 The overall debt outstanding has increased by just under £0.5 million in the past 12 months compared to the end of June 2014.
- 6.2 The areas where there has been an increase since June 2014 are sundry debt (£0.75 million) and housing benefit debt within the benefit system (£1.4 million). Action being taken against sundry debt and housing benefit debt has been detailed earlier in this report.

6.3 Detailed breakdowns of the Council Car Parking figures are shown in the Table 7 below:

Table 7 – Car Parking Aged Debtors – June 2015

Age of Debt	Outstanding £	Number of PCNs
0-3 months	£689,473	6,291
3-6 months	£386,238	2,562
6-9 months	£298,150	1,870
9-12 months	£245,369	1,499
12-15 months	£198,313	1,189
Older than 15 months	£379,531	2,809
Total June 2015	£2,197,074	16,220
Total March 2015	2,143,597	15,443
Increase	£53,477	777

APPENDIX AUTHOR - David Keppler (020 8545 3727/david.keppler@merton.gov.uk)