



## **Bad debt provision for Overpayments**

Financial figures are extracted from the Housing Benefits payment system, Northgate. After 2008/09 closedown it became apparent that a Northgate reporting error had understated the total overpayments balance. The reports were corrected and a revised debtor figure agreed with the auditors after the accounts were closed. Total outstanding overpayments were restated at £9m, of which £2.4m related to overpayments in 2008/09 (£6.6m related to previous years). £2.4m represents 1.4% of the total net Housing Benefit paid in 2008/09, £166m.

Historically we have made a provision for bad debts against Housing Benefit overpayments at 100%. Amounts recovered have been credited to the year they are received rather than when the debt arose. These debts are difficult to collect and generally we would only anticipate to recover 40% - 50% of this amount of debts from the current year. For debts beyond one year prospects of recovery reduce significantly, although they are not written-off because if individuals start claiming Housing Benefit again debt is recovered from on-going payments.

Subsequent to the closedown for 2008/09, we reviewed this policy with our auditors based on the historic amounts recovered, concluding with the assumption that we will collect 20% of all debt outstanding. This means our net debt (the difference between the overpayments debtor and the bad debt provision at 80%) increased by £1.8m on our balance sheet at 31.3.09, thus increasing our reserves by the same amount, which was transferred to corporate reserves.

The 07/08 accounts were also updated to reflect these changes.

### **Current position on Overpayments recoverable debt**

The total in 2009/10 stands at around £10m, much of which dates back several years.

Where deductions are made from ongoing benefits payments, this is usually at the maximum statutory amount, which varies depending on circumstances, but is typically £9.75 per week. Approximately £3.3m is currently being recovered by this method relating to the current and prior years.

The remaining debts, where entitlement to benefit has ended, are passed to the HB Recovery Team. They invoice the balance, and use a range of options to effect recovery. If the balance is not repaid in full we contact the customer to make arrangements for repayment by instalments. Where the overpayment had been made direct to the landlord, we make an immediate deduction from any payments, in respect of other tenants, that are due to that landlord. Where

appropriate we ask the DWP to make deductions from welfare benefits to recover the overpayment. Where debts prove difficult to collect we refer the case to an external collection agency or take appropriate court action.

The Recovery team have made improvements to our debt management processes and are now using reports more effectively to identify cases where action is required. For example, the team contact customers when their payments are not received, and we regularly monitor progress on the 'top 100' overpayments. We are developing a bespoke suite of reports which will provide improved management information about debt profile and team performance which will help to drive further progress.

Last year the Recovery Team recovered £1.86m cash, which, together with that recovered from ongoing entitlement, helped to reduce the subsidy lost in overpayments and in other areas where the council doesn't receive full subsidy on payments.

Simon Bowker, Head of Finance (Neighbourhoods)