



BRIEFING

Writing-off MIQ fees debt

Date:	26 May 2022	Priority:	Medium
Security classification:		Tracking number:	2122-4436

Action sought		
	Action sought	Deadline
Hon Chris Hipkins Minister for COVID-19 Response	<p>Note that as at 23 May 2022, \$166.509 million in MIQ fees has been recovered, including \$13.849 million from debt collection partners, but we judge that a portion of the outstanding debt is highly unlikely to be recovered and should be written-off.</p> <p>Agree in principle to writing off approximately \$11.959 million in MIQ fees debt for 2021/22.</p> <p>Note that subject to your agreement to this approach, we will provide you and the Minister of Finance with an itemised list of debtors and final write-off figure for approval before 30 June 2022.</p>	13 June 2022

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Andrew Milne	Associate Deputy Secretary, MIQ	Privacy of natural persons	✓
Stewart McRobie	Chief Financial Officer, MBIE		

The following departments/agencies have been consulted
The Treasury

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



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Purpose

This briefing seeks your agreement to an approach to writing off Managed Isolation and Quarantine (MIQ) debt for 2021/22 that is unlikely to be recovered.

Recommended action

The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a **Note** that as at 23 May 2022, \$166.509 million in fees has been recovered and a further \$14.789 million worth of invoices have been issued but are not yet due. There is currently \$38.068 million outstanding in overdue fees invoices.

Noted

- b **Note** that our debt collection partners have recovered \$13.849 million to date (an average of approximately \$500,000 per week), but we judge that a portion of the outstanding debt is highly unlikely to be recovered and should be written-off.

Noted

- c **Agree** to the proposed write-off approach which would see approximately \$11.959 million in MIQ fees debt for 2021/22 written-off.

Agree Disagree

- d **Note** that given that the write-off amount proposed is less than the \$32.0 million currently internally held in provision for this purpose.

Noted

- e **Note** that subject to your agreement to this approach, we will provide you and the Minister of Finance with an itemised list of debtors and final write-off figure for approval.

Noted

- f **Agree** to proactively release this briefing with any withholdings consistent with the Official Information Act 1982.

Agree Disagree

Andrew Milne
Associate Deputy Secretary
Managed Isolation and Quarantine, MBIE

09 / 06 / 2022

Hon Chris Hipkins
Minister for COVID-19 Response

.13 / .06 / 2022

Background

1. The Managed Isolation and Quarantine (MIQ) fees regime was introduced at pace in August 2020. Due to the speed of introduction, information sharing arrangements and IT and finance systems were not able to be put in place ahead of time. Consequently, the system was initially manual, paper-based and reliant on data coming from various agencies that was not always accurate or complete.
2. As the MIQ invoicing model has evolved, several improvements have been implemented and the overall process has become more automated. These improvements have included system validation and cross checking of traveller information between Health, Immigration and MIQ records. In August 2021 we also reduced the time people have to pay their MIQ invoices down from 90 to 30 days and introduced an option to pay by credit card.
3. The more extensive validation process has enabled better results in terms of accuracy of invoices issued and overall collectability of debt. We have made significant progress on addressing the invoicing backlog, and as at 23 May 2022, we are up to invoicing the last large cohorts that went through MIQ in late February/early March before self-isolation settings substantially reduced MIQ volumes. \$166.509 million in fees has been collected (a debt recovery percentage of 81%) and a further \$14.789 million worth of invoices have been issued but are not yet due.
4. There is currently \$38.068 million in overdue invoices, and a further 11,659 older records that have not been able to be matched against traveller information and for which further analysis is required to determine liability.
5. Despite good progress in the debt collection space, there is some fees debt that we now judge the likelihood of recovery of to be very low. This briefing seeks agreement to writing off a portion of MIQ fees debt for 2021/22 and recommends an accounting approach for doing this.

We are seeking your agreement to write off debt to 30 June 2022

Approach to debt recovery to date

6. The terms of payment allow people 30 (previously 90) days to pay from the invoice date. People with outstanding invoices are sent reminders at 20 and 31 days after they first receive their invoice. In situations where MBIE has not been able to make contact with a person 60 days from the date of invoice, the debt is sent to our partner collection agency Commercial Information who in addition to encouraging payment, support customers, where appropriate, to submit instalment plan or waiver requests. If payment has still not been received 90 days after the date of invoice, the debt may be handed to Commercial Information.
7. The combined efforts of our debt collection partners are recovering on average more than \$500,000 a week. These debt collection partners work on a commission basis and are only paid when they have recovered debt. MBIE remains the 'owner' of the debt.

Process for writing-off Crown debt

8. Crown debt is able to be written off when it is jointly signed off by the responsible Minister and the Minister of Finance. A recommendation for write off is produced when the review of the record shows that there is a history of unsuccessful action undertaken and there is no further action possible or recommended. Inherent with this recommendation is that sufficient time has passed to demonstrate the history of action.
9. Based on our analysis, the amount of time lapsed and the data available, we view that a portion of the \$38.068 million in overdue debt is likely unrecoverable and should be written-off in 2021/22. This is the first write-off of MIQ debt.

Recommended write-off approach

10. There are two potential approaches we could use for debt write-off:
- Analysis of debt by category type and its likelihood of collection
 - Debt greater than 180 days old at 30 June 2022.
11. We recommend using a write-off approach that uses qualitative information to determine the likelihood of recovery. This is consistent with the write-off approach used in other areas of MBIE, including the regulatory enforcement space.
12. As at 23 May 2022, 9,357 invoices worth \$32.666 million have been passed to Commercial Information. Of this, \$12.676 million has now been paid (or will be paid through instalments over the coming weeks). A further 2,502 invoices worth \$8.611 million have been sent to Commercial Information, with \$2.810 million paid (or due to be paid through instalment).
13. Commercial Information and Commercial Information have reviewed the debt they have under management and categorised it so an assessment can be made of the likelihood of collection. Two key categories, where debt recovery is considered to be unlikely¹, have been identified:

Category	Commercial Information	Commercial Information	Total
Gone no address - third party has used the avenues available to them to try locate the customer on multiple occasions and has been unsuccessful and has now closed the file. Highly unlikely debt will be collected.	\$0.214m	\$0.132m	\$0.346m
Passive collection - third party has attempted to contact the customer and has used skip tracing methodology. They have been unsuccessful in this approach and will investigate this client again periodically to see if the customer has created new traces so that they can be located. Unlikely debt will be collected.	\$5.721m	\$3.107m	\$8.828m
Total (as at 16 May 2022)	\$5.935m	\$3.239m	\$9.174m

14. For the debt referenced above there have been multiple attempts to contact and trace the customer, with the communication used escalating from written, to phone calls, through to the use of skip tracing² as the debt's age increases. As our external debt collection agencies work on a commission basis and do not get paid unless the debt is collected, they have already exhausted all realistic avenues before it is put into the 'passive collection' or 'gone no address' categories.

¹ Other debt categories not listed in the table above include active collection, awaiting information from customer, disputed and on hold due to waiver applications. These categories have not been highlighted for the write off estimate as they are considered to have a higher likelihood of collection success and further action can be undertaken

² Skip tracing is performed in stages. The first step is to verify the information provided by the client to understand who the subject is and if the client has any misinformation. Then the skip tracer will start collecting as much information as possible about the subject. Records or Information that "skip tracers" use may include phone number databases, credit reports (including information provided on a loan application, credit card application, and in other debt collector databases), job application information, criminal background checks, utility bills and public tax information.

15. Further follow up on this debt will not guarantee any additional collection success and would come at great cost compared to the individual amounts to be recovered. These include hiring private investigators to locate liable persons (at around \$120 per hour) and potentially bringing civil debt claims with the courts (at around \$200 to lodge per individual) and/or add default to their credit ratings. We have also previously discussed collection mechanisms through regulations for people leaving New Zealand but it was agreed this would be costly to implement relative to the amounts recovered.
16. We are seeking your agreement to applying this write-off approach to MIQ fees debt for 2021/22. As set out in the table above, using this methodology, the write-off figure as at 23 May 2022 would be \$9.174 million. We forecast that this will increase to approximately \$11.959 million by the end of the 2021/22 financial year.
17. The alternative accounting approach (write-off based on the age of the debt) is not recommended, because under MBIE's accounting policy, debt should only be written-off when there are no reasonable expectations of recovery. Given that the combined effort of Commercial Information and Commercial Information is still recovering on average more than \$500,000 a week, we can reasonably expect to continue to see some recovery into next year. We therefore judge that our recommended 'likelihood of recovery' approach would provide a greater level of justification for audit purposes than an 'age of debt' based approach to debt write-off.
18. Under either account approach, further write-off will likely be required in subsequent years, given that invoices are still being issued and it is probable that at least a small portion of these future invoices will not be recoverable.

Impairment of debt and appropriation impact

19. A fair value approach has been taken to accounting for MIQ debt, with 30% of the value of all invoices raised being held (impaired) as a provision for doubtful debt. This approach has been reflected in financial forecast statements to date.
20. Based on the latest invoicing figures, we have \$32.0 million currently (internally) expensed for provision for doubtful debts from both 2020/21 and 2021/22 financial years. We will revise our provision for doubtful debts at 30 June 2022 to reflect additional invoices raised, and should further provision be needed we will expense against the appropriation. Any further provision can be met from within the appropriations we currently have.
21. Given that the bad debt write-off amount proposed is less than the \$32.0 million currently held for this purpose in the appropriation, the recommended write-off approach will not require any appropriation or forecasting changes.

Future bad debt write-off

22. Invoicing will largely be completed by 30 June 2022 with only a small number of new invoices required as a result of the reduction of MIQ facilities and returnees through the facilities.
23. A separate memo will be provided before 30 June 2022 on the recommended approach for the 11,659 unmatched³ records that we have not been able to determine their liability. We are accessing the cost benefit of the work required to match the data, to enable liability

Even when no specific information is returned, public and private databases exist that cross-reference skip tracing information with others the "skip" may have lived with in the recent past. For instance, if previous records show a "skip" lived in the same house as a third party, the third party may also be skip traced in an effort to locate the primary target.

³ Unmatched data is the result of having low quality source data, that does not allow matching of records across various MIQ data sets, to enable accurate liability determination and associated invoicing.

determination and then if liable invoice. This will have a flow on effect onto debt and in turn potential future write offs.

24. A final MIQ debt write off number will be presented in June 2023 for ministerial approval at which point all debt would have sufficient time to progress through the enforcement cycle.

Next steps

25. If you agree to the 2021/22 debt write-off approach as recommended in this paper, we will provide you and the Minister of Finance with final technical advice to give effect to this before 30 June 2022. This will include an itemised list of debtors and final write-off figure.
26. We will also continue to keep you apprised of progress in determining liability of the unmatched records via the weekly report.