

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	25 September 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2006 – Rent Collection and Arrears Management
REPORT NUMBER	IA/AC2006
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Rent Collection and Arrears Management.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Rent Collection and Arrears Management.

3.2 Management Comments

- 3.2.1 Having reviewed the Internal Audit report and had the opportunity to comment on it, the Chief Officer – Early Intervention and Community Empowerment is content with the findings and timescales for action identified.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC2006 – Rent Collection and Arrears Management.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

Housing

Rent Collection & Arrears Management

Issued to:

Andy MacDonald, Director of Customer Services

Derek McGowan, Chief Officer – Early Intervention and Community Empowerment

Neil Carnegie, Communities and Housing Area Manager

Fraser Bell, Chief Officer – Governance

Jonathan Belford, Chief Officer – Finance

External Audit

EXECUTIVE SUMMARY

The Council manages over 22,000 Council Houses and, at year end 2018/19, had collected £80.673 million (£80.476 million 2017/18) in rent payments compared to a total amount due of £82.538 million (80.549 million 2017/18). The total value of gross rent arrears as at 1 July 2019 was £5.607 million of which £1.028 million related to former tenant arrears. £810,000 of former tenant arrears were written off in 2018/19.

The objective of this audit was to consider whether rent collection and arrears processes are robust and are being complied with.

A clear and comprehensive Rent Management policy and related procedures are in place, covering: support available to sustain tenancies and maximise income recovery; cash collection; debt recovery; and the write off of bad debt. In general, these are being complied with.

Whilst rent accounts in credit had been reviewed as expected by the Service and refunds appropriately authorised, the policy and procedure in relation to refunds had not been documented. The Service has agreed to formalise the rent account refund policy and procedure for training and reference purposes.

Tenants at each of the stages of arrears recovery or Court referral met the requirements of the Council's procedures for the escalation action and there was evidence of contact with tenants, appropriate approvals and timely notifications to tenants. However, justification was not always recorded for instances where escalation was put on hold. The Service has agreed to record such justifications.

As at the 2018/19 year end the total value of former tenant arrears stood at £1.028 million of which £810,000 (78.8%) was written off at the end of the financial year. The Council has written off £355,000 in rent arrears between 1 April and 2 July 2019. Whilst write-offs have been carried out and recorded in line with Council procedure, these have yet to be reported to the City Growth and Resources Committee as required by the Council's Financial Regulations. The Service has agreed to address this.

1. INTRODUCTION

- 1.1 The Council manages over 22,000 Council Houses and, at year end 2018/19, had collected £80.673 million (£80.476 million 2017/18) in rent payments compared to a total amount due of £82.538 million (80.549 million 2017/18). The total value of gross rent arrears as at 1 July 2019 was £5.607 million of which £1.028 million related to former tenant arrears. £810,000 of former tenant arrears were written off in 2018/19.
- 1.2 24 FTE Assistant Housing Officers assist 50 FTE Housing Officers, responsible for the daily management of tenancies within their respective areas, reporting to 7 FTE Senior Housing Officers. Assistant Housing Officers and Housing Officers duties include maximising rental income collection and managing tenant arrears.
- 1.3 The Service uses the NPS Housing Management System (Housing Rent system) to manage and process housing rent information.
- 1.4 The objective of this audit was to consider whether rent collection and arrears processes are robust and are being complied with.
- 1.5 The factual accuracy of this report and action to be taken regarding the recommendations made have been agreed with Derek McGowan, Chief Officer – Early Intervention and Community Empowerment; Neil Carnegie, Communities and Housing Area Manager, and Doug McKenzie, Development Officer.

2. FINDINGS AND RECOMMENDATIONS

2.1 Policies, Procedures and Training

- 2.1.1 Comprehensive written policies and procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving.
- 2.1.2 The Council's Rent Management Policy aims to support tenancy sustainment, prevent homelessness, and maximise rental income, through an early intervention and prevention model. The policy seeks to: empower tenants to meet their tenancy obligations; deliver support to tenants experiencing difficulties paying their rent; and only instigate legal action to recover debt and for tenancy repossession in appropriate circumstances. The policy was prepared in August 2018 and is comprehensive and clear, describing: support offered to tenants; payment methods; availability of online access to rent account statements for tenants; recovery of arrears and factors to consider before court action is taken; treatment of bad debts; performance management and quality assurance; and, the legislation the policy seeks to comply with, including the Housing (Scotland) Act 2001.
- 2.1.3 The Rent Management Policy is supported by a number of procedures, including the Current Secure Pre-Court procedure and the Current Secure Court and Eviction procedure, which describe the arrears recovery escalation process and arrangements for recovering property and debt from Council tenants via Court; both were comprehensive, clear and current. Other procedures which clearly describe the related processes include: the payment arrangements user guide; procedures for the cash receipting system Interface reconciliation; rejected direct debit items process; rent arrears repayment arrangements; and the write off procedure (to be used in conjunction with Financial Regulations).
- 2.1.4 The Service advised that training is available during staff induction, covering policy, procedures and performance. This is then followed up with a one to one, covering the correct treatment of the staff member's current work tray cases in the Housing Rent system, followed by technical training on the Housing Rent system delivered by the Systems Development team. This introductory training is not recorded, meaning it is not clear if staff have been made aware of their duties and responsibilities under the policies and procedures and how to operate the Housing Rent system, increasing the risk staff will fail to act as expected in relation to rent collection and recovery of rent arrears.

2.2

Recommendation

A training needs analysis should be prepared for Housing staff recording the training required by staff members and whether or not training has been completed.

Service Response / Action

Agreed.

Implementation Date

October 2019

Responsible Officer

Development Officer

Grading

Important within audited area.

ent Collection

- 2.2.1 Rental charges for Council houses are due on a weekly basis. Tenants have the option to make these payments weekly, fortnightly, 4-weekly or monthly and can elect to pay by: Direct Debit; Standing Order; by credit or debit card online through the secure WebPay system or over the Automated Telephone Payment system; in person at a Post Office or

Pay Point outlet; or in person at one of the Council's five Kiosks.

2.2.2 All tenants, other than those who choose to pay their rent by direct debit or standing order, are issued with a barcoded plastic rent payment card which holds details of the relevant rent account to which payments should be allocated. Tenants are required to present the card when making payments at the Post Office, Pay Point outlet, or Kiosks to ensure the payment is credited to the correct rent account.

2.2.3 All payments except standing orders and direct debits are lodged in the General Bank Account, and, with the exception of direct debits, are processed through the Cash Receipting System which automatically updates the NPS Housing Management System with the payment details daily. There are separate bank accounts in operation for direct debit and standing order payments.

Direct Debits

2.2.4 Tenants can opt to pay their rent by Direct Debit, on any day of the month, at a frequency that suits. This flexibility is to promote the use of direct debits as it is an efficient means of improving rent collection rates. Details of the Direct Debit payments to be claimed from tenants' bank accounts are extracted from the NPS Rent Management system daily and forwarded to BACS Payment Services via the C-Series BACS system in order that customers' bank accounts can be debited. The tenants' rent accounts are updated to reflect the payment amount requested. The total sum received for the period is then credited to the Council's Direct Debit bank account and should equal the amount requested.

2.2.5 Should a Direct Debit payment be rejected the amount will be deducted from the Council's bank account and the details of the failed payments are downloaded from the BACS Payment Services website. Rent Accounts will debit the previously credited rent account and separately a Housing Officer/Assistant Housing Officer will issue a letter or text message to the tenant, advising of the direct debit payment failure.

2.2.6 A sample of ten Direct Debit payment requests and ten rejected payment requests was tested and the associated rent accounts had been updated appropriately. The tenants were notified by letter or text message where direct debits were rejected.

Standing Order Payments

2.2.7 Standing orders are originated from the tenant, and it is the tenant that is responsible for ensuring that the correct rent reference number is included in the payment. If a reference is incorrect, the payment is accepted but is posted to a suspense account (see section 2.8 below) in the rent system until the Service can establish which rent account the payment should be credited to.

2.2.8 To ensure that rent payments made through the Standing Order Bank account are being credited to the correct rent account a sample of ten standing order payments received was selected from the cash receipting report and verified to the rent account. All payments were accurately and timeously posted.

Other Payment Methods

2.2.9 Ten income transactions paid through automated telephone, kiosk, and Web Pay were selected from the cash receipting system and it was confirmed that they had been credited to the correct rent account timeously.

2.3 Refunds

- 2.3.1 Tenants can request a refund of a rent account credit balance. In addition, the Rent Accounts team reviews current tenant credit balances on a monthly basis, and former tenant credit balances weekly using a Credit Report produced by the Quality Assurance and Performance Management Team (in conjunction with the Terminated Tenancies report to identify former tenants).
- 2.3.2 Due to the large number of accounts in credit, the Rent Accounts Team will only contact current tenants, by way of letter, regarding repayment or transfer of credit balances, which are equal to or exceed £750, while former tenants will be contacted regarding credit balances which are equal to or exceed £25.
- 2.3.3 As at 4 June 2019, 6,790 current tenants were in credit totalling £1,276,000, and 6,536 former tenants were in credit totalling £297,000; 148 current tenant rent accounts had a credit balance exceeding £750 while 3,224 former tenants had a credit balance exceeding £25.
- 2.3.4 Refunds are authorised by the Rent Accounts Officer and the Senior Rent Accounts Assistant who can refund up to £10,000. Payment vouchers are raised by the Rent Accounts Assistant for authorisation and subsequent manual entry to the relevant rent account. Payment vouchers with a batch header are passed back to the authoriser to check the refund and ensure the rent system has been updated correctly. Once this is confirmed, the Rent Accounts Assistant will enter the refund in eFinancials to enable payment to be issued. Paperwork is scanned and the refund details are updated on a spreadsheet maintained by the Rent Accounts team.
- 2.3.5 The Rent Accounts Officer confirmed that there is no agreed policy or procedure in relation to rent account credit refunds.

Recommendation

The rent account refund policy and procedure should be formalised.

Service Response / Action

Agreed.

Implementation Date

October 2019

Responsible Officer

Rent Accounts Officer

Grading

Significant within audited area.

- 2.3.6 A sample of twenty current and ten former tenants with credit balances was reviewed to ensure the tenants were contacted where required regarding their credit balance as indicated by the amalgamated notes field in the rent system. This was found to be the case. Only two of the tenants requested a refund when notified of their credit balance. The remaining tenants did not respond and so credit balances remained. Fifteen of the current rent account credit balances were due to tenants prepaying rent, whilst five were in credit because they were paying rent, when in receipt of Housing Benefits. One rent account was in credit by £9,218. The Rent Accounts Officer confirmed that the tenant was in receipt of Housing Benefits, however they are still paying full rent despite three letters to notify them of their credit position. The Rent Account Officer has now referred the tenant to Revenues and Benefits to establish if the tenant should be entitled to Housing Benefit.
- 2.3.7 Between the 1 April and 23 July 2019 approximately £106,000 (£23,000 former tenants and £83,000 current tenants) credit balances were refunded to 279 tenants (102 former tenants and 177 current tenants).

2.3.8 A sample of forty (twenty current and twenty former tenants) refunds was reviewed to ensure the refund was appropriately authorised, and the correct tenant rent account had been updated to reflect the refund per the payment voucher. This was found to be the case.

2.4 Current Tenant Arrears

2.4.1 Tenant arrears should be pursued in accordance with the Council's Rent Management Policy and the Current Secure Pre-court Procedure.

2.4.2 Where a tenant remains in arrears over a consecutive 4 week period and the balance is £150 or more, a first reminder (AR01) is generated within the rent system. Before the reminder is authorised and printed for delivery, Housing staff will attempt to make contact with the tenant to make arrangements for the arrears amount to be cleared. If no response is obtained the letter will be hand delivered in order to maximise tenant engagement in relation to their arrears and to provide a greater level of assurance that letters have been delivered, to reduce the risk of legal challenge.

2.4.3 If a repayment arrangement with the tenant has not been made and the tenant's arrears are £250 or over two weeks after the first reminder, a second reminder letter is automatically generated as a pending action. The Service will again try to make contact with the tenant to make arrangements for the arrears to be paid. Failure to do so will result in the letter being printed and hand delivered.

2.4.4 If a repayment arrangement with the tenant has not been made and the tenant's arrears are £400 or over two weeks following the authorisation of the second reminder letter, a Pre-Action Requirement Letter (PARL) is created as a pending action for Housing Staff. Before this letter is issued, Housing Staff will try to contact the tenant and explore the reason for the arrears and where possible offer advice and support.

2.4.5 The Service advised that timeframes within the procedures and the prompts within the system are viewed as guidelines and reminders. Decisions to escalate are taken by housing officers, taking personal circumstances into account with a view to retaining tenancies and court enrolment being as a last resort.

2.4.6 The Arrears Recovery Team, headed up by the Senior Arrears Recovery Officer, is responsible for the administration of all cases where legal action is considered necessary. In cases of persistent, on-going rent arrears or default on payment arrangements agreed with a tenant, the Council policy states that whilst legal action is deemed a solution of last resort it will be pursued, and that eviction will be considered only as a final step in the legal process.

2.4.7 A review of arrears cases taken forward by the Arrears Recovery team for legal action confirmed that throughout the process, tenants are encouraged to engage with the Council in an effort to resolve their arrears situation and are sign posted to specialists able to provide support and advice if requested. In cases where tenants refuse to engage or persistently fail to comply with agreements made, then requests to the Court to grant a decree to evict may be pursued. In 2018/19, 358 decrees were granted and 83 repossessions took place. In 2017/18 the figures were 583 and 123 respectively.

2.4.8 The Current Secure Court & Eviction Procedure 2018 stipulates the process the Arrears Recovery Team will undertake to recover arrears via the court process. The stages detailed include relevant parameters relating to time and value of arrears.

2.4.9 A sample of ten tenants (where numbers allowed) at each of the stages detailed (ninety three tenants in total) was reviewed to confirm the stage of recovery or Court referral met the requirements of the relevant procedure, there was evidence of contact with tenants to

discuss their circumstances and where the Task Manager escalation action was authorised, this and the related notification to the tenant was made in a timely manner. This was found to be the case.

- 2.4.10 Of the nine escalation actions set to pending six had no record of the justification for doing so. This increases the risk of arrears increasing and delays recovering Council property where required.

<u>Recommendation</u>		
Justifications for setting escalation actions to pending should be recorded.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
October 2019	Development Officer	Significant within audited area.

2.5 Arrears Arrangements

- 2.5.1 Guidance has been provided to Housing Officers to assist them in determining arrears repayment arrangement amounts with tenants. There are three suggested minimum payment amounts which are applicable depending on the tenant's circumstances. When a tenant is unable to pay the suggested minimum amount the Housing Officer will use the Department for Work and Pensions Applicable Amount calculation to determine if the tenant has any surplus income. An expected repayment amount would be 10% of surplus income. Within the guidance, staff are advised that the repayment arrangements as detailed above are not binding on the Housing Officer and that they are encouraged to show flexibility to those on the lowest income levels.

- 2.5.2 As at 15 July 2019, there were 364 arrears payment arrangements in place. A sample of ten of these was reviewed and they were found to have been created in line with procedure. One of the ten tenants had missed a repayment; the tenant was contacted to make them aware and offer support.

2.6 Former Tenant Arrears & Write Offs

- 2.6.1 As at the 2018/19 year end the total value of former tenant arrears stood at £1.028 million of which £810,000 (78.8%) was written off at the end of the financial year. The Council has written off £355,000 in rent arrears between 1 April and 2 July 2019.
- 2.6.2 A sample of 10 arrears balances which had been written off was reviewed. All write offs followed the Council's Write Off procedure, with the rent system updated correctly and the write-off reasons adequately supported.
- 2.6.3 Financial Regulation 5.3.4 states that the Chief Officer – Early Intervention and Community Empowerment has the authority to write off former tenant's arrears and associated housing debts up to the value of £10,000 per debtor and report the number, value and reasons to the City Growth and Resources Committee on an annual basis. Proposed write offs exceeding £10,000 must be referred by the Chief Officer – EI&CE to the City Growth and Resources committee for approval, including individual details of each debt and the reasons for recommending write-off. Since the City Growth and Resources first meeting on 24 April 2018, former tenant arrears write offs, which have all been under £10,000, have not been reported to the Committee.

Recommendation

Former tenant write offs should be reported to City Growth and Resources Committee.

Service Response / Action

Agreed. Report will be submitted to the next City Growth and Resources Committee.

Implementation Date

September 2019

Responsible Officer

Communities and Housing
Area Manager

Grading

Significant within audited
area.

2.7 Reconciliation

- 2.7.1 The Bank Reconciliation Team, who are independent of the rent collection function, reconcile the housing rent income recorded in the cash receipting system to the housing rent income recorded in the rent system, and circulate the results highlighting reconciling differences, to the Housing Team. Any imbalances will be investigated using the reports provided, which include data such as the date of transaction, amount, payment method, and payment reference.
- 2.7.2 The May 2019 reconciliation was reviewed to ensure it was accurate and that reconciling items were clearly explained and circulated to Housing in a timely manner, to take corrective action as required. This was found to be the case. The reconciling difference as at 31 May 2019 was approximately £80,000 which related to a timing difference caused by cash relating to automated telephone and online payments, received on 31 March 2019, not being recorded in the rent system until 1 April 2019.
- 2.7.3 The procedure for the cash receipting system Interface Reconciliations requires the housing rent reconciliation to be prepared monthly. It was noted that the March 2019 and April 2019 reconciliations were not circulated to the Housing team. This increases the risk of housing rent not being recovered or recorded as expected.

Recommendation

Reconciling items should be circulated monthly.

Service Response / Action

Agreed.

Implementation Date

Implemented

Responsible Officer

Finance Controls
Accountant

Grading

Important within audited
area.

2.8 Suspense Account

- 2.8.1 The Housing system operates a suspense account, and a clearing account, for Housing Rents in the event that any transaction cannot be posted to the appropriate account. The suspense account records all transactions that cannot be posted to a verifiable rent account, e.g. rent account reference error. If the Rent Accounts team can identify the correct rent account reference, the funds will be transferred to that account. If a rent account reference is unavailable and the customer's bank details are present, the Rent Accounts team will refund the funds back to the relevant customer's bank account.
- 2.8.2 The clearing account is used by the Rent Accounts team to reallocate any non-rent transactions that have been posted to the Rent System in error. Where the nature of the payment and customer reference can be identified, an instruction is passed to Payments Control, who will debit the clearing account and transfer the funds to the correct customer

account. The Bank Reconciliation team also post unallocated standing order income to the clearing account, where it is believed the unallocated income relates to Housing rent. The Rent Accounts team will try to reallocate these funds to a rent account but if unable to do so, the funds will be returned to the bank account they came from.

- 2.8.3 The Rent Accounts Officer reviews the suspense account and clearing account on a daily basis, to investigate and clear transactions as appropriate.
- 2.8.4 As at 25 July 2019 the balance in the suspense account was £5,141 and the balance in the clearing account was £6,831. On reviewing the accounts, it was evident that transactions had been cleared regularly. The Service advised that the transactions remaining cannot be reallocated since the payment references provided by the tenant or debtor are incorrect and cannot be attributed to a recognised rent account or other Council debt. The income is therefore held in suspense or clearing until claimed by the relevant customer.

2.9 Performance and Reporting

- 2.9.1 According to the Improvement Service Local Government Benchmarking Framework (LGBF) performance information, as at 31 March 2018 (most recent Scotland wide data available), the Council performed better than the average Council in Scotland in relation to gross rent arrears as a percentage of rent due for 2017/18 (Council: 5.3%, Scotland average: 6.7%). Further, as reported to the Scottish Housing Regulator, rent collected as a percentage of total rent due in 2017/18 was 99.9% (Scottish average 99.4% in 2017/18).
- 2.9.2 The Scottish Social Housing Charter sets out the standards and outcomes that landlords should achieve. The Council is required to report on its performance as a landlord against the Charter by the 31 May annually. The Service submitted the 2018/19 annual return on the charter to the Housing Regulator on 30 May 2019.
- 2.9.3 A comprehensive and clear Performance Management Framework is in place for the Housing Service which describes the means by which performance is monitored, recipients of reports and the frequency of reporting.
- 2.9.4 Performance is updated on the Council's Housing Performance website, available to the public. This includes monthly Budget and Housing Performance group reports which cover a number of housing performance indicators, including value for money (rent arrears and loss of rent due to voids). Reports had been issued monthly since March 2019 with the exception of May 2019.
- 2.9.5 Annual "Your Housing" performance reports are also published on the Housing Performance website, with the most recent report published relating to 2017/18. The Your Housing reports cover a range of performance indicators, similar to those reported in the monthly Budget and Housing Performance group reports, including annual rent due and rent collected.
- 2.9.6 Housing performance is reported quarterly to the Operational Delivery Committee as part of the Operations Delivery Performance report, including performance in relation to arrears. This was reported as expected most recently on 16 May 2019.

AUDITORS: D Hughes
A Johnston
C Simpson

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.