



ABERDEEN CITY COUNCIL

Internal Audit Report

Finance

Council Tax

Issued to:

Richard Ellis, Director of Corporate Governance
Steven Whyte, Head of Finance
Wayne Connell, Revenues and Benefits Manager
Anne MacDonald, Audit Scotland

EXECUTIVE SUMMARY

Council Tax was introduced in April 1993 as a means for Local Authorities to collect contributions from households towards the cost of Local Authority services. It is a property tax, with the amount set locally by Councils and charged according to the valuation band of the individual property. Each of the 32 local Councils within Scotland is a valuation authority and responsible for appointing an Assessor who must in turn compile and maintain a Valuation Roll and a Council Tax Valuation List which places each domestic dwelling in one of eight valuation bands which reflect the market value of the property as at April 1991 and its physical state and locality as at April 1993.

There can be exemption from Council Tax liability such as student residences and specific unoccupied dwellings and discounts are available for single occupancy residences, and in other circumstances. Where appropriate the Council Tax bill will incorporate water and waste water charges, which are collected on behalf of Scottish Water.

The Council administers Council Tax through the Academy system. As at 31 March 2015 there were a total of 113,875 live Council Tax properties within the Aberdeen City area and the net amount collected for Council Tax for 2014/15 was £105.5 million, a collection rate of 95.4%.

The objective of the audit was to ensure that billing and collection arrangements are robust and adequately applied.

Appropriate procedures have been developed for managing all aspects of Council Tax and these were found to be operating well, with control being exercised over payments. Recommendations to review and correct outstanding entries on the system suspense account, as well as those identified as part of the reconciliation between the Council Tax system, bank statement and financial ledger were agreed by the Service. The Service has also agreed to undertake a reconciliation of property information to the Assessors information prior to the billing process.

1. INTRODUCTION

1. Council Tax was introduced in April 1993 as a means for Local Authorities to collect contributions from households towards the cost of Local Authority services. It is a property tax, with the amount set locally by Councils and charged according to the valuation band of the individual property. Each of the 32 local Councils within Scotland is a valuation authority and responsible for appointing an Assessor who must in turn compile and maintain a Valuation Roll and a Council Tax Valuation List which places each domestic dwelling in one of eight valuation bands which reflect the market value of the property as at April 1991 and its physical state and locality as at April 1993.
 - 1.1 There can be exemption from Council Tax liability such as student residences and specific unoccupied dwellings and discounts are available for single occupancy residences, and in other circumstances. Where appropriate the Council Tax bill will incorporate water and waste water charges, which are collected on behalf of Scottish Water.
 - 1.2 The Council administers Council Tax through the Academy system. As at 31 March 2015 there were a total of 113,875 live Council Tax properties within the Aberdeen City area and the net amount collected for Council Tax for 2014/15 was £105.5 million, a collection rate of 95.4%.
 - 1.3 The objective of the audit was to ensure that billing and collection arrangements are robust and adequately applied.
 - 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Wayne Connell, Revenues and Benefits Manager and Phyllis Kennedy, Council Tax and Recovery Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 General

- 2.1.1 Comprehensive written 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 of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 Council Tax written procedures are stored electronically on Enlight, an online web procedure manual provided and maintained by Destin Solutions. The procedures cover processes from Valuation and Liability to Payments Processing and Appeals. The written procedures are clear and comprehensive, although not up to date. The Service advised that updating of the manuals was suspended whilst technical work is undertaken on the online web application. However, the procedures satisfactorily covered all aspects of the processes to be followed, and staff are encouraged to raise questions with assigned mentors or Team Leaders. The procedures update will be completed by end October 2016.
- 2.1.3 Before being given access to the Academy System, staff are required to complete a Statement on Viewing Accounts form. This form advises staff that information may be viewed for business purposes only and disclosure of information to unauthorised persons will result in disciplinary action. The form requires staff to detail their current and former addresses within Aberdeen City. The Operations team then set up the user account so that the Council tax accounts associated with that name and those addresses cannot be amended by that user. The account numbers are added to the form by the Operations officer responsible for inputting the data, who initials and dates the form to indicate that it has been actioned. The form is then filed by the Operations team.
- 2.1.4 Ten statement forms were reviewed. All had been completed and appropriately signed, dated and initialled. There are currently two versions of the form being used at the same time, one contains a simple declaration, and the other includes action boxes that are completed by Operations staff when setting up access to the system. Three of the ten forms reviewed contained the action boxes.

Recommendation

The Service should ensure that prospective Academy and URB users complete the most comprehensive version of the Statement on Viewing Accounts form.

Service Response / Action

The old Statement on Viewing Accounts Form has been removed. The updated form is now the only form available to use.

Implementation Date

Implemented

Responsible Officer

Wayne Connell, Revenues
& Benefits Manager

Grading

Important within audited
area

2.2 Liability

- 2.2.1 The Grampian Valuation Joint Board (Assessor) holds a record of all domestic properties within Aberdeen City. This information is passed to the Council Tax team to allow for the creation of properties and associated liable parties within the Academy system. Any exemptions or discounts are applied, before Council Tax notices are produced by the

system.

- 2.2.2 Twice yearly, in March and October, a full extract of the Assessors database is provided to the Council Tax team. This information is reconciled to the information contained within Academy matching the property reference, property banding and effective date. Any mismatches are investigated and corrected.
- 2.2.3 The Service advised that whilst a reconciliation was carried out in September 2014, problems with the annual billing process prevented the March 2015 review (see para 2.3.3, below). The October 2015 reconciliation was completed on 9 November 2015 and signed off by The Council Tax and Recovery Manager on 11 November 2015.

Recommendation

The Service should ensure that the Academy data is reconciled to the Assessors report regularly and before the annual billing process.

Service Response / Action

This is scheduled to be completed during February 2016 prior to Annual Billing.

Implementation Date

February 2016

Responsible Officer

Wayne Connell, Revenues
& Benefits Manager

Grading

Important within audited
area

- 2.2.4 New properties and changes in banding throughout the year are notified to the Service through a report from the Assessors. Ten amended accounts within the current financial year were reviewed and it was confirmed that all were timeous and appropriate, the new notices of liability were correct and issued within 28 days.
- 2.2.5 Aberdeen City Council is compelled by statutory instrument (currently the Water & Sewerage Services to Dwellings (Collection of Unmetered Charges by Local Authority) (Scotland) Order 2014) to collect unmetered water and waste water charges on behalf of Scottish Water. This is done by incorporating them into the Council Tax bills issued to customers. The proportion of charges owed to Scottish Water is calculated by a formula (which is detailed in statute) and includes the deduction of a set collection fee, by the Council Tax & Recovery Manager. This is confirmed by the Revenues & Benefits Manager and paid to Scottish Water in 12 monthly instalments, each preceded by a letter of advice showing the amount to be paid and the calculations. The calculation for 2014/15 and 2015/16 was reviewed and found to be arithmetical accurate. The collection fee for 2015 amounted to approximately £760,000.

2.3 Billing

- 2.3.1 Council Tax Bills are raised annually based on the domestic property banding. The values attributable for each banding for 2014/15 are as follows, including charges collected on behalf of Scottish Water:

Band	Valuation (as at 1 April 1991)	Council Tax £	Water £	Waste Water £	Total £
A	Up to £27,000	820.26	126.78	147.12	1094.16
B	£27,001 - £35,000	956.97	147.91	171.64	1276.52
C	£35,001 - £45,000	1,093.68	169.04	196.16	1458.88
D	£45,001 - £58,000	1,230.39	190.17	220.68	1641.24
E	£58,001 - £80,000	1,503.81	232.43	269.72	2,005.96
F	£80,001 - £106,000	1,777.23	274.69	318.76	2,370.68
G	£106,001 - £212,000	2,050.65	316.95	367.80	2,735.40
H	£212,000 and over	2,460.78	380.34	441.36	3,282.48

- 2.3.2 Per s.30 of the Local Government Finance Act 1992, rates for the forthcoming financial year should be agreed by 11 March and published in a local newspaper within 21 days. Rates for 2015/16 were approved at a Full Council meeting relating to the Revenue Budget on 5 February 2015 and published in local newspapers and on the Council website shortly thereafter, in advance of the March deadline.
- 2.3.3 The Operations team, under the Revenues Support Manager, is responsible for the Annual Billing process and ensuring that a Council Tax Demand Notice (bill) is issued to each domestic property within Aberdeen City per legislation. The bills must be issued under the legislation “as soon as practical” after the rates are set and at least 14 days prior to the due date. The due date of the full payment or first instalment was 1st, 5th, 15th, 20th or 28th April, depending on the method of payment selected, and the notices were issued between 11th and 26th March. The delay in printing was reviewed in Internal Audit report AW1601.
- 2.3.4 Since the issue of annual bills in March 2015 the Service has confirmed that a new process, enabled through use of the bulk printing Paris Pro Print system, has been fully implemented. This ensures that there is a four-way reconciliation between the Council Tax System, Paris Pro Print, the Design and Print Team, and prior to issue. An officer with primary responsibility for supervising this during the year end process (Quality Assurance and Systems Liaison Officer) was appointed in November 2015.
- 2.3.5 Customers may enrol to use the secure Self Service Facility which enables access to their account details. Through this they can check their payment status, create or amend a Direct Debit mandate and opt for paperless billing. If e-billing is requested a circumstance code is entered on the account in Academy indicating that no bill should be printed at year end.
- 2.3.6 Thirty demand notices for properties liable for Council Tax in 2015/16 issued in March 2015 were reviewed. The amounts charged were in accordance with the rates applicable to the property banding, and accurate water and waste water charges had been applied. The property information matched the Assessor’s report.

2.4 Reliefs

- 2.4.1 A variety of Council Tax exemptions and discounts are available to qualifying properties. Applications need to be made in writing; an email stating the grounds for the application is acceptable unless further confirmation is required e.g. medical verification or proof of benefits. Thirty accounts which had been awarded exemptions or discounts were reviewed and it was confirmed that they were accurately calculated, applied correctly and were adequately supported.

2.5 Payments

- 2.5.1 Council Tax customers are given the option to pay their liability in full on or before 1 April, or by instalment in ten payments from April to January inclusive. All instalments, unless paid by Direct Debit on the 5th, 15th, 20th or 28th of the month, are due for payment on or before the first of each month. If an instalment is not paid on or before its due date, the account will go into arrears.
- 2.5.2 Monthly instalments can be paid in cash, by cheque or by card at a Customer Access Point, Post Office or Paypoint site; online through the secure web payment facility; by direct debit or standing order; or by card over the dedicated telephone payment line or through the Customer Service Centre. All income received is recorded within the Council’s Icon Cash Collection System, with payment details interfaced daily to the Academy System and the payers council tax account is updated.

- 2.5.3 30 payments made during September 2015 covering all payment types were extracted from the ICON system and compared to the Academy System. It was confirmed that they were reflected timeously in the correct account and accurately showed the payment type.
- 2.5.4 Prior to July 2015 the management of rent and council tax payments was undertaken by one team within Corporate Governance. This has subsequently been split into two distinct teams each with separate responsibilities for rents and council tax. The Council Tax Payments Control Team was formed in November 2015 and is responsible for identifying and investigating failed direct debit payments and for managing the Council Tax suspense account.
- 2.5.5 Failed direct debit (DD) payments are logged through the Icon cash receipting system when the "ARUDD" report is returned from BACS two to three days after the original payment was requested. The Operations team posts these to the Academy system. Depending on the reason for the failure, a letter may be generated automatically ("refer to payer") or will have to be produced by an officer via a workflow task (all other reasons, e.g. no such account). Only one letter will be sent regarding a failed DD payment.
- 2.5.6 If a DD payment fails, the next payment instruction will include the amount of the missed payment if this has not already been made. If the payment fails a second time, the instruction will be cancelled and the full amount becomes due unless a new payment arrangement is agreed. The returned direct debits for September 2015 was significant at over £125,000.
- 2.5.7 Where a payment is received but cannot be attributed to a correct Council Tax account, it will be accepted and reflected in the Council Tax bank account and posted to a suspense account within Academy. The Service advised that this account should be regularly reviewed, entries investigated and corrected through the ICON cash receipting system.
- 2.5.8 As at 27 October 2015 the balance on the suspense account was over £34,000 and included transactions dating back to April 2014. If transactions are not re-credited correctly an account may appear to be in arrears when in fact a payment has been made. The Service advised that the function was not being operated as fully as it should due to the team restructuring issues discussed in 2.5.4 above; however an officer in the Payments Control team has now been tasked with investigating and clearing transactions on a daily basis, although it is anticipated that the backlog will take time to clear. A recommendation is included to track progress.

Recommendation

The Service should ensure that transactions held in the suspense account are investigated and cleared on a regular basis.

Service Response / Action

This is being undertaken on a daily basis and the backlog will be completed by April 2016.

Implementation Date

April 2016

Responsible Officer

Wayne Connell, Revenues & Benefits Manager

Grading

Important within audited area

- 2.5.9 Council Tax refunds are created when a customer either pays more than their annual liability, or an exemption or discount is applied to an account part way through the year. The Academy system will automatically calculate a credit when a member of the Council Tax team updates an account, or payments made by a customer exceed the liability.

- 2.5.10 As part of the annual billing process, credit balances are automatically transferred to the new financial year to be offset against liability. However, should the customer request a refund, the balance will not be included in the bulk transfer of credits, and will be processed as a refund. The refund process is initiated on URB, and will be processed on Academy.
- 2.5.11 A sample of 10 refunds was reviewed and it was confirmed that they were correctly calculated, supported by documentation, appropriately authorised, and that the refund was made to the correct payee through BACS.
- 2.5.12 The Corporate Debt Team is responsible for the recovery service for Council Tax Debt, Service Income Debt, Penalty Charge Notice Debts, Business Rates Debt and Housing Benefit Overpayments. The contract for debt collection services was last awarded following a tender process in July 2013 to Scott & Co. As part of the contract four Council Tax staff are based in Scott & Co's office as part of a joint working project and four within Marischal College as well as the Council Tax Team who pursue Council Tax only.
- 2.5.13 Customers agree to a payment plan of either 1 or 10 instalments, as discussed in 2.5.1 above. If a payment is missed a reminder letter is issued requesting payment of the missed instalment be made within 7 days. If payment or a new payment arrangement is not made, the full amount outstanding becomes due for payment within 14 days of the date of issue of the reminder letter. No further reminder is issued. If there is no attempt to pay within the 14 days, a Summary Warrant application will be made (adding a 10% surcharge in terms of legislation) and the debt will be passed to Sheriff Officers via a system interface. No notification of the granting of the Summary Warrant is made, as this is described in the initial reminder letter.
- 2.5.14 Only two reminders will be issued in a financial year. If a third payment is missed, even if payments have been made in the interim, no reminder will be issued and the debt will progress straight to the Summary Warrant stage.
- 2.5.15 A sample of 10 accounts which had been subject to recovery action within the last 12 months was reviewed. All were being monitored and dealt with appropriately and timeously.

2.6 Reconciliations

- 2.6.1 Information from ICON (the cash receipting system), Academy and the financial ledger is input to a spreadsheet on a daily basis to allow for a monthly reconciliation to be undertaken by the Bank Reconciliations Team. These reconciliations are then checked by an accountant.
- 2.6.2 The September 2015 reconciliation was reviewed. There were two variances reflected within the reconciliation, one between Academy and Icon and the other between the ledger and Academy. Whilst both were less than £5,000, there was no explanation as to why the variance had arisen. Accountancy advised that variances of this value are considered immaterial and are not investigated. Whilst it is acknowledged that the variance is very small, when compared to the £13,000,000 collected in September 2015, the lack of understanding as to the reason for the variance could be concealing greater compensating variances.

Recommendation

The Service should investigate and correct any variances as part of the reconciliation process.

Service Response / Action

The Bank Reconciliation Team and the Revenues and Benefits Service will work together to investigate any variances. This will commence straight away.

Implementation Date

September 2016

Responsible Officer

Wayne Connell, Revenues
& Benefits Manager
Richard Burnett, Income
Support Officer

Grading

Significant within audited
area

2.7 Bad Debts and Write Offs

- 2.7.1 Per Financial Regulation 5.3.4, debts considered uncollectable up to the value of £10,000 may be written off by authorised officers and up to £25,000 by the Head of Finance. Debts valued over £25,000 must be reported at least annually to the Finance, Policy & Resources Committee for approval before they can be discharged. Annual reports on Council Tax debts valued at less than £10,000 which have been written off should be submitted to the Committee for information.
- 2.7.2 A Request Form to write off a debt must be fully completed by either a Council Tax and Recovery Assistant or Recovery Assistant and then authorised by a Team Leader. Bad debts are accounted for in the Service budget by the Accounting team. A sample of 4 debts pending write off was reviewed. All were fully supported and had been appropriately approved, and recovery action had been halted. Since all 4 write off requests were made during the current financial year, none had yet been reported to Committee, as this is done annually in September.
- 2.7.3 A provision is made within the annual accounts for bad Council Tax debts. In 2014/15 this provision was £2.2 million. Provision is made for bad debts in the annual budget by the Accountancy Team. This is calculated by the Accountancy team by comparing the previous year's collected cash figures as compared to the total Council Tax payable and the percentage increase in banding to estimate the shortfall between money owed and cash likely to be collected.

2.8 Performance Monitoring

- 2.8.1 Council Tax live property and collection statistics are monitored by the Council Tax and Recovery Manager and are submitted annually to the Local Government Benchmarking Framework. The data submitted for collection statistics shows the net Council Tax collected as a percentage of collectable Council Tax. Aberdeen City Council was reported as collecting 94.2% in 2013/14, the most recent year available for benchmarking, compared to an average of 95.2% for Scotland. The Service reported this increased to 95.2% in 2014/15 compared to a Scottish average of 95.4%.

AUDITORS: D Hughes
M Beattie
L Jarvis

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.