



# ABERDEEN CITY COUNCIL

## Internal Audit Report

### Rent Collection & Arrears Management

**Issued to:**

Pete Leonard, Director of Communities, Housing and Infrastructure  
Richard Ellis, Director of Corporate Governance  
Donald Urquhart, Head of Communities and Housing  
Steven Whyte, Head of Finance  
Graeme Stuart, Housing Strategy & Performance Manager  
Wendy Carle, Housing Manager  
Doug McKenzie, Development Officer (Rents)  
Anne MacDonald, Audit Scotland

## **EXECUTIVE SUMMARY**

The Council manages around 22,000 Council Houses which generate rental income in excess of £78 million per annum. The objective of this audit was to consider whether rent collection and arrears processes are robust and are being complied with. In general, this was found to be the case.

The Service has agreed to review and, where appropriate, revise the Rent Management Policy in accordance with its own review schedule and will be issuing guidance to staff to ensure consistency in the recording of information and the arrears decision making process. In order to further enhance control and assurance over rental income, the Service is working with the Finance Bank Reconciliation Team to develop a reconciliation of income collected to rents reflected in the rent system.

# 1. INTRODUCTION

- 1.1 The Council manages approximately 22,000 Council Houses and, at year end 2014/15, had collected £77.738 million in rent payments compared to a total amount due of £78.178 million. The total value of gross rent arrears as at the end of the reporting year was £4.490 million of which £1.280m related to former tenant arrears. £683,000 of former tenant arrears were written off at the year end. *(Source: Scottish Housing Regulator Annual Return Charter Indicator 30, 31 and C23).*
- 1.2 21 Assistant Housing Officers and 42 Housing Officers, reporting to 7 Senior Housing Officers are responsible for the daily management of tenancies within their respective areas (each comprising around 500 properties).
- 1.3 The Service uses Northgate's iWorld application to manage and process housing rent information.
- 1.4 The objective of the 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 with regard to the recommendations made have been agreed with Wendy Carle, Housing Manager (Arrears), Graeme Stuart, Housing Strategy & Performance Manager and Carol Smith, Finance Manager.

## 2. FINDINGS AND RECOMMENDATIONS

### 2.1 Policies & Procedures

- 2.1.1 The Council's Rent Management Policy defines the duties and responsibilities of the Council in the management of rents, ensuring maximisation of rental income. It provides clear and accessible information and advice in order to prevent arrears and legal action, and using all remedies available to ensure that eviction is used as a last resort. The Policy states that it should be reviewed annually, however, the version currently available on the Council's website is dated May 2014.

<b><u>Recommendation</u></b> The Service should comply with the Policy and ensure that annual reviews are completed.		
<b><u>Service Response / Action</u></b> Agreed		
<b><u>Implementation Date</u></b> May 2016	<b><u>Responsible Officer</u></b> Housing Strategy & Performance Manager (Graeme Stuart) and Development Officer (Rents) (Douglas Mackenzie)	<b><u>Grading</u></b> Important within audited area.

- 2.1.2 The Policy (7.1) requires that rent statements are issued to tenants yearly or on an ad hoc basis as requested. The Service previously provided tenants with a twice yearly statement which detailed the previous 12 weeks transactions, this has now ceased and tenants are encouraged to register with the Self-Serve System to view their rent accounts online. Whilst it is acknowledged that this is an improvement for those tenants who have the ability to use this facility, there may also be tenants who cannot and therefore unless they fall into arrears or contact the Council may not be aware of their account balance.

<b><u>Recommendation</u></b> The Service should consider how to ensure compliance with Policy and ensure that all tenants are provided with rent statements.		
<b><u>Service Response / Action</u></b> The issuing of rent statements is a major task with significant resource implications. If rent statements are to be issued this will need to be phased over a period of time.		
<b><u>Implementation Date</u></b> December 2016	<b><u>Responsible Officer</u></b> Housing Strategy & Performance Manager (Graeme Stuart)	<b><u>Grading</u></b> Important within audited area.

- 2.1.3 Accessible, comprehensive and up to date written policies and procedures 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.

- 2.1.4 The Rent Management Policy is supported by a number of detailed procedures which are available to staff, and whilst these have not been updated to reflect the role of the Arrears Intervention Team which was created in January 2015, the Service advised that Housing staff are aware of the existence of the new team and its role. The Service advised that the procedures would be updated when time allows. A recommendation is included here for tracking purposes.

<b><u>Recommendation</u></b>		
The Service should update all procedures to reflect the role of the Arrears Intervention Team.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
Implemented	Development Officer (Rents) (D Mackenzie)	Important within audited area.

## 2.2 General

- 2.2.1 Rental charges for Council houses are due on a weekly basis. Tenants have the option to make these payments weekly or monthly and can elect to pay by Direct Debit or 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 Paypoint outlet; or in person at one of the Council's three Access Points, where the transaction is processed by staff through the WebPay system.
- 2.2.2 All tenants, other than those who choose to pay their rent by direct debit 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, Paypoint shop or Access Point 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 are processed through the Cash Receipting System which automatically updates the rent system, Northgate iWorld, with the payment details on a daily basis. There are separate bank accounts in operation for direct debit and standing order payments.
- 2.2.4 The Service and the Bank Reconciliation Team within Finance are working together to develop a robust reconciliation process to demonstrate that all rental income received is verified to that reflected within the rent accounts in Northgate iWorld. A recommendation is included here for tracking purposes.

<b><u>Recommendation</u></b>		
The Service and the Bank Reconciliation Team should develop a reconciliation process which can provide assurance that all rental income received is reflected in Northgate iWorld. The reconciliation process should be documented and the frequency agreed.		
<b><u>Service Response / Action</u></b>		
Agreed. The Bank Reconciliations Team with the assistance of the Housing Service to obtain the necessary information from Northgate will develop a reconciliation.		

<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
November 2016	Income Support Officer (Richard Burnett) / Housing Strategy & performance Manager (Graeme Stuart)	Significant within audited area.

## **2.3 Direct Debits**

- 2.3.1 Tenants can opt to pay their rent by monthly Direct Debit with payments collected from the tenant's bank account on any date between 1<sup>st</sup> and 28<sup>th</sup> of the month. Details of the Direct Debit payments to be claimed from tenants' bank accounts each specified period are extracted from the rents system and forwarded to the bank to be actioned via the BACS system. 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.
- 2.3.2 Should a Direct Debit payment be rejected the amount will be deducted from the Council's bank account and the details of failed BACS Direct Debits downloaded from the BACS Payment Services Website. A Senior Income Assistant within Housing will debit the previously credited rent account and issue a letter advising of the direct debit payment failure.
- 2.3.3 A sample of ten Direct Debit payments was selected and the payments were then verified to the rent accounts, all were accurately credited to the relevant rent account timeously.
- 2.3.4 The failed direct debit listing for one day was compared to the relevant rent accounts within Northgate to ensure that the rent accounts were updated timeously to reflect the payment failure.

## **2.4 Standing Order Payments**

- 2.4.1 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 within Northgate iWorld until the Service can establish which rent account the payment should be credited to.
- 2.4.2 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.

## **2.5 Other Payment Methods.**

- 2.5.1 Ten transactions from each of the other payment methods available were selected from Icon, the cash receipting system, and verified to the relevant rent account. All transactions were credited to the correct rent account timeously.

## **2.6 Credit Balances on Rent Accounts**

- 2.6.1 The Rent Management Policy states that credit balances should be reviewed regularly, and where a credit exists on a Rent account this should be transferred to clear any outstanding balances on other Council debts and the tenant advised. Legally this is not

possible as there is no right of set off, and therefore this will be addressed in the Service's review of the Policy (see paragraph 2.1.1 above). Former tenants who no longer reside in one of the Council's properties will be refunded accordingly.

- 2.6.2 Regular reports detailing credit balances on current and former tenants' accounts are provided by the systems team. These reports exclude homelessness flats. Currently the Service does not undertake regular reviews of these reports but will respond to requests for refunds.
- 2.6.3 From a review of a report showing Current Credit Balances greater than £300 as at January 2016 it was noted that more than 1592 accounts are currently in credit amounting to £1,014,764. Eleven of these accounts show credit balances in excess of £3000.
- 2.6.4 The report showing Former Tenant accounts in credit, shows that more than 9,453 former tenant accounts are in credit amounting to over £387,552.
- 2.6.5 Five current and five former tenant rent accounts with credit balances were extracted from the above reports and reviewed.
- 2.6.6 Of the current tenants four of the five credit balances were as a result of the tenant making regular overpayments, with the fifth one making a series of payments for the same amount on the same day. Whilst two of the credit balances had reduced, one remained the same and the credit balance on the remaining two increased further. There was no information held within the system explaining what action had been taken.
- 2.6.7 Within the sample of former tenants with credit balances, one balance had been refunded, and two were as a result of backdated housing benefit being awarded. In both instances a current address is held for the former tenant but no refund has been made. . Of the remaining two, one was as a result of a standing order not being cancelled, the former tenant was advised, but the standing order has continued. The remaining account was previously in arrears, and a manual adjustment was processed when the liability was transferred to Sheriff Officers for collection. Subsequently a cheque was received clearing the arrears and this was credited to the account without the debit being reinstated.
- 2.6.8 The Service advised that overpayments can arise for a number of reasons:, families paying rents in advance for elderly relatives, and tenants continuing to make rent payments whilst awaiting an award of housing benefit. There are also instances where tenants paying weekly by standing order pay 52 weeks rather than the required 48 weeks.

**Recommendation**

The Service should consider how to resolve existing credit balances and reduce the occurrence of credit balances in the future.

**Service Response / Action**

Agreed. All options to encourage tenants to pay rent due and minimise overpayments will be considered however it is not possible to prevent tenants from overpaying their rent.

**Implementation Date**

May 2016

**Responsible Officer**

Housing Strategy & performance Manager  
(Graeme Stuart)

**Grading**

Significant within audited area.

## 2.7 Suspense Account

2.7.1 Payments which cannot be immediately allocated to the correct rent account, because information is inaccurate or incomplete, are posted to a suspense account within Northgate iWorld and investigated by the Senior Rents Accounts Assistant.

2.7.2 The suspense account as at the 15 January 2016 had a balance of over £8,000. Whilst it is acknowledged that the value is not material when considering the total value of rent collected by the Council, there are, however, entries dating back to 2006.

### **Recommendation**

The Service should investigate the outstanding entries on the suspense account and take action to ensure that the account is cleared on a regular basis.

### **Service Response / Action**

The suspense account is reviewed on a daily basis and monies credited to the correct rent account or transferred through the cash receipting system to be credited to the correct debt e.g. Council Tax

Clearing outstanding entries is problematic as payments appear in the suspense account because the payment reference provided by the tenant is incorrect and cannot be attributed to a recognised rent account or other Council debt. These can be standing order payments or payments made through Paypoint outlets, online or via the automated telephone process. In these instances it is reliant on the customer coming forward when chased for arrears or outstanding debt.

### **Audit Position**

It is acknowledged that the Service investigate suspense entries and correct where possible. Errors made by payees are out with the Service's control.

It is hoped that the changes to the online payment portal may help address some errors.

### **Implementation Date**

N/A

### **Responsible Officer**

N/A

### **Grading**

Significant within audited area.

## 2.8 Current Arrears

2.8.1 Tenant arrears should be pursued in accordance with the Council's Rent Management Policy and the Current Secure Pre-court Procedure. Arrears relating to twenty tenants were reviewed for reasonableness and compliance with procedures prior to Court Enrolment.

2.8.2 Where a tenant remains in arrears over a consecutive 4 week period and the balance is greater than £150, a first reminder (AR01) is generated within the iWorld 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 contact is made the letter will be hand delivered. First reminder letters were issued to the twenty tenants in the sample reviewed.

2.8.3 A second reminder letter (AR03) is automatically generated as a pending action two weeks after the authorisation of the first reminder, when the balance remains at £150 or over and no repayment arrangement is in place. The Service will once 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. Whilst second reminder letters



were issued to the sample reviewed, the number of days in between the delivery of the first reminder and the second reminder letter varied between 1 day and 184 days.

- 2.8.4 If a repayment arrangement with the tenant has not been made and where the tenants arrears are £300 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. All of the arrears cases reviewed had been issued with a PARL. The time taken between the second reminder and the PARL being issued varied between 11 days and 339 days.
- 2.8.5 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 that are in contact with tenants, taking personal circumstances into account with a view to retaining tenancies and court enrolment being as a last resort.
- 2.8.6 Of the twenty current arrears cases reviewed, eleven were considered compliant. The remaining nine were reviewed with the Service and a number of issues were identified. Some resulted from tasks within the escalation process being deleted within the system and new actions created rather than leaving them at a pending stage for longer, this slowed the process down. Staff are required to review each case and decide on the most appropriate action. The Service advised that whilst deletion may be appropriate in some cases, there are others which should be 'Pended' within Task Manager for review at a future date. Deleted cases continue to appear in task manager each week until action is taken and therefore is inefficient and ineffective in managing caseload. The Service has advised that they are looking to develop a system report to highlight instances where cases are deleted to assist with staff training. A recommendation is included here for tracking purposes.

**Recommendation**

The Service should monitor the number of cases deleted within Task Manager and should ensure that staff are made aware of the circumstance when deletion is appropriate.

**Service Response / Action**

Agreed

**Implementation Date**

May 2016

**Responsible Officer**

Housing Manager (Wendy Carle)

**Grading**

Significant within audited area.

- 2.8.7 Only thirty arrears cases are enrolled with the Courts each week, and cases that have reached a trigger point but are not deemed as urgent as others will not be escalated at that time, and therefore escalation to the Court process is delayed.
- 2.8.8 There were also instances where broken payment arrangements were not identified timeously, resulting in delays. The Service advised that a new payment arrangement module which was fully implemented in October 2015 now provides information on payment types and expected payment profiles which allows for the early identification of missed payments, and allows for intervention by housing staff at an earlier stage which should assist in the reduction of arrears reaching the first £150 trigger.
- 2.8.9 Senior Housing Officers are required to review and monitor the quality of the decision making process of the Housing Officers on a monthly basis. When questioned, a number of Senior Housing Officers advised that the management reports available for reviewing the decision making process were very comprehensive but found them very

time consuming to review effectively and in practice sometimes delegated to other staff to review. The Service advised that there are regular meetings at which the quality of reports could be raised, and to date no issues have been highlighted.

<b><u>Recommendation</u></b>		
The Service should remind Senior Housing Officers of the requirement to review the quality of the Housing Officers decision making process.		
<b><u>Service Response / Action</u></b>		
Agreed		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
Implemented	Housing Manager (Wendy Carle)	Significant within audited area.

- 2.8.10 During the review of the twenty arrears cases above it was found that the quality of notes supporting the HO decision on whether to escalate or not escalate the case to the Arrears Intervention Team was inconsistent.

<b><u>Recommendation</u></b>		
Staff should be reminded of the importance of documenting all information to support any decisions taken.		
<b><u>Service Response / Action</u></b>		
Agreed. All staff are already encouraged to make notes on iworld. Further guidance will be issued advising where the appropriate location for notes is.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
May 2016	Housing Strategy & Performance Manger (Graeme Stuart)	Important within audited area.

## 2.9 Repayment Arrangements

- 2.9.1 Guidance has been provided to Housing Officers to assist them in determining repayment arrangement amounts with tenants to allow for the repayment of arrears. There are three suggested minimum payment amounts which are applicable depending on the tenant's circumstances, the lowest being £5 per week for tenants in receipt of benefits. 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.
- 2.9.2 In July 2015, there were 771 current payment arrangements in place. All but 23 had repayment instalment amounts for the minimum amount of £5 or above. Within those 23 payment arrangements is one arrangement for 47p which is payable until 2034, and another repayment amount of £2.72 until 2040. The Service advised that if a tenant is unable to pay the minimum amount an income assessment form is completed and a lesser amount is accepted. The Service would prefer a lesser contribution than no payment.
- 2.9.3 Senior Housing Officers (SHO) are provided with a report detailing repayment arrangements agreed by Housing Officers and tenants during the previous month and are required to check 10% or at least 10 of the arrangements to ensure they comply with

relevant guidance around arrangement amounts and appear sustainable. Evidence of these checks having been carried out is reported to Area Housing Managers. A review of the monitoring report for 30 June 2015 confirmed that checks had been undertaken by all areas except South Area 2. The SHO responsible had been on leave on this date. The Service advised that this check should have been completed on return from leave. A recommendation for Senior Housing Officers to review the quality of the decision making process has been made in paragraph 2.8.9.

## **2.10 Legal Actions and Evictions**

2.10.1 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 arrangements made, 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.

2.10.2 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 2014/15, 903 decrees were granted and 208 evictions took place. In 2013/14 the figures were 705 and 130 respectively.

## **2.11 Former Tenant Arrears & Write Offs**

2.11.1 As at the 2014/15 year end the total value of former tenant arrears stood at £1.280 million of which £683,000 (53.35%) was written off at the end of the financial year (Source ARC Indicator C23). The Service the Task Manager facility within Northgate to manage the former tenant arrears process which generates tasks for action by a member of the Arrears Recovery Team.

2.11.2 From a review of the tasks list within Task Manager for Former Tenant Arrears it was noted that, in July 2015 there were over 900 tasks overdue. The Service advised that competing priorities and limited staff resources resulted in delays in FTA tasks being actioned. This has subsequently reduced to 452 tasks in February 2016.

2.11.3 A sample of 12 cases where arrears balances had been written off were reviewed. All had been appropriately authorised by the Arrears Officer responsible and were prompted by either advice from the Sherriff Officer recommending write off on the basis that they had not been able to trace the debtor, or the debt had been outstanding for more than 5 years with no acknowledgement of the debt from the debtor and hence became "prescribed debt" under the Prescriptions & Limitations Act (Scotland).

**AUDITOR:** D Hughes  
M Beattie  
D Lawson  
L Jarvis  
C Pirie

## Appendix 1 – Grading of Recommendations

<b>GRADE</b>	<b>DEFINITION</b>
<b>Major at a Corporate Level</b>	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.
<b>Major at a Service Level</b>	<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>
<b>Significant within audited area</b>	<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>
<b>Important within audited area</b>	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.