

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	25 September 2018
REPORT TITLE	Internal Audit Report AC1909 – Universal Credit and Housing Rent
REPORT NUMBER	IA/AC1909
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 Universal Credit and Housing Rent.

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 Universal Credit and Housing Rent.

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 AC1909 – Universal Credit and Housing Rent.

10. REPORT AUTHOR DETAILS

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ABERDEEN

CITY COUNCIL

Internal Audit Report

Customer

Universal Credit and Housing Rent

Issued to:

Andy MacDonald, Director of Customer Services

Derek McGowan, Chief Officer – Early Intervention and Community Empowerment

Fraser Bell, Chief Officer – Governance

Sandra Buthlay, Interim Chief Officer – Finance

Neil Carnegie, Communities and Housing Area Manager

External Audit

EXECUTIVE SUMMARY

The Council provides housing across a portfolio of 22,050 properties. Universal Credit (UC) is due to be rolled out in full in Aberdeen on 31 October 2018 and will replace six means tested benefits including Housing Benefit. The Department for Work and Pensions (DWP) currently forecasts that by March 2019, over 2,600 individuals will be claiming UC in Aberdeen.

UC places the onus on the claimant to manage their finances and meet their obligations as they fall due. UC rent payments will be made directly by the DWP to the claimant who will then be responsible for paying rent to their landlord e.g. the Council. However, under certain circumstances these rental payments can be made directly to the landlord.

The objective of this audit was to provide assurance that appropriate arrangements have been put in place to manage the impact of UC on rent collection including intervention relating to identified vulnerable cases. In general, this was found to be the case, with clear policy on the treatment of vulnerable clients and the requirement to offer support, alternative payment arrangements applied as expected, and performance measures being reported.

The Service is at the planning stage for the introduction of UC full service on 31 October 2018 and at the time of the audit draft policies were available. The draft rent management policy is comprehensive and clear. The Service has agreed to develop and approve written procedures after the policy is reported to the September 2018 Operational Delivery Committee for approval. Training covering UC full service is also currently being developed and the Service has agreed to deliver this to Elected Members and employees ahead of UC full service being rolled out.

Finance reconcile rental income received per the cash receipting system to that per the rent management system on a monthly basis. Reconciling items relating to funds allocated to suspense are not currently detailed. The Rent Accounts team has agreed to provide Finance with details of items held in suspense on a monthly basis for reconciliation purposes. In addition, the Rent Accounts team has agreed to review Universal Credit transactions on a sample basis to ensure they are being applied to the correct account.

There is an increased risk of rent arrears as a result of the introduction of Universal Credit, as reported by another Scottish local authority, where UC full service has been rolled out. On inspection of the Housing Revenue Account budget for the 2018/19 financial year, no provision has been made for an increase in bad debts due to UC. Finance have agreed to review bad debts as a result of UC for the purpose of forecasting the HRA 2018/19 outturn and setting future budgets.

Rent arrears procedures are comprehensive and provide appropriate guidance to staff. In addition, the Service was found to have applied for alternative payment arrangements where applicable. However, whilst some reference was made in arrears procedures to UC, the procedures lacked detail in this regard. The Service has agreed to update the rent arrears policy and procedures with specific UC detail.

1. INTRODUCTION

- 1.1 The Council provides housing across a portfolio of 22,050 properties. Universal Credit (UC) is due to be rolled out in full in Aberdeen on 31 October 2018 and will replace six means tested benefits including Housing Benefit. The Department for Work and Pensions (DWP) currently forecasts that by March 2019, over 2,600 individuals will be claiming UC in Aberdeen.
- 1.2 UC was introduced through the Welfare Reform Act 2012 by the UK Government and was first implemented in Aberdeen in November 2015 as a trial 'live service'. UC live service concluded in January 2018 and no new UC claims within Aberdeen can be made until the full service rollout, while existing UC claimants within Aberdeen from live service, can continue to claim UC.
- 1.3 The objective of this audit was to provide assurance that appropriate arrangements have been put in place to manage the impact of UC on rent collection including intervention relating to identified vulnerable cases.
- 1.4 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 Background

2.1.1 UC is designed to replace the following benefits:

- Job Seekers Allowance
- Housing Benefit
- Working Tax Credit
- Child Tax Credit
- Employment and Support Allowance
- Income Support

2.1.2 All UC claims will be processed by the DWP. Claimants will be able, when making their application, to include a claim to cover housing costs (rent, certain service charges). The Council will be able to report tenant housing costs and payment reference numbers to the DWP through a landlord portal (to be rolled out to the Council ahead of full service). Individuals currently claiming Housing Benefit will have no requirement to change to UC upon full service rollout until they experience a change of circumstances.

2.1.3 UC places the onus on the claimant to manage their finances and meet their obligations as they fall due. UC rent payments will be made directly to the claimant who will then be responsible for paying rent to their landlord. However, under certain circumstances these rental payments can be made directly to the landlord.

2.1.4 UC claims may be revised and amounts paid may vary as a result. This is the result of DWP decisions based on claimant failures to meet certain requirements (e.g. attendance at work coach meetings). The Council will not be informed of such decisions and will not be provided access to DWP systems to monitor changes in UC payments.

2.1.5 The Council has met with the DWP to gain an understanding of the impact of UC full service. The Council also chairs the Scottish Rents Forum, which the Service advised has focused on the impact of Universal Credit for a number of years, found to be the case for the 2 most recent meetings, on reviewing the related minutes. Additionally, the Service has set up a visit to South Lanarkshire Council in August 2018 to discuss their lessons learned following full service rollout, as the Service believe their approach is applicable to Aberdeen City Council.

2.1.6 According to the Local Government Benchmarking Framework (LGBF), as at the end of the 2016/17 financial year (most recent available data), the Council is performing better than the average Council in Scotland, in relation to gross rent arrears as a percentage of rent due for 2016/17 (Council: 4.6%, Scotland average: 6.5%). Further, per the Scottish Housing Regulator, the Council collected 101.6% and 100.2% of rent due (including arrears) in 2015/16 and 2016/17 respectively (Scottish average 99.5% in 2015/16 and 99.6% in 2016/17).

2.2 Written Procedures and Training

2.2.1 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 that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving. They have increased importance where new systems or procedures are being introduced.

2.2.2 Currently the Service is at the planning stage for the introduction of UC full service and at the time of the audit only draft policies were available. The draft rent management policy

is comprehensive and clear. Written procedures will be drafted by the Service following the approval of the policy and a training plan is also currently being drafted.

- 2.2.3 The Service has indicated their intention to have the rent management policy approved by CMT and it will be included on the September 2018 Operational Delivery Committee agenda for approval. The Service has organised training sessions for employees and Elected Members between 17 September and 19 October on UC full service. The following recommendations are for tracking purposes for the completion and approval of relevant policies and procedures, and the delivery of training.

<u>Recommendation</u>		
The Service should ensure policies, written procedures and training plans are completed and approved.		
The Service should ensure training is delivered to relevant staff.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
October 2018	Development Officer	Important within audited area

2.3 Payments

- 2.3.1 Council tenants can pay their rent via a number of different methods: in person at the Council’s Access Points or at Post Offices using a rent card, via direct debit or standing order, over the phone and online via the Council’s website. These methods were reviewed as part of Internal Audit report AC1607 – Rent Collection & Arrears Management and the process under UC for the processing of these will not change.
- 2.3.2 During the application for UC, a claimant may make an election under the “Scottish UC Choices” for an Alternative Payment Arrangement (APA) and to have their rent paid directly to the landlord (Managed Payment to Landlord (MPTL)). Further, the Council may be eligible to make applications for MPTL and Third Party Deductions (TPD) to clear accrued rent arrears where certain criteria are met. TPD can be applied for when arrears meet one of several defined DWP thresholds. An MPTL can be applied for when a tenant has:
- Continually underpaid rent over a period of time and has accrued rent arrears totalling one month’s rent; or
 - Accrued rent arrears totalling two months’ rent; or
 - Defined trigger conditions are identified (e.g. addiction problems)
- 2.3.3 Following the full service rollout, the Council will be able to apply for APA’s through the DWP landlord portal (currently they must complete a UC47 form and return this to DWP). Due to the Council’s Trusted Partner status with the DWP, applications for APAs/TPDs are expected to proceed relatively unchallenged. The identification of trigger conditions (as outlined by DWP) may be difficult due to the complexity or sensitivity of some criteria. However guidance is available from the DWP, including the probability of the requirement for an APA based on the nature of claimant circumstances.
- 2.3.4 Any payments received directly from DWP will be receipted into the Housing Rents bank account. For each daily payment received from the DWP, a remittance advice is also received identifying each claimant’s payment reference (provided to DWP by the Council when confirming the rent due via the landlord portal at the outset of the claim) and National Insurance number for each individual covered within the payment. Finance receives a file

from the DWP and uploads this into the cash receipting system (ICON). The automated overnight process then distributes this along with all other rent payments into the rent management system. Payments are assigned the transaction sub-type reference 'UCAP'.

- 2.3.5 Internal Audit selected a sample of 40 UCAP MPTL transactions within the rent management system and traced these back to the original remittance and to the bank account to confirm amounts received were applied to the correct rent account. No exceptions were noted, all affected rent accounts were correctly updated and in a timely manner.
- 2.3.6 DWP will occasionally provide an incorrect reference number which iWorld will reject, putting the amount paid into a suspense account. A daily process is undertaken by the Rent Accounts team to manually identify such transactions and establish which rent account should have been credited. A manual adjustment is then posted to correct this. A copy of the suspense account statement as at 31 July 2018 was obtained and reviewed. On this it was noted that 4 transactions remained on the suspense account received from DWP in the previous 6 months. On consultation with the Service it was noted that an incorrect payment reference was provided and that the National Insurance number provided did not match any past or present tenants. DWP have been notified of these transactions, however no efforts have been made to reclaim these payments.

2.4 Overpayments

- 2.4.1 Potential exists for overpayments to be received from DWP (i.e. through DWP error). Due to the Service not having access to DWP systems to verify how much DWP were due to pay, this makes it challenging to identify where overpayments have been received. At present, although there is no defined process for identification of overpayments, where payments are received from DWP which are flagged by the Council as being made incorrectly, the Service will notify DWP of this to determine whether a refund is owed by the Council to the DWP.
- 2.4.2 DWP will notify the Council by mail where they identify an overpayment, with a supporting letter explaining what the overpayment relates to. The Council may then wish to challenge any requested refunds they deem inappropriate. Where refunds are agreed, the Council will inform the DWP by letter of their acceptance of this and will make the refund via BACS transfer. Further, the Service notifies the tenant of this refund being made as this may be recovered from the tenant.
- 2.4.3 The rent management system is also updated with any refunds which are due and each of these transactions posted is assigned the transaction code 'UCAR'. Only 2 such transactions were processed between April and June 2018, and both were reviewed by Internal Audit to ensure they were supported by repayment requests, that the overpayment was investigated and challenged if appropriate, and these were then traced to the bank account. In each case the Service repaid the amount within 28 days, provided notice to the tenant of the repayment and made the correct adjustment through the rent account.

2.5 Reconciliations

- 2.5.1 Finance reconciles the rental income received in the bank account to the total amount allocated to rent accounts within the rent management system on a monthly basis. From a review of the reconciliation as at 30 June 2018 it was noted that a difference of £32,484.17 existed. On discussion with the Finance Controls Accountant it was confirmed that this difference is the result of amounts being applied to suspense accounts due to incorrect references and timing differences relating to monies received by direct debit, which have yet to be applied to rent accounts in the rent management system. The related transactions making up the reconciling difference are not included in the reconciliation.

The Quality Assurance and Performance Management Manager has agreed to provide the transactions making up reconciling differences to Finance in a monthly report for the purposes of preparing the reconciliation. A recommendation is included for tracking purposes.

<u>Recommendation</u>		
Finance should include details of rent income held in suspense in the rent reconciliation to highlight balances to be cleared from suspense.		
<u>Service Response / Action</u>		
Agreed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2018	Finance Accountant	Controls Important within audited area

- 2.5.2 No formalised checks are performed by the Service to confirm the correct rent accounts have been allocated UCAP transactions. Whilst the system is effectively “self-checking” in that, should an error be made, tenants would fall into arrears, be pursued for these and would challenge the process, there would be reputational damage in such a case. The introduction of a procedure checking a sample of rent accounts on a regular basis by someone other than the individual uploading the information would provide assurance that this process is working as expected.

<u>Recommendation</u>		
The Service should consider performing a check to confirm correct rent amounts have been allocated to rent accounts.		
<u>Service Response / Action</u>		
Agreed. A sample of UC transactions will be checked on a weekly basis to ensure they have been applied to rent accounts as expected.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2018	Community and Housing Area Manager	Important within audited area

2.6 Arrears

- 2.6.1 There is an increased risk of rent arrears as a result of UC replacing Housing Benefit. Another Scottish local authority has reported an increase in rent arrears of 26% in the first six months following full service UC rollout, with the number of tenants claiming UC who are in rent arrears totalling 79.1%. In addition, a claimant’s UC rent award can be decreased by the DWP, if the claimant fails to comply with the ‘claimant commitment’ i.e. agreed tasks required for UC to continue, such as seeking work. This increases the risk of tenants failing to pay rent due to a lack of required funds when rent is due.
- 2.6.2 The Housing Revenue Account (HRA) working balance is projected to increase by £500,000 in 2018/19 to £10,737,000. This is based on write offs due to rent arrears staying static at £2m in 2018/19 as compared to 2017/18. The working balance has been set at this level to meet any unforeseen contingencies, including the uncertainty surrounding welfare reform. However, rent arrears may increase following the rollout of full service due to the increase in the number of UC claimants.

<u>Recommendation</u>

The Service should review bad debts as a result of UC for the purposes of forecasting the HRA 2018/19 outturn and setting future budgets.

Service Response / Action

Agreed.

Implementation Date

March 2019

Responsible Officer

Finance Partner

Grading

Important within audited area

2.6.3 Rent arrears management is a key aspect of the Council's UC plan. In addition to the rent management policy the Service has prepared draft arrears management procedures – the Pre-court procedure and the Court Eviction procedure. These procedures detail the action to be taken when specific rent arrears thresholds are reached and includes an escalation process. The rent management system notifies Housing Officers whenever an arrears trigger is met.

2.6.4 On review of both rent arrears procedures, Internal Audit confirmed that these are comprehensive, complete and provide appropriate guidance to Housing staff to perform the necessary tasks. The procedures are more person-centric as opposed to process driven. The Service intends to work with tenants to understand circumstances and identify support methods which can be provided. The rent arrears management procedures will apply to all tenants, not just those on UC. Some reference within the policy is made to UC, however the Service has indicated that following staff training and identification of issues relating to UC in practice, this policy and the procedures will be updated. The following recommendation is made for tracking purposes.

Recommendation

The Service should update the rent arrears policy and procedures with specific UC detail.

Service Response / Action

Agreed.

Implementation Date

October 2018

Responsible Officer

Development Officer

Grading

Important within audited area

2.6.5 To verify that APAs are being applied for when available, Internal Audit obtained a listing of all tenants who have received UCAP payments into their rent account in the 4 months to 31 July 2018 and those who are also in £1,000 or more of rent arrears. A sample of 10 of these rent accounts was inspected to ensure that DP's and TPD's have been applied for. No exceptions were noted from this testing.

2.6.6 In two instances court proceedings with the tenant were underway, negating the requirement for a TPD. In a further three instances the individual is no longer a UC claimant and therefore no APA claim can be made. One further instance was noted where the individual is in temporary accommodation and has accrued rent arrears in excess of £8,000. Whilst TPD's cannot be claimed, the Temporary Accommodation Rent Arrears Recovery Escalation Process has not been followed by the Service, resulting in this large arrears balance. The Service has advised this is due to staff resource constraints. A recommendation was made in Internal Audit Report AC1825 that rent arrears procedures should be applied to all tenancies where arrears are present.

2.6.7 The effective use of APAs where available will ensure the Council has an opportunity to receive monies due and to avoid future rent arrears. However, it is DWP policy that TPD's

may only be taken for rent arrears on the current property. Therefore, where tenants move to private accommodation, for example, the Council will have to pursue other means to recover rent arrears and this may lead to an increase in bad debts.

2.7 Vulnerable Clients

2.7.1 Several considerations have been outlined by the Service in relation to their approach to vulnerable clients. There remains an understanding that circumstances may change which may affect a tenant's ability to make a rent payment. At this point applying undue stress may pose additional risks to the tenant and the Council's reputation. Therefore, the Council intends to adopt a person-centric process focused on understanding the circumstances which have led to the payment not being made. Through this they plan on being able to identify vulnerable clients who can then be directed to support from other Council or external services. The rent arrears policy reflects this and covers the identification of potential vulnerable clients, understanding situations and providing support.

2.8 Performance Reporting

2.8.1 The Service currently reports housing statistics to CMT, Senior Officers, staff and tenants on a monthly basis. Housing statistics are also provided to the Operational Delivery Committee in each cycle and to the Scottish Housing Regulator annually. Internal Audit inspected the most recent of each of these reports, confirming that appropriate information is being reported and that this is being performed in accordance with the aforementioned schedule. The most recent reporting to the Operational Delivery Committee was undertaken on 29 May 2018. No additional reporting is currently required by the Government or DWP.

2.8.2 Within the draft rent management policy the Service also identifies several internal KPIs, such as the level of arrears and number of Court actions, which are to be reported to CMT, Senior Officers, staff and Committee in addition to the currently reported statistics.

AUDITORS: D Hughes
A Johnston
J Grigor

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.