

STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

SECOND FOLLOW UP
INTERNAL AUDIT REPORT
ARREARS COLLECTION AUDIT
JANUARY 2022

Completed by: Jackie Humphrey – Chief Internal Auditor

1. INTRODUCTION

- 1.1 A review of the Arrears Collection process has been undertaken as part of Internal Audit's risk based annual plan. The purpose of the review was to provide assurance to management on the overall adequacy and effectiveness of controls operating within the system.
- 1.2 The Joint Transformation Programme was launched in May 2016 to enable Lewes District Council (LDC) and Eastbourne Borough Council (EBC) to share the provision of certain services. The Joint Transformation Model was developed to enable and deliver the benefits of merging specific council services and changing the way they are delivered. It incorporated lessons learned from the experience of other councils and built on work done under LDC's Programme Nexus and EBC's Future Model Programme, which restructured the council so that it was no longer organised by service lines, but around the customer; the focus was on putting the customer first.
- 1.3 The impact that Covid-19 has had on council finances has been widely reported. As of September 2020 the estimated loss to Lewes District Council was £4 million in 2020/2021 and to Eastbourne Borough Council was £8 million in 2020/2021 This has been further exacerbated by a temporary relaxing of the recovery processes during the year for income streams, such as Council Tax, Non-Domestic Rates and Sundry Debtors.
- 1.4 The review looked at arrears collection in the following areas:
- Council Tax
 - Non-Domestic Rates (Business Rates)
 - Housing Benefit Overpayments
 - Housing Rents
 - Sundry Debtors / General Income
- 1.5 The review did not look at rent arrears for Eastbourne Homes Ltd as this has been covered under a separate review.
- 1.6 Systems administrators are responsible for the daily management, upkeep, configuration, and reliable operation of the various business computer systems used across the councils, including OPENRevenues, Academy and Housing Cx which were all referred to as part of this review. The systems administrators form part of the Business Applications Unit Team which falls under the Information Communication Technology Service Area.

- 1.7. Some working practices for Revenues, which include Council Tax, Non-Domestic Rates (NDR) and Housing Benefit Overpayment (Eastbourne), are currently under review and therefore some observations made during the audit may already be being addressed.
- 1.8. This report will be sent to:
- Deputy Chief Executive
 - Director of Service Delivery
 - Chief Finance Officer
 - Head of Customer First
 - Head of ICT
 - Functional Lead (Growth & Prosperity)
 - Functional Lead (Thriving Communities)
 - Systems & Transactional Manager (Finance)
 - Specialist Services Manager
 - Account Services Manager
 - Business Applications Manager
- 1.9. Completion of audit work relies greatly on the help and co-operation given by Service Heads and their staff. Internal Audit takes this opportunity to thank the staff contacted during the audit for their courtesy and co-operation.

2. SUMMARY OF THE POSITION AT THE TIME OF THE FINAL REPORT

2.1. A review of the Arrears Collection Policy and Procedures found that:

- There is no overarching corporate arrears collection strategy, under which the policies for the individual debt streams sit, in place for Eastbourne Borough Council (EBC) or Lewes District Council (LDC).
- The Financial Procedures Rules, which were re-written and approved in 2019, clearly define the duties of the Directors, Assistant Directors and Heads of Service with regard to Financial Planning and being aware of income patterns.
- There are arrears collection procedures for all areas, however a recommendation was made in the 2019/20 Housing Rents annual audit for this to be reviewed and aligned for both authorities.

2.2. Arrears Policies and Procedures were reviewed to ensure they are adequate:

- Reminder notices are issued at appropriate intervals.
- Interest cannot be added to statutory debts although, in certain circumstances, charges can be added where recovery action is taken. Asset Management have discussed whether interest could be added if a Leaseholder defaults on rental payments, but these have not been implemented.
- Whilst periodic statements are not issued unless specifically requested by the customer, accounts, bills, and reminders advise what is due or outstanding. In addition, customers are able to access up to date information via the self-service portal for some debt streams.
- Generally, adjustments to accounts are administered through the relevant software systems, with relevant audit trails or evidence stored on the document retention system.
- There is evidence to confirm that automated daily reconciliations are carried out for EBC in respect of Council Tax, NDR and Housing Benefits on the Open Revenues system. However, confirmation has not been provided as to whether there is a similar process for LDC in respect of the Academy system.
- There are a number of payment methods available to enable customers to have various options to pay outstanding accounts.
- Information was provided to confirm that suspense accounts for Debtors and Housing Rents were monitored and, where appropriate, cleared on a timely basis. However, despite requests, the auditor did not receive similar evidence regarding Council Tax or NDR and is therefore unable to confirm that these are reviewed daily.

2.3. Collection of Arrears where reviewed to ensure they are appropriately monitored and managed and found:

- Aged debt analysis reports do not appear to be available for some of the income streams to the council.
- Where aged debt analysis reports are available not all of them are used for monitoring recovery of arrears and the focus is on recovering more recent arrears whilst older debts remain outstanding.
- Debtor accounts are monitored where payment arrangements have been made and a review of the collection process for Council Tax, NDR and Eastbourne Housing Benefit overpayments is currently being undertaken.
- There are suitable explanations as to why recovery action is suspended for Debtor accounts.

2.4. Write offs are suitably controlled with supporting evidence and that the bad debt provision is reviewed

- Testing of write-offs was carried out as part of the annual audits, covered by this review, and recommendations were made to ensure system controls were in place so that write off authorisations levels could not be exceeded.

2.5. Additional Observations

- Historically customers had complained about having to contact multiple departments; implementing a 'customer first' perspective meant breaking down silos, redesigning customer journeys and processes, automating to give customers greater on-line access and changing the culture within the organisations. The purpose of programmes like the Future Model

restructure, which gave rise to creation of Customer First, was to allow customers the ability to deal with one person for all debts.

- However Sundry Debtors, which also includes overpaid Housing Benefit for LDC, is currently under the management of Finance, whereas all other collection of monies due to the councils is administered and collected by the Account Management and Specialist Advisors within Service Delivery, under the strategic guidance of the Functional Lead Growth & Prosperity.
- The current segmented structure is not conducive to good working practices and does not support the Customer First intention.
- The internal structure also causes problems with difficulties and misunderstandings between Systems Administrators working in the Business Applications Unit (IT) in the Information Communication Technology Service Area and Senior Specialist Advisors working in Specialist Services in the Customer First Service Area due to a lack of shared knowledge and expertise in the work of Specialist Services and the required outputs from the appropriate systems. Such misunderstandings can cause delays and errors.
- The Functional Lead has suggested a review of the role of system administrators should be undertaken as part of the recovery reset programme to consider whether Systems Administrators for Open Revenues and Academy would be better placed within Service Delivery to be able to work closer with Specialists Advisors / practitioners and so that they are better able to respond and meet service priorities and objectives.

3.0. Assurance Level at time of initial review

3.1. Provisional Assurance Level Prior to Recommendations Being Implemented:
Assurance Level: **Partial Assurance**

Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little or no assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is

	required by management.
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Number of recommendations:					
High	2	Medium	2	Low	3

3.2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards (PSIAS).

REASONABLE ASSURANCE

In giving this assessment, it should be noted that assurance cannot be absolute. The most that an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. The performance of internal audit work is not, and should not be taken as, a substitute for management’s responsibilities for the application of sound management practices. It should be emphasised that the responsibility for a sound system of internal controls, and the prevention and detection of fraud and other irregularities, rests with management. The work of Internal Audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.

4. SUMMARY OF POSITION AT TIME OF FIRST FOLLOW UP

4.1. A review of the Arrears Collection Policy and Procedures found that:

- The Lead for Income Maximisation and Welfare advised that separate arrears strategies will be developed for individual debt streams that are currently collected by the Income and Welfare Team; it is not possible to create an overarching collection strategy for all debt streams as each debt stream is governed by a different set of rules and regulations and will require different approaches to recovery and collection.
- The first report setting out a strategy to enhance overpaid housing benefit collection will be presented by the Lead for Income Maximisation and Welfare to CMT in September.
- The Fair Debt Policy will be reviewed and updated to take account of restructuring, change in roles and ways of working across the organisation and the Breathing Space legislation. Under the legislation creditors must pause contact and enforcement action for up to 60 days to enable a debtor to seek debt advice if they are told a debt owed to them is in a breathing space.

4.2. Arrears Policies and Procedures were reviewed to ensure they are adequate:

- The Head of Property, Delivery and Compliance advised that when a leaseholder defaults on rental payments, payment plans can be arranged for up to 6 months without adding interest.
- Some property leases allow provision to add interest however, interest has not been applied during the last 18 months due to the Covid-19 pandemic.
- Interest is not charged on unpaid housing leaseholder service charges, if necessary, a charge is placed against the property and any money owed is recovered from the proceeds of the sale of the property at a later date.
- A review of the terms of Debtor accounts to ascertain if it is possible or practical to add interest to unpaid invoices is outstanding.

4.3. **Collection of Arrears were reviewed to ensure they are appropriately monitored and managed and found:**

- The Head of Customer First is reviewing the availability and use of Aged Debt Analysis reports.

4.4. **Additional Observations**

- Consideration is being given to aligning all income and recovery services under the management of the Income and Welfare Team.
- In the Customer First reshaping exercise which restructured the service, reviewed and changed roles and ways of working, it was decided that Systems Administrators for Open Revenues and Academy will not be placed within Service Delivery.

5. **Assurance Level after follow up completed**

5.1. Assurance Level: **Partial Assurance**

Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little or no assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.

Number of recommendations originally made:					
High	2	Medium	2	Low	3
Number of recommendations still outstanding:					
High	2	Medium	1	Low	3

6. SUMMARY OF POSITION AT TIME OF SECOND FOLLOW UP

- 6.1 Recovery of old debts: The Customer First team will have staff focussed on recovery of debt when fully staffed. However, recruitment has been an issue. There has also been pressure of work due to the extra work of administering Covid-19 grants. Action has begun to maximise the collection of overpaid Housing Benefit debts.
- 6.2 Writing off bad debts: Historic debts need to be reviewed to see if they can be written off. It should be noted that the councils have limited powers to write off debts in respect of Council Tax and Business Rates.
- 6.3 Aligning income and recovery departments: The Customer First team will have staff focussed on recovery of debt when fully staffed. However, recruitment has been an issue.
- 6.4 Placement of Systems Administrators: This was considered, and it was decided not to change the current set up.
- 6.5 Corporate Collection Strategy: The Fair Debt Policy is still to be reviewed and updated.
- 6.6 Charging interest on unpaid commercial invoices: The Deputy Chief Finance Officer to discuss this with the Debtors Team Leader.
- 6.7 Availability and use of Aged Debt Analyses: It is reported that work continues on addressing this recommendation.

7. Assurance Level after second follow up completed

7.1. Assurance Level: **Partial Assurance**

Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others

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	there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little or no assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.

Number of recommendations originally made:					
High	2	Medium	2	Low	3
Number of recommendations still outstanding at first follow up:					
High	2	Medium	1	Low	3
Number of recommendations still outstanding at second follow up:					
High	2	Medium	1	Low	3

Responses to recommendations have been made in detail and therefore the usual action plan has been adjusted to allow for the full responses to be recorded.

Recommendation: Action must be taken to investigate the possible recovery of old debts.	Risk and Timescale : High - 12 months	Current Position: ONGOING
Position at Final Report	<p align="center">Lead for Income Maximisation and Welfare</p> <p>Resourcing capacity to achieve this recommendation will be considered through the Service Delivery restructure in the New Year.</p>	

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<p>Response at First Follow Up</p>	<p style="text-align: center;">Lead for Income Maximisation and Welfare</p> <p>The Income Maximisation and Welfare Team (IMWT) will need to balance the recovery and management of older debts against in-year collection performance to ensure any shift in resource to collect and write off legacy debt doesn't impact on in year performance and income levels.</p> <p>Two different recovery strategies are under consideration for overpaid housing benefit collection to support the IMWT in managing and collecting both new and aged debt.</p>
<p>Response to Second Follow Up</p>	<p style="text-align: center;">Head of Customer First</p> <p>When we are fully staffed we will be focussing some of the team on recovery of debt as a full-time piece of work. We are also in the process of identifying those with multiple debts across services and contacting them to offer assistance and advice. (The Head of Customer First later explained that her comments are superseded by the comments below).</p> <p style="text-align: center;">Lead for Income Maximisation and Welfare</p> <p>The audit report set out a number of recommendations and it has been acknowledged that the Customer First Resolution Team (CFRT) restructure and recruitment phase would mean that the Income and Welfare Team couldn't address all aged debt income streams at once. Further pressures such as the delivery of CV-19 Business grants over the past two years has and continues to place considerable pressure on the service whilst maintaining day to day Revenues administration and in year collection activity. Pressure is expected to continue in 2022 as the pandemic continues and the migration of two Revenues and Benefits systems to one single system is expected to take at least 12 months to complete.</p> <p>Additional capacity (11 extra posts) was factored into the new CFRT structure last April in order to provide a more targeted focus on Income collection and recovery (including the review of aged debts). Recruitment to these posts has proved challenging throughout 2021 as there is a national issue of too many vacancies and not enough people wishing to change jobs, there are still currently 3 Income Advisor posts that remain vacant. These posts are to be advertised again in January and it is hoped that these posts will be filled before the start of the new financial year.</p> <p>Once the team is at capacity and the new Advisors have been fully trained additional resource will be gradually moved to focus on in year and arrears collection. The CFRT Operational Manager will prepare a resource action plan to gradually transition resource to arrears collection during 2022.</p> <p>Action has begun to address the immediate priority debt stream as directed by the Chief Finance Officer which is to maximise the collection of overpaid Housing Benefit debts. The approach and strategy was set out in a report that was presented to Corporate Management Team in September and subsequently to the Accelerating Change Steering Group in November. Recommendations to deploy a digital recovery strategy and purchase a module that will help to increase Direct Earnings Attachment Orders for debts where it has been possible to identify a debtors employer through matching to HMRC records. The contract for the digital recovery strategy was signed in December and the data sharing agreement is being finalised by Legal Services. Implementation will start in the New Year once the delivery of the latest round of CV-19 business grants has finished towards the end of February.</p> <p style="text-align: center;">ONGOING</p>

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Recommendation: Where appropriate consideration must be given to writing off old debts as irrecoverable.	Risk and Timescale: High-6 months	Current Position: OUTSTANDING
Position at Final Report	Agreed	
Response at First Follow Up	<p style="text-align: center;">Lead for Income Maximisation and Welfare comment: <u>EBC overpaid housing benefit</u> A report setting out the options for dealing with overpaid housing benefit, including statute barred debt will be considered by CMT in September.</p> <p style="text-align: center;">Finance comment: <u>LDC overpaid housing benefit</u> If the benefit claim is ongoing the overpayment is recovered from the ongoing benefit. Finance monitor the overpayment when benefit has ceased and when debts prove irrecoverable there is an annual review and Finance receive the authorisation to write off irrecoverable debts from the Head of Customer First.</p>	
Response to Second Follow Up	<p style="text-align: center;">Head of Customer First</p> <p>There is a write off procedure but the historic debts need to be reviewed in conjunction with finance to ensure they are ok to be passed for write off. (The Head of Customer First later explained that her comments are superseded by the comments below).</p> <p style="text-align: center;">Lead for Income Maximisation and Welfare</p> <p>The councils have limited powers for writing off debts in respect of Council Tax and Business Rates which are legally due and payable. There is no legal power to write off, for instance, on the grounds that the customer cannot afford to pay. In practice the councils are therefore able only to write off under the following exceptional circumstances:</p> <ul style="list-style-type: none"> · The debt is uneconomic to pursue any further · The debtor has absconded or the debtor is deceased · A term of imprisonment has been served (no further recourse to recover the outstanding amount) · The debtor has gone into bankruptcy or liquidation and there no funds available to creditors <p>We cannot easily 'strategise' writing off aged debts by oldest year, especially through automation or bulk write off as it requires a case-by-case review to assess individual cases which is time consuming and must be balanced with the collection and recovery of in-year debts. There is also a duty to protect the public purse for those residents that do pay their Council Tax on time otherwise the cost of writing off a significant amount of debt will be passed on to the taxpayer. Due regard to the Council's bad and doubtful debt provisions must be considered in this regard.</p> <p style="text-align: center;">OUTSTANDING</p>	

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Recommendation: Consideration should be given to aligning all income and recovery departments under the management of Customer First / Account Management	Risk and Timescale: Medium - 3 months	Current Position: ONGOING
Position at Final Report	<p style="text-align: center;">Head of Customer First comment: To be considered as part of the service delivery reshaping</p> <p style="text-align: center;">Finance comment: Currently it is being actively looked at to stop issuing invoices to individuals to cover the cost of Emergency Accommodation, and rather to monitor and collect this debt through the Housing CX Rent system. So this function, although maybe not all historic debt, in this area would move to Account Management to look after.</p>	
Response at First Follow Up	<p style="text-align: center;">Head of Customer First This is being considered outside of the Customer First Resolution Team restructure and is subject to wider conversations.</p>	
Response to Second Follow Up	<p style="text-align: center;">Head of Customer First When we are fully staffed we will be focussing some of the team on recovery of debt as a full-time piece of work. We are also in the process of identifying those with multiple debts across services and contacting them to offer assistance and advice.</p> <p style="text-align: center;">ONGOING</p>	

Recommendation: A review of the role of system administrators should be undertaken as part of the recovery reset programme to consider whether Systems Administrators for Open Revenues and Academy would be better placed within Service Delivery to be able to work closer with Specialists Advisors / practitioners and so that they are better able to respond and meet service priorities and objectives	Risk and Timescale: Medium - 3 months	Current Position: ADDRESSED
Position at Final Report	<p style="text-align: center;">Head of Customer First To be considered as part of the service delivery reshaping which will include reporting lines</p> <p style="text-align: center;">Head of ICT Administration rights for systems must and has to be in IT, this is a requirement under PSN</p>	
Response at First Follow Up	<p style="text-align: center;">Head of Customer First This was considered but not accepted within the Customer First reshaping exercise.</p> <p style="text-align: center;">ADDRESSED</p>	
Response to Second Follow Up		

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Recommendation: An overarching corporate arrears collection strategy must be drawn up and adopted, under which the separate policies for the individual debt streams sit, to ensure council departments responsible for collecting monies are acting in accordance with approved guidelines.		Risk and Timescale: Low - 3 months	Current Position: OUTSTANDING
Position at Final Report	AGREED		
Response at First Follow Up	Deputy Chief Finance Officer The Fair Debt Policy will be reviewed and updated to take account of the changes in the organisation and the Breathing Space legislation.		
Response to Second Follow Up	Deputy Chief Finance Officer The Fair Debt Policy has not been updated for a while and probably needs updating to include Debt Relief Orders , IVAs and Bankruptcy as well as Breathing Space as they are all a common occurrence due to the current economic climate. The Fair Debt Policy will need to be written as such that all debts streams are incorporated including the different rules and regulations. OUTSTANDING		

Recommendation: A review of the terms of Debtor accounts should be undertaken to ascertain if it is possible or practical to add interest to unpaid invoices.		Risk and Timescale : Low - 3 months	Current Position: ONGOING
Position at Final Report	Deputy Chief Finance Officer A review of unpaid Debtor accounts will be conducted later in the year, taking into consideration that it might not be appropriate or acceptable to move forward with this during the ongoing pandemic. In terms of Commercial Debt, where businesses have turned to the council for assistance to stay afloat and trading during Covid19 pandemic, the financial impact of interest charges would be taken into consideration.		
Response at First Follow Up	Head of Property, Delivery and Compliance Via the relevant Strategic Property Boards, we agreed that we could enter into payment plans with tenants of up to 6 months on a case by case basis during the pandemic and we have not added interest on to those amounts due. Leases sometimes allow provision that we could add interest if we feel the situation is relevant, but the reality is that, particularly over the last 18 months, tenants have been struggling to such a degree that increasing the rent they owed would have likely seen them fail – leaving us with bigger issues of empty units.		

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<p>Response to Second Follow Up</p>	<p style="text-align: center;">Deputy Chief Finance Officer</p> <p>Interest has been added to one Asset historically due to non-payment of rent and a “clause” is now added to all new Leases written that Interest can be added for outstanding rent. This clause wasn’t always included in the Leases in the past so Interest may not be added in some cases .</p> <p>When the council provides a “Service” the Legal Contract signed by both parties at the time can include a Clause that “Interest” can be added due to Non-Payment . The Legal dept would have to comment on this and whether this “Clause” would be allowed.</p> <p style="text-align: center;">Audit Comment</p> <p>The Late Payment of Commercial Debts (Interest) Act 1998 allows the following:</p> <p style="text-align: center;"><u><i>When a payment becomes late</i></u></p> <p style="text-align: center;"><i>You can claim interest and debt recovery costs if another business is late paying for goods or a service.</i></p> <p style="text-align: center;"><i>If you agree a payment date, it must usually be within 30 days for public authorities or 60 days for business transactions.</i></p> <p style="text-align: center;"><i>You can agree a longer period than 60 days for business transactions - but it must be fair to both businesses.</i></p> <p style="text-align: center;"><i>If you do not agree a payment date, the law says the payment is late 30 days after either:</i></p> <ul style="list-style-type: none"><li style="text-align: center;">• <i>the customer gets the invoice</i><li style="text-align: center;">• <i>you deliver the goods or provide the service (if this is later)</i> <p style="text-align: center;">Deputy Chief Finance Officer</p> <p style="text-align: center;">Agreed – will work with the Debtors Team Leader to implement this.</p> <p style="text-align: center;">ONGOING</p>
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Recommendation: Investigation should be undertaken to ensure Aged Debt Analysis reports are available for all income streams and used for monitoring recovery of arrears.		Risk and Timescale : Low - 3 months	Current Position: ONGOING
Position at Final Report	<p style="text-align: center;">Business Applications Manager</p> <p>It will be investigated whether Open Revenues and Academy can support Aged Debt Analysis reporting requirements.</p>		
Response at First Follow Up	<p style="text-align: center;">Head of Customer First</p> <p>Ongoing investigations are taking place.</p>		
Response to Second Follow Up	<p style="text-align: center;">Head of Customer First</p> <p>This piece of work is still ongoing and I will work with IT BAU to get this in place as soon as possible. This requires work by our suppliers.</p> <p style="text-align: center;">ONGOING</p>		