



Building a Better Bournemouth

Internal Audit

**Follow Up Review
Final Report**

**Strategic Finance
Council Tax**

May 2015

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DISTRIBUTION LIST

Final Report to:

- Acting Executive Director, Finance
- Service Director, Strategic Finance
- Partnership Contract Manager
- Client Manager, Revenues & Benefits
- Partnership Service Delivery Director (Mouchel)
- Partnership Service Delivery Manager (Mouchel)
- Service Delivery Manager, Revenues & Benefits (Mouchel)

EXECUTIVE SUMMARY

REVIEW OPINION

At the time of the 2013/14 audit, Internal Audit could only provide **Limited Assurance** to Management on the effectiveness of the controls. This meant that there were weaknesses in the system of control which put service objectives at risk. This is equivalent to our revised Assurance rating and description of **Partial Assurance** as described in the Explanation of Review Opinion on page 28 of this report.

This Internal Audit review has been undertaken as a follow up review of the implementation of recommendations arising from the 2013/14 audit. In respect of this review, Internal Audit can only provide **Minimal Assurance** to Management on the effectiveness of the controls. This means that the risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk. The assurance rating has decreased due to high priority risks not being resolved and new issues being identified as a result of the follow-up process

All audit conclusions are signed off by the Head of Audit and Management Assurance to provide consistency and confirm that the opinion is appropriate given the issues identified in the audit.

SCOPE & DETAILED OPINION

This Internal Audit Follow-Up Review of Council Tax has been carried out in accordance with the Internal Audit Plan for 2014/15. Key risks to the delivery of the Service's objectives were defined at the outset of the audit.

The following table records the inherent or gross risk (the risk of exposure with no controls in place), the Auditor's assessment of the risk exposure after the 2013/14 review and the residual risk determined from testing undertaken as part of this follow up review.

Areas identified as significant corporate risks (i.e. those assessed as high risk areas) should be addressed as a matter of urgency.

Risks	Inherent Risk Assessment	Auditor's Assessment following 2013/14 Audit Review	Auditor's Assessment following 2014/15 Progress Review
There is a risk that valuation data is not correctly incorporated into the Council Tax system, resulting in incorrect bills being levied to customers.	High	Low	Not assessed *
There is a risk that billing information is not correct, not sent out on time or sent to the wrong customer.	High	Low	Not assessed *
There is a risk that Council Tax is not collected, refunded or reconciled in accordance with Legislation, local policies and Financial Regulations. [Section 1, pages 6 - 11]	High	High	High
There is a risk that discounts or exemptions are not correctly applied, or fraudulently obtained by customers. [Section 2, pages 12 - 15]	High	High	High
There is a risk that recovery, write-offs and enforcement is not undertaken in line with guidance, legislation or Financial Regulations. [Section 3, pages 16 - 20]	High	Medium	Medium
There is a risk that management information is incorrect or unsubstantiated. [Section 4, pages 21 - 23]	High	Not assessed **	Medium

* No weaknesses were found during the 2013/14 Internal Audit review, and therefore no recommendations were made in respect of these risks.

** This has been assessed as part of the 2014/15 follow up review at the request of the Acting Executive Director, Finance and as such no work was carried out on this risk as part of the 2013/14 Internal Audit review.

SUMMARY OF RECOMMENDATIONS & PRIORITIES

Impact	Number	Action
High	2	High priority recommendations identify weaknesses which have serious implications for the effective delivery of objectives and which must be addressed by management immediately. Monitoring of the effectiveness of the actions agreed is essential.
Medium	7	Medium priority recommendations identify weaknesses which have implications for the effective delivery of objectives and which must be addressed by management within a reasonable timescale. Monitoring of the effectiveness of the actions agreed is necessary.
Low	2	Low priority recommendations identify weaknesses which may have implications for the effective delivery of objectives and which management should address. Monitoring of the effectiveness of the actions agreed should be carried out.
Improvement Suggestions	0	Improvement suggestions identify enhancements which could support the achievement of objectives.

The **Action Plan on page 26** has been proposed by management to address these recommendations.

OVERVIEW

Council Tax was reviewed during 2013/14 and eight recommendations were made to improve the control framework. The purpose of this report is to provide assurance to management on the implementation of those recommendations and on any improvements to the control framework.

This report provides Management with a Green, Amber or Red traffic light summary of the progress made in implementing each recommendation and the current effectiveness of controls. Where implementation has been found to be incomplete, or additional weaknesses were identified, a recommendation for improvement is offered to assist in managing the risk.

It should be noted that, where our review has identified a continuing control weakness due to the failure to implement an agreed action, Internal Audit will require a further undertaking of corrective action from the appropriate manager. Management should note that failure to implement agreed actions arising from Internal Audit recommendations will result in the activation of the Escalation Procedures for Non-implemented Internal Audit Recommendations, as agreed at Audit and Governance Committee in December 2012. As such, the matter will be reported to the Service Director and subsequently the Section 151 Officer if the recommendation is not implemented.

Due reference was given throughout the audit to the possible risks of fraud and corruption that could occur within this service area.

We would like to thank all staff for their assistance and co-operation throughout the course of this audit.

REVIEW FINDINGS

Section 1: Collection, Refunds & Reconciliations

Risk	Risk assessment following 2013/14 audit	Risk assessment following 2014/15 follow up review
There is a risk that Council Tax is not collected, refunded or reconciled in accordance with Legislation, local policies and Financial Regulations	High	High

Recommendation from 2013/14 audit	Recommendation implemented?	Assessment of risk remaining
<p>1 It is recommended that in addition to existing promotions, the Council should continue to encourage direct debit as a method of payment as the most efficient and cost effective for the receipt of Council Tax. [Page 7]</p> <p>Priority rating: Low</p>	Yes	Low
<p>2 It is recommended that action is taken to reduce credit balances with immediate effect, and ensure that the highest value and most overdue credits are prioritised and refunded, wherever traceable, so as to help safeguard the council's reputation for fair tax collection. [Pages 8 - 9]</p> <p>Priority rating: High</p>	No	High
<p>3 It is recommended that the Client Team, in liaison with the Section 151 Officer, agree a policy which establishes appropriate criteria for the write on of credit balances where tax payers cannot be traced and credit balances refunded, and where a period exceeding 6 years has passed. [Page 10]</p> <p>Priority rating: Medium</p>	Partial	Medium
<p>4 It is recommended that a periodic review of credit balances is put in place to ensure that all refundable credit balances are appropriately repaid, with the write on of insignificant balances on closed accounts. [Page 11]</p> <p>Priority rating: Medium</p>	Partial	Medium

RECOMMENDATION 1:

Priority Rating: Low

It is recommended that in addition to existing promotions, the Council should continue to encourage direct debit as a method of payment as the most efficient and cost effective for the receipt of Council Tax.

Has the recommendation been implemented	Yes	Assessment of risk remaining	Low
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1.1 Direct Debits

1.1.1 At the conclusion of the 2013/14 audit, it was agreed with Mouchel Service Managers & the Partnership Revenue & Benefits Client Team that by 1 June 2014 the following actions would be carried out:

“Best practice amongst the Mouchel Service Line will be used initially to establish what actions may be taken to improve collection rates.

A direct debit flyer has been produced as part of an ongoing drive to increase direct debit payments. The percentage of direct debit payments will be monitored to ensure that actions taken are effective.”

1.1.2 It has been confirmed that a direct debit flyer was distributed with the Council Tax leaflets for the 2014/15 billing year. It has also been confirmed that the percentage of ratepayers paying via direct debit is being monitored by the Mouchel Council Tax team; however, this is not being reported to the Revenues & Benefits Client Monitoring Team.

1.1.3 During the review of the new arrangements, it was found that the percentage of Council Tax rate payers who paid by Direct Debit has decreased to 61.94% compared to 62.11% in April 2012. When looking at actual numbers of rate payers who pay by Direct Debit, this has risen across the same period from 53,751 to 54,627. The drop in percentage uptake is caused by the fact that the number of Council Tax properties has also risen, but at a higher rate than the uptake in Direct Debit payments.

1.1.4 It is recognised that there are 7,312 accounts which do not have to pay Council Tax but which are included in the number of properties used to calculate the above percentages. This comprises 2,412 student accounts and 4,900 accounts for pensioners who qualify for 100% Council Tax reduction, where the account holders are unlikely to provide their details to pay by Direct Debit as there is no bill to pay. If these were taken into account, then the percentage of rate payers who pay by Direct Debit would be higher.

1.1.5 It is also recognised that the individual circumstances of the rate payer may preclude them from paying by Direct Debit. For example, someone on low income or benefits may wish to pay by cash instead of Direct Debit in order to better manage their cash flow and prevent them from potentially incurring bank charges should a Direct Debit bounce.

1.1.6 It was also found that further work has been done to increase the percentage uptake for Direct Debit payments. An advert has been placed on the back of the Council Tax leaflet issued to all properties within the Bournemouth area, and in addition an advert has been placed in BH Life to this effect.

1.1.7 While appropriate action has been taken to encourage direct debit as a method of payment for Council Tax, action should continue to identify ways to promote Direct Debit as a method of payment. For example, this could be done through the Customer Services team encouraging direct debits to be set up when new Council Tax accounts are created.

RECOMMENDATION 2:

Priority Rating: High

It is recommended that action is taken to reduce credit balances with immediate effect, and ensure that the highest value and most overdue credits are prioritised and refunded, wherever traceable, so as to help safeguard the council's reputation for fair tax collection.

Has the recommendation been implemented	No	Assessment of risk remaining	High
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2.1 Credit balances

2.1.1 At the conclusion of the 2013/14 audit, it was agreed with Mouchel Service Managers that by 1 May 2014 the following actions would be carried out:

“A report to identify credit balances that have not been refunded will be run at least quarterly and refunds made where it is possible to do so. Where it is not possible to refund, action will be taken to write on credit balances to the Council (& see also Recommendations 3 & 4).”

2.1.2 It has been confirmed that a report to identify credit balances was run shortly after the 2013/14 audit was completed, and that this is still being reviewed to identify accounts where refunds can be made. Accounts coming into credit are now being dealt with as and when they arise, and an additional report was run on 10 March 2015 after the audit work had concluded. The review of writing on credits is covered more fully in Recommendation 4.

2.1.3 Credit balances can be raised in a variety of ways, including band changes for prior years which could result in a credit balance, or people moving away leading to difficulties in tracing them to refund an overpayment. It should be noted that during 2014/15 a total of 8,855 refunds have been processed for Council Tax rate-payers with a total value of £1.3m.

2.1.4 During the review of the new arrangements, a list of accounts in credit was requested. This report was run on 23 January 2015 and had a total of 10,384 accounts with credits ranging back to 1996 with a total value of £700,885. These were broken down by value as follows:

	Number of accounts	Total value
Credits under £100	8,302	£173,509
Credits between £100 and £1,000	2,049	£458,030
Credits between £1,000 and £10,000	31	£45,669
Credits over £10,000	2	£23,677
Total	10,384	£700,885

2.1.5 It should be noted that there is an additional credit balance of £118,994 which is not included in the table above. This balance relates to a charge placed on a property in order to recover outstanding debt. The property has been sold however the Council has received proceeds from the sale far in excess of the debt due. Efforts to trace the previous owner to return the excess funds have so far been unsuccessful.

2.1.6 Consequently, the Council is retaining funds which are not due and that these are distorting the true value of Council Tax debt. As a result, the previous recommendation is re-iterated with the priority rating remaining high and urgent action is required to address this recommendation.

R1 **Recommendation 1 - Responsibility: Mouchel Service Managers**

It is recommended that action is taken to reduce credit balances with immediate effect, and ensure that credits are refunded, wherever traceable, so as to help safeguard the council's reputation for fair tax collection.

Priority rating: High

Mouchel Management Comment Post Completion of Audit Review

Not all of the credits on the accounts will require a refund as many are to be transferred to the current year; therefore the outstanding balance is not as high as the report details. Also many credits are very small balances, under £10.00, and would be uneconomical to refund. Also refunds are made on a regular basis and over £1.3 million has been refunded during 14/15.

RECOMMENDATION 3:

Priority Rating: Medium

It is recommended that the Client Team, in liaison with the Section 151 Officer, agree a policy which establishes appropriate criteria for the write on of credit balances where tax payers cannot be traced and credit balances refunded, and where a period exceeding 6 years has passed.

Has the recommendation been implemented	Partial	Assessment of risk remaining	Medium
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3.1 Policy review

3.1.1 At the conclusion of the 2013/14 audit, it was agreed with the Partnership Revenues & Benefits Client Monitoring Team that by 1 June 2014 the following actions would be carried out:

“A policy which establishes appropriate criteria for the write on of credit balances where tax payers cannot be traced and where a period exceeding 6 years has passed will be drawn up for approval.”

3.1.2 During the audit review of the new arrangements, it was found that a proposal had been put forward to incorporate a policy for writing on credit balances within the corporate debt policy. Whilst the corporate debt policy was redrafted several months ago to include a section on writing on credit balances, it has not been approved and therefore not issued as at the time of the audit. If this policy is not in place, then appropriate refunds cannot be made. As a result, the previous recommendation is re-iterated with the priority rating remaining medium.

R2 Recommendation 2 - Responsibility: Partnership Revenues & Benefits Client Monitoring Team

It is recommended that the Client Team, in liaison with the Section 151 Officer, agree a policy which establishes appropriate criteria for the write on of credit balances where tax payers cannot be traced to refund credit balances, and where a period exceeding 6 years has passed.

Priority rating: Medium

RECOMMENDATION 4:

Priority Rating: Medium

It is recommended that a periodic review of credit balances is put in place to ensure that all refundable credit balances are appropriately repaid, with the write on of insignificant balances on closed accounts.

Has the recommendation been implemented	Partial	Assessment of risk remaining	Medium
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4.1 Review of credit balances

4.1.1 At the conclusion of the 2013/14 audit, it was agreed with Mouchel that by 1 June 2014 the following actions would be carried out:

“A report of credit balances will be run at least quarterly and checked and refunds made where it is possible to do so. Where it is not possible to refund action will be taken to write on credit balances to the Council (& see also Recommendation 2)”

4.1.2 It was found that a credit balance report was run shortly after the 2013/14 audit was completed with refunds being made where possible, but no further reports have been run.

4.1.3 During March 2015, it was found that 14 accounts with a total credit balance of £4,057 had been written on, however as identified in Recommendation 2 there remain 10,371 accounts with a total credit balance of £815,821. Furthermore, it was noted that there were a total of 3,593 accounts older than 6 years with a total credit balance of £267,470. If the policy recommended as per Recommendation 3 was in place, these would be written on unless action to trace the rate payer was successful.

4.1.4 It has been noted that bulk write-ons for credit balances that have been on Council Tax accounts for a prolonged period of time have been prepared. These, however, have not been processed due to the policy for write-ons not having been formally approved and adopted at this point in time. As a result, the previous recommendation is re-iterated with the priority rating remaining medium.

R3 Recommendation 3 - Responsibility: Mouchel Service Managers

It is recommended that a periodic review of credit balances is put in place to ensure that all refundable credit balances are appropriately repaid, with the write on of insignificant balances on closed accounts.

Priority rating: Medium

Section 2: Discounts & Exemptions

Risk	Risk assessment following 2013/14 audit	Risk assessment following 2014/15 follow up review
There is a risk that discounts or exemptions are not correctly applied, or fraudulently obtained by customers.	High	High

Recommendation from 2013/14 audit	Recommendation implemented?	Assessment of risk remaining
<p>5 It is recommended that in the event of nil returns from student accommodation confirming the names of residents, and their status as students, further verification should be sought from the university or college, as appropriate. [Page 13]</p> <p>Priority rating: Medium</p>	Partial	Medium
<p>6 It is recommended that where Single Person Discount is applied, periodic sample verification is undertaken to confirm eligibility. [Pages 14 - 15]</p> <p>Priority rating: High</p>	No	High

RECOMMENDATION 5:

Priority Rating: Medium

It is recommended that in the event of nil returns from student accommodation confirming the names of residents, and their status as students, further verification should be sought from the university or college, as appropriate.

Has the recommendation been implemented	Partial	Assessment of risk remaining	Medium
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5.1 Student discounts

5.1.1 At the conclusion of the 2013/14 audit, it was agreed with Mouchel that by 1 June 2014 the following actions would be carried out:

“Five student lists are received each year from nearby colleges and universities. Further verification will be made with the relevant educational establishment in the event of a nil return.

Where student exemptions are requested from students who are not enrolled with the main 5 institutions, procedures will be developed to ensure discount is only given where a student certificate is provided as evidence or other checks made with the educational establishment concerned. Exemption will either not be granted or withdrawn where it is not possible to establish entitlement.”

5.1.2 During the review it was found that Bournemouth University did not provide their list of students who enrolled in the autumn of 2014 until January 2015. As Bournemouth University is the largest academic institution in Bournemouth, Mouchel Service Managers determined it was appropriate to wait until the lists from all academic institutions were received.

5.1.3 At the time of writing this report the verification of student entitlement to Council Tax discount has not been verified against the lists because of resourcing conflicts due to the annual billing process. It has been confirmed that the intention of Mouchel Service Managers is to carry out a review in April as any student likely to leave mid-year would have done so by this point. However, the opportunity to prevent the fraudulent claiming of student Council Tax discount prior to this point is lost. This could lead to issues with debt collection, especially where Bournemouth has a high proportion of students for whom it may be difficult to pursue these debts.

R4 Recommendation 4 - Responsibility: Partnership Revenues & Benefits Client Monitoring Team

It is recommended that a clear timetable is set for the review of student status to be carried out in the 2015/16 financial year, to mitigate against adverse issues for collection of Council Tax resulting from the delayed identification of erroneous or fraudulent student statuses.

Priority rating: Medium

5.1.4 It has been noted that if students wish to claim student status but are not registered at one of the five major academic institutions, then a student certificate must be provided before the status and exemption are granted. If no evidence is provided then the student will be liable for the full amount of Council Tax.

RECOMMENDATION 6:

Priority Rating: High

It is recommended that where Single Person Discount is applied, periodic sample verification is undertaken to confirm eligibility.

Has the recommendation been implemented	No	Assessment of risk remaining	High
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6.1 Single person discount

6.1.1 At the conclusion of the 2013/14 audit, it was agreed with Mouchel Service Managers and the Partnership Revenues & Benefits Client Monitoring Team that by 1 July 2014 the following actions would be carried out:

“Professional advice will be sought from Internal Audit regarding appropriate sampling techniques and the frequency of checks. Procedures will be amended accordingly to ensure this process reflects the process agreed with Internal Audit.”

6.1.2 It has been confirmed that no advice was sought from Internal Audit relating to sampling techniques and check frequency.

6.1.3 It has been confirmed that during 2014/15 a review of Single Person Discounts (SPDs) against the electoral roll was carried out as part of the annual National Fraud Initiative (NFI). This reviewed a total of 2,158 cases which resulted in 253 changes, saving the Council £88,084 in inappropriate discount, however it is noted that this review was limited as it only considered the electoral roll. No other review has been carried out as at the time of this follow-up review. During 2014, the Council was in discussions with Capita to provide a bulk review of the discounts in place in partnership with other Councils in Dorset; however, this project did not go ahead due to concerns raised by Legal Services over data sharing. An agreement has recently been reached with Mouchel whereby they will carry out the SPD review originally planned with Capita. The project will start at the beginning of the 2015/16 financial year where the maximum financial gain will be achieved.

6.1.4 During the review no evidence has been found to demonstrate that any alternative action is being taken to review new SPD applications, nor that SPDs currently being applied are being reviewed to identify errors or cases of fraud.

6.1.5 Work was carried out to consider the potential impact that SPD errors and fraud could have on the resources available to the Council. Research undertaken by the Audit Commission has concluded that the average SPD fraud and error rate is between 4% and 6%, with an average annual value of £362 per incorrect SPD. When applied to the number of SPDs that the Council currently applies (around 32,000), there could potentially be 1,600 cases where SPD is being incorrectly applied, equating to a potential annual loss in revenue of £579,200.

6.1.6 While a review of SPDs was completed by the Mouchel Service Managers in 2010 - 2011, this was an isolated review and has not formed part of regular quality assurance practices. As such, it is difficult for Mouchel Service Managers to evidence that the application of discounts is accurate and valid as per the contract service schedule.

6.1.7 Based on the evidence and work detailed above, the previous recommendation is re-iterated with the priority rating remaining as high.

R5 **Recommendation 5 - Responsibility: Partnership Revenues & Benefits Client Monitoring Team**

It is recommended that periodic sample verification is undertaken to ensure that the SPD review is carried out efficiently and effectively.

Priority rating: High

Section 3: Recovery, Write-offs & Enforcement

Risk	Risk assessment following 2013/14 audit	Risk assessment following 2014/15 follow up review
There is a risk that recovery, write-offs and enforcement is not undertaken in line with guidance, legislation or Financial Regulations.	Medium	Medium

Recommendation from 2013/14 audit	Recommendation implemented?	Assessment of risk remaining
<p>7 It is recommended that recovery requiring bailiff action should be dealt with on a timely basis with no account in arrears being left unaddressed. [Page 17]</p> <p>Priority rating: Medium</p>	Yes	Low
<p>8 It is recommended that all debts which are unrecoverable, out of time, or unable to be assigned to a traceable person, be written off. [Pages 18 - 20]</p> <p>Priority rating: Medium</p>	Partial	Medium

RECOMMENDATION 7:

Priority Rating: Medium

It is recommended that recovery requiring bailiff action should be dealt with on a timely basis with no account in arrears being left unaddressed.

Has the recommendation been implemented	Yes	Assessment of risk remaining	Low
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7.1 Review of arrears actions

7.1.1 At the conclusion of the 2013/14 audit, it was agreed with Mouchel and the Revenues & Benefits Client Monitoring Team that by 1 July 2014 the following actions would be carried out:

“Bailiff allocation lists are produced from each Court. Each list will have sample checks made by a Senior Officer to minimise the risk of cases not being passed to the Enforcement Officer.”

7.1.2 It was confirmed that sample checks have been carried out during 2014/15. As such, this recommendation has been implemented and has effectively mitigated the risk.

RECOMMENDATION 8:

Priority Rating: Medium

It is recommended that all debts which are unrecoverable, out of time, or unable to be assigned to a traceable person, be written off.

Has the recommendation been implemented	Partial	Assessment of risk remaining	Medium
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8.1 Review of debts for write off

8.1.1 At the conclusion of the 2013/14 audit, it was agreed with Mouchel Service Managers and the Partnership Revenues & Benefits Client Monitoring Team that by 1 July 2014 the following actions would be carried out:

“Bulk write offs for earlier years will be produced and submitted for approval.”

8.1.2 It has been confirmed that write offs have been carried out for April through to July 2014. A sample of the write offs were tested and were confirmed to be supported by sufficient evidence and appropriately authorised.

8.1.3 It has been found that while write-offs have been submitted since July 2014, due to the corporate wide work being carried out on the Council’s debt management processes, the format of the write-off submissions was in the process of being amended. The new format was agreed by the Service Director, Strategic Finance for immediate implementation in November 2014. As at the date of the audit, no write offs for the period post July 2014 had been authorised. It has been noted, however, that all write-offs up to the end of January 2015 were authorised at the end of March 2015.

8.1.4 The arrears total for Council Tax accounts as at 31 March 2015 was £10.323m. There is an additional £1.552m of additional costs for items such as bailiff fees or court costs, which results in a total outstanding debt of £11.875m.

8.1.5 It has been noted that there are still outstanding balances dating back to 1996/97 which have not been written off or on (in the case of credit balances). These debts are 19 years old and if not recoverable, should have been written off.

R6 Recommendation 6 - Responsibility: Partnership Revenues & Benefits Client Monitoring Team & Mouchel Service Managers

It is recommended that the Mouchel Service Managers prepare write-offs in accordance with the evidential requirements of the Section 151 officer and in compliance with the new format agreed in November 2014. The Partnership Revenues & Benefits Client Monitoring Team should ensure that all requirements are being met prior to the write-offs being passed to senior management for approval.

Priority rating: Medium

8.2 Debt comparison

8.2.1 Given the findings above, it was decided to assess Bournemouth’s performance in recovering Council Tax debt compared against other authorities. Figures were obtained from central government which showed the levels of Council Tax debt for all local authorities in England as at 31 March 2014. The level of debt for Bournemouth as per above and agreed to Central Government

figures was £11.802m with a total number of dwellings liable for Council Tax of 87,911. Consequently, the total debt per dwelling in Bournemouth is £134.

8.2.2 When compared against other local authorities in the country, Bournemouth is ranked 274th out of 326, where the authority ranked 1st has the least debt per dwelling (£14 per dwelling) and the authority ranked 326th has the most debt per dwelling (£450 per dwelling).

8.2.3 When compared to the CIPFA nearest neighbours group, Bournemouth is ranked 15th out of 16 authorities where the authority ranked 1st had debt of £41 per dwelling and the authority ranked 16th had debt of £139 per dwelling as set out in Table 1 below.

8.2.4 It should be noted that there are other factors that could influence the Council Tax collection rate and the arrears per dwelling, such as the differing Local Council Tax Reduction Schemes (LCTRS) in place across authorities and the deprivation indices. These statistics, along with the collection rate and arrears per dwelling, are compiled in Table 1 on page 21 of this report.

8.3 Payment allocation

8.3.1 During the audit review, the methodology for allocating payments to debts was considered. This is important when the rate payer has outstanding debts in prior years as well as in the current one, as the Council has to decide which debt to allocate the payment to.

8.3.2 There are three methods through which payments can be allocated:

- If the amount of the payment forms part of an instalment plan or a specific arrangement, then the payment must be allocated to that debt.
- If the debtor states or implies that the payment must be allocated to a specific debt, then the Council must abide by their wishes.
- If the amount does not indicate which debt it should be allocated to, and the debtor has not specified either, then it is up to the Council to decide.

8.3.3 Currently, the process followed by the Council Tax team is that payments which do not form part of an agreed instalment plan or arrangement, nor have had anything specified by the debtor, are allocated to the newest debt first rather than to prior year debt; which is, by its very age, more difficult to recover.

8.3.4 There are clear disadvantages to the Council arising from this method of allocation; namely that this does not reduce the outstanding Council Tax debt from prior years, resulting in older debt which is more difficult to collect and increasing the likelihood that the debt will be written off when it is more than six years old. Conversely, allocating income against the current year debt improves the in year Council Tax collection rate, which is the only KPI currently in place for assessing the performance of the Council Tax function.

R7 Recommendation 7 - Responsibility: Partnership Revenues & Benefits Client Monitoring Team and Mouchel Service Managers

It is recommended that, as directed by the Section 151 Officer, payments which are not linked to a specific debt should, where payment systems allow, be allocated to the oldest debt first. This will ensure that recovery is targeted at debts which are more difficult to collect.

Priority rating: Medium

Mouchel Management Comment Post Completion of Audit Review

Many debtors have previous year debts with Enforcement Agents, an attachment to earnings or benefit and also have a payment arrangement with us for the current year. If the system is set to put payments into the old year, the payment would have to exactly match the instalment plan for the current year otherwise the payment would go to the old debt and the recovery team would have to manually transfer the payment either to the Enforcement Agents or to the current year. This is a time consuming process and would require additional staff resources. It would also make it difficult to monitor the debt that has been sent to the Enforcement Agents and would cause confusion for customers

Table 1 - Council Tax collection rate, debt per dwelling, LCTRS scheme and deprivation indices - for local authorities in Bournemouth Borough Council's nearest neighbours group

Local Authority	Council Tax Collection Rate 2013-14 (%)	Number of Dwellings as at September 2013	Total Council tax arrears as at 31 March 2014 (£m)	Total Council tax arrears per dwelling	Position in benchmarking group (based on arrears per dwelling)	LCTRS scheme (%)	Deprivation index
Poole	98.1	67,267	2.767	41	1	8.5	187
York	97.6	86,188	5.495	64	2	30.0	241
Isle of Wight Council	97.7	69,216	4.436	64	3	8.5	101
Bristol	96.1	192,247	12.880	67	4	0.0	93
Southend-on-Sea	97.1	79,252	5.476	69	5	25.0	117
Plymouth	95.8	115,851	8.386	72	6	25.0	80
Northumberland UA	97.5	147,639	11.723	79	7	0.0	144
Torbay	94.9	65,379	5.462	84	8	25.0	49
Southampton	95.1	101,898	10.559	104	9	8.5	72
North Tyneside	96.5	94,946	10.740	113	10	7.0	124
Sefton	96.2	125,464	14.219	113	11	20.0	114
Wirral	95.4	146,137	16.887	116	12	22.0	103
Brighton & Hove	97.1	126,702	14.942	118	13	8.5	67
North Somerset	97.5	92,740	11.201	121	14	22.0	224
Bournemouth	96.4	87,911	11.802	134	15	20.0	96
Stockport	96.6	126,522	17.534	139	16	0.0	167

Please note the following:

- 1) The percentage shown for the LCTRS scheme is the minimum amount of Council Tax that rate payers on benefits must pay; and
- 2) The deprivation index is calculated by DCLG on a regular basis. The last indices released relate to 2010, and it should also be noted that the authority with a deprivation index of 1 is the most deprived and with 326 is the least deprived.

Section 4: Additional Testing - 2014/15

RISK 6: There is a risk that management information is incorrect or unsubstantiated.

9.1 Collection Rates

9.1.1 At the request of the Acting Executive Director - Finance, the method of calculation for Council Tax collection rates (KPI1) was reviewed to ensure that it was appropriate and that liabilities or credits were excluded or included correctly. Furthermore, the collection rates reported in the monthly highlight report were reviewed to ensure that they were accurate and could be evidenced.

9.1.2 The statistics used in Table 1 to compare Bournemouth Borough Council's performance against other authorities was reordered in Table 2 below to compare Council Tax collection rates instead of debt per dwelling.

9.1.3 It has been confirmed that the following methodology is used to calculate the collection rate for Council Tax:

Estimated net collectible debt:

	Total property charge (Council Tax base)	A
LESS	Total Local Council Tax Reduction	(B)
LESS	Total transfers	<u>(C)</u>
		D

Total receipt of Council Tax for year to date:

	Total payments made in year	E
LESS	Total refunds	(F)
LESS	Payments relating to additional costs	(G)
LESS	Direct Debits relating to following month	<u>(H)</u>
		I

Council Tax collection rate:

$$\frac{\text{Total Receipt of Council Tax for year to date [I]} \times 100}{\text{Estimated net collectible debt [D]}}$$

9.1.4 The review of the methodology for calculating the Council Tax collection rate found that it is reasonable. However, it was noted that additional costs incurred during the year by ratepayers, such as costs for court summonses or bailiff costs, were not added to the net collectible debt calculation. The rationale for this was that payments received against costs do not count against the calculated tax base; i.e. payments made by rate payers who have incurred additional costs are first allocated to those costs before allocation to the original debt, but not including these costs does not provide a true representation of the total debt in respect of Council Tax outstanding.

R8 Recommendation 8 - Responsibility: Partnership Revenues & Benefits Client Monitoring Team & Mouchel Council Tax Team

It is recommended that the Mouchel Council Tax Team ensure that additional costs in respect of Council Tax, and payments made against these costs, are reported to the Revenues & Benefits Client Monitoring Team and Service Director, Strategic Finance, on a regular basis. This will ensure that the full extent of Council Tax debt is disclosed.

Priority rating: Medium

9.1.5 Testing confirmed that the methodology above was followed when calculating the Council Tax collection rates reported in the Partnership Revenues & Benefits highlight report. However, it was found that while the collection rate calculation correctly used the estimated net collectible debt, which takes account of in-year changes to the Council Tax portfolio, the narrative to the report shows the Council Tax funding requirement at the start of the financial year. Consequently the values reported in the narrative do not equate to the reported collection rate.

9.1.6 It is appropriate to report the amount of estimated net collectible debt as well as the Council Tax funding requirement in the narrative to the highlight report, so as to present a truer picture of the Council Tax debt owed to the Council.

R9 Recommendation 9 - Responsibility: Mouchel Council Tax Team

It is recommended that the amount of estimated net collectible debt, as well as the Council Tax funding requirement, is reported in the narrative to KPI 1 on the highlight report each month.

Priority rating: Low

9.1.7 After the initial audit work was completed, the collection rate as at 31/03/15 was reported to be 96.9%, and the Council Tax debt at this point was confirmed to be £88,922,756. When applying the collection rate to the Council Tax debt, this gives a collected sum of £86,166,151. This is £560,587 less than the Council Tax funding requirement of £86,726,738. It is noted that the Council Tax team do seek to collect arrears from previous years, thus increasing the income in-year and enabling the Council Tax bases for those years to be met. However, there is a risk that the collection of prior year debt will not match the difference between the collection rate and the Council Tax funding requirement, thus resulting in a shortfall of funding.

R10 Recommendation 10 - Responsibility: Service Director, Strategic Finance

It is recommended that the Service Director, Strategic Finance, continues to consider the risk that the collection of prior years' arrears will not match the gap between the collection rate and the Council Tax funding requirement and continues to seek ways to mitigate this.

Priority rating: Low

9.2 Credit balances and collection rates

9.2.1 The audit review found that the amount of estimated net collectible debt used to calculate the collection rate includes credit balances on in-year accounts. As these credits reduce the amount to be collected, the collection rate is being overstated. Although the Government requires that these credits are used in calculating the collection rate reported to DCLG, from a contract management perspective it is more appropriate to not include these credit balances.

9.2.2 As at 23 January 2015, there were 1,940 credit balances on accounts relating to 2014/15 with a total balance of £139,801. Consequently if the credit balances remained the same and 100% of the collection rate target was achieved, this would result in income of £85,834,475 rather than £85,974,276 as expected when estimating the collection rate.

R11 Recommendation 11 - Responsibility: Mouchel Council Tax Team

It is recommended that all figures used in calculating the internally reported collection rate are gross instead of net as credits do not represent income receivable.

Priority rating: Medium

Mouchel Management Comment Post Completion of Audit Review

This would be an additional, manual and time consuming process. Whilst the credit balances may be calculated on a monthly basis, some of the credits may be for previous years and which had not been transferred at the time of the report (therefore overstating previous years' debts). They could also be the result of additional LCTR being paid, which would be refunded the following month. Changing the calculation would increase administration and cause confusion between internally and externally reported figures. It would create difficulty in benchmarking against other LAs.

Table 2 - Council Tax collection rate, debt per dwelling, LCTRS scheme and deprivation indices - for local authorities in Bournemouth Borough Council's nearest neighbours group

Local Authority	Council Tax Collection Rate 2013-14 (%)	Position in benchmarking group (based on Council Tax collection rate)	Number of Dwellings as at September 2013	Total Council tax arrears as at 31 March 2014 (£m)	Total Council tax arrears per dwelling	LCTRS scheme (%)	Deprivation index
Poole	98.1	1	67,267	2.767	41	8.5	187
Isle of Wight Council	97.7	2	69,216	4.436	64	8.5	101
York	97.6	3	86,188	5.495	64	30.0	241
Northumberland UA	97.5	4	147,639	11.72	79	0.0	144
North Somerset	97.5	5	92,740	11.2	121	22.0	224
Southend-on-Sea	97.1	6	79,252	5.476	69	25.0	117
Brighton & Hove	97.1	7	126,702	14.94	118	8.5	67
Stockport	96.6	8	126,522	17.53	139	0.0	167
North Tyneside	96.5	9	94,946	10.74	113	7.0	124
Bournemouth	96.4	10	87,911	11.8	134	20.0	96
Sefton	96.2	11	125,464	14.22	113	20.0	114
Bristol	96.1	12	192,247	12.88	67	0.0	93
Plymouth	95.8	13	115,851	8.386	72	25.0	80
Wirral	95.4	14	146,137	16.89	116	22.0	103
Southampton	95.1	15	101,898	10.56	104	8.5	72
Torbay	94.9	16	65,379	5.462	84	25.0	49

ACTION PLAN - Council Tax Follow Up Review 2014/15

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Responsibility	Management Response	Responsible Officer and Target Date
R1	2.1	Action to reduce credit balances has not been taken.	It is recommended that action is taken to reduce credit balances with immediate effect, and ensure that credits are prioritised and refunded, wherever traceable, so as to help safeguard the council's reputation for fair tax collection.	High	Mouchel Service Managers	Work has already begun reviewing each of the credit balance accounts, starting with the higher value cases. In addition a timetable has been drawn up of all of the Council Tax reports that are needed and the credit balances report is included in this.	<p>Mouchel Revenues & Benefits Manager</p> <ul style="list-style-type: none"> To clear the current credits by 31st October 2015 Deal with new credits raised on a monthly basis Beginning June 2015
R2	3.1	The policy for writing on credit balances has not been approved or issued.	It is recommended that the Client Team, in liaison with the Section 151 Officer, agree a policy which establishes appropriate criteria for the write on of credit balances where tax payers cannot be traced to refund credit balances, and where a period exceeding 6 years has passed.	Medium	Partnership Revenues & Benefits Client Monitoring Team	The Corporate Debt Policy has been amended to include the writing on of credit balances. This part of the Policy has been agreed with the Service Director - Strategic Finance but is undergoing further amendment to cover other areas pending formal approval.	<p>Client Team Manager</p> <p>30th June 2015</p>

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Responsibility	Management Response	Responsible Officer and Target Date
R3	4.1	Credit balances for Council Tax accounts do not appear to have been sufficiently reviewed or written off.	It is recommended that a periodic review of credit balances is put in place to ensure that all refundable credit balances are appropriately repaid, with the write on of insignificant balances on closed accounts.	Medium	Mouchel Service Managers	A timetable has been drawn up of all of the Council Tax reports that need to be run and the credit balances are included in this. This report will be dealt with on a monthly basis by a Revenues Team Leader.	Mouchel Revenues & Benefits Manager 30 th June 2015 and then ongoing each month
R4	5.1	Student statuses have not been reviewed during the 2014/15 financial year.	It is recommended that a clear timetable is set for the review of student status to be carried out in the 2015/16 financial year, to mitigate against adverse issues for collection of Council Tax resulting from the delayed identification of erroneous or fraudulent student statuses.	Medium	Partnership Revenues & Benefits Client Monitoring Team	<u>Partnership Client Monitoring Team</u> Work has already commenced on this. The Client Team has requested various management information from Mouchel which has been delivered and now needs to be analysed to produce a clear plan of action. <u>Mouchel Service Managers</u> A timetable has been drawn up of all of the Council Tax reports that need to be run and the student reviews are included in this. The action plan will be implemented once developed by the Partnership Client Monitoring Team.	Client Team Manager 31 st July 15 Mouchel Revenues & Benefits Manager Ongoing

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Responsibility	Management Response	Responsible Officer and Target Date
R5	6.1	Action to review SPDs has not been taken.	It is recommended that periodic sample verification is undertaken to ensure that the SPD review is carried out efficiently and effectively.	High	Partnership Revenues & Benefits Client Monitoring Team	<p><u>Partnership Client Monitoring Team</u></p> <p>The NFI SPD data match is underway. A sample check of the results will be undertaken during July 2015 when all the responses should have been received from the customers.</p> <p>For ongoing SPD the Client Team will obtain a list of SPD's awarded each quarter. A register will be maintained by the Client Team of the checks carried out by the Partner on a random sample of SPD's awarded. The results of those checks will be fed back to the Partner.</p> <p><u>Mouchel Service Managers</u></p> <p>The SPD review has begun with 1,200 non CTR cases currently being reviewed following comparison between the electoral role and council tax records. The Fraud team are looking at the CTR cases and will pass details of any discrepancies to be amended. This is an annual review and happens each April/May. In addition to this a more substantial review is due to start by the end of May 2015</p>	<p>Client Team Manager</p> <p>To start by 30th June 2015</p> <p>Client Team Manager</p> <p>Immediately</p> <p>Mouchel Revenues & Benefits Manager</p> <p>Review started May 2015 which is due to be completed by 31st August 2015</p>

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Responsibility	Management Response	Responsible Officer and Target Date
R6	8.1	Write offs have not been carried out since July 2014.	It is recommended that the Mouchel Service Managers prepare write-offs in accordance with the evidential requirements of the Section 151 officer and in compliance with the new format agreed in November 2014. The Partnership Revenues & Benefits Client Monitoring Team should ensure that all requirements are being met prior to the write-offs being passed to senior management for approval.	Medium	Partnership Revenues & Benefits Client Monitoring Team & Mouchel Service Managers	<p><u>Partnership Client Monitoring Team</u></p> <p>Bulk write offs for years 2001 to 2007 years have been submitted on 27th April 2015 and approved. Ongoing write offs are being submitted each months.</p> <p><u>Mouchel Service Managers</u></p> <p>The evidential requirements have been noted and the write off requests are completed on a monthly basis in accordance with the policy.</p>	<p>Client Team Manager</p> <p>Completed and ongoing</p> <p>Mouchel Revenues & Benefits Manager</p> <p>Completed</p>
R7	8.3	Payments which are not made against a specific debt are allocated to the most recent debt first.	It is recommended that, as directed by the Section 151 Officer, payments which are not linked to a specific debt should, where payment systems allow, be allocated to the oldest debt first. This will ensure that recovery is targeted at debts which are more difficult to collect.	Medium	Partnership Revenues & Benefits Client Monitoring Team and Mouchel Service Managers	<p>Instruction will be obtained from the Section 151 Officer, and appropriate liaison undertaken with the Mouchel Partnership Team.</p>	<p>Client Team Manager</p> <p>30th June 15</p>

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Responsibility	Management Response	Responsible Officer and Target Date
R8	9.1	The debt reported in the highlight report does not include any additional costs incurred due to arrears actions etc	It is recommended that the Mouchel Council Tax Team ensure that additional costs in respect of Council Tax, and payments made against these costs, are reported to the Revenues & Benefits Client Monitoring Team and Service Director, Strategic Finance, on a regular basis. This will ensure that the full extent of Council Tax debt is disclosed.	Medium	Partnership Revenues & Benefits Client Monitoring Team & Mouchel Service Managers	<p><u>Partnership Client Monitoring Team</u></p> <p>The Client Team will ensure that costs raised and cash collected towards costs are received each month as management information to the Highlight Report.</p> <p><u>Mouchel Service Managers</u></p> <p>The value of payments made to the value of costs and the percentage paid across the years since 2005, is provided to the R&B Client Monitoring Team in a spreadsheet in the Client Team folder. The Client Monitoring Team were not aware of this and have now been made aware.</p>	<p>Client Team Manager</p> <p>30th June 15</p> <p>Mouchel Revenues & Benefits Manager</p> <p>Completed</p>
R9	9.1	The amount of Council Tax debt reported on the highlight report in the narrative to KPI1 does not reflect the true amount of debt as at the time of reporting.	It is recommended that the amount of estimated net collectible debt, as well as the Council Tax funding requirement, is reported in the narrative to KPI 1 on the highlight report each month.	Low	Mouchel Service Managers	Clarification of what the Client requires on the highlight report has been sought and agreed and the agreed format has commenced with the April edition.	<p>Mouchel Revenues & Benefits Manager</p> <p>Completed</p>

Ref	Report Ref	Finding / Issue	Recommendation	Priority Rating	Responsibility	Management Response	Responsible Officer and Target Date
R10	9.1	The current method of calculating the Council Tax base requirement requires a higher collection rate than has been reached in previous years, meaning that the Council is underfunded in-year.	It is recommended that the Service Director, Strategic Finance, continues to consider the risk that the collection of prior years' arrears will not match the gap between the collection rate and the Council Tax funding requirement and continues to seek ways to mitigate this.	Low	Service Director, Strategic Finance	This is considered as part of the annual process for creating the Medium Term Financial Plan	Strategic Director, Strategic Finance 31 st December 2015
R11	9.2	Credit balances are currently offset against debt, concealing the true amount of Council Tax debt that the Council has.	It is recommended that all figures used in calculating the internally reported collection rate are gross instead of net as credits do not represent income receivable.	Medium	Mouchel Service Managers	A response was received from Mouchel, however further discussion with the Partnership Client Monitoring Team Manager identified that the current reporting of figures is acceptable provided credit balances are adequately managed. Therefore, management are content to tolerate the risk highlighted by this recommendation.	N/A

EXPLANATION OF REVIEW OPINION

Review Opinion

Substantial Assurance

There is sound risk management, internal control and governance processes which are designed to achieve the service objectives, with key controls being consistently applied.

Reasonable Assurance

Whilst there is basically sound risk management, internal control and governance processes, there are some weaknesses which may put service objectives at risk.

Partial Assurance

There are weaknesses in the risk management, internal control and governance processes which are putting service objectives at risk.

Minimal Assurance

The risk management, internal control and governance processes are generally poor and as such service objectives are at significant risk.