

	<h2>Audit Committee</h2> <h3>30th July 2015</h3>
<p style="text-align: center;"><b>Title</b></p>	<p><b>Direct Debit Collections – April 2015</b></p>
<p style="text-align: center;"><b>Report of</b></p>	<p>Chief Operating Officer and Director of Finance</p>
<p style="text-align: center;"><b>Wards</b></p>	<p>All</p>
<p style="text-align: center;"><b>Date added to Forward Plan</b></p>	<p>30 April 2015</p>
<p style="text-align: center;"><b>Status</b></p>	<p>Public</p>
<p style="text-align: center;"><b>Enclosures</b></p>	<p>Not Applicable</p>
<p style="text-align: center;"><b>Officer Contact Details</b></p>	<p>Paul Thorogood – Assistant Director, CSG Finance Service Paul.Thorogood@capita.co.uk</p>

<h2>Summary</h2>
<p>At the Audit Committee meeting on the 30<sup>th</sup> April 2015 the committee resolved to request information regarding the direct debit collection failure which occurred at the beginning of April 2015, and its impact on Barnet Homes for rental and leaseholder income.</p> <p>There were three separate incidents that occurred which impacted on Barnet Homes at the beginning of the financial year. Even though these three incidents weren't directly related it is unfortunate that they have all impacted on housing tenants.</p> <p>The three incidents were:</p> <ul style="list-style-type: none"> <li>• The failure of the direct debit run for rental payments on the 1st April 2015 which had to be subsequently collected on the 20th April 2015</li> <li>• Paypoint income transactions not passing through correctly from the cash management system to the rent and service charge system</li> <li>• The Department for Work and Pensions (DWP) income transactions not passing through correctly from the cash management system to the rent and service charge system</li> </ul>

The detail of each of these three incidents is set out within the body of the report.

## **Recommendations**

### **1. The Committee are asked to note the content of this report.**

#### **1. WHY THIS REPORT IS NEEDED**

1.1 At the Audit Committee held on the 30<sup>th</sup> April 2015 Members asked for a report to be brought to their next meeting regarding the direct debit failure which arose for Barnet Homes tenants at the beginning of the financial year.

#### **1.2 BACKGROUND INFORMATION**

1.2.1 During April 2015, there were three separate incidents that occurred which impacted on the collection of income by Barnet Homes for tenants. Even though these three incidents aren't directly related it is unfortunate that they have all impacted on housing tenants who either pay rent or service charges.

1.2.2 The three incidents were:

- The failure of the direct debit run for rental payments on the 1st April 2015 which had to be subsequently collected on the 20th April 2015
- Paypoint income transactions not passing through correctly from the cash management system to the rent and service charge system
- The Department for Work and Pensions (DWP) income transactions not passing through correctly from the cash management system to the rent and service charge system

The detail of each of these incidents is set out in detail below.

#### **1.3 DIRECT DEBIT FAILURE**

##### **1.3.1 The Incident**

On 1st April 2015 rents were due to be collected from Barnet Homes tenants by direct debit. A small number of calls (estimate of seven) had been received on the day to advise that the collection had not happened.

The potential failure was raised by Barnet Homes to the Bank Project Team who were overseeing the transition from the Cooperative Bank to the Royal Bank of Scotland.

On reviewing the report available on the national BACS processing service portal there was no evidence of the failure and the full expected receipt could be seen in the Council's bank account. However it normally takes up to 48-96

hours for failures to be notified through the banking service. It was agreed that a watching brief would be maintained until there was evidence from the bank or BACS processing which showed there was a failure.

On the 2nd April 2015, the BACS processing report indicated that the majority of the file had failed and therefore the incident was escalated within the Council and urgent focus was given to finding the cause and seeking a resolution.

### **1.3.2 The Cause**

Through investigation with both the Cooperative Bank and the Royal Bank of Scotland it was identified that all the direct debits had been cancelled by BACS processing and therefore it was not possible to take advantage of the option to rerun the direct debit in line with the Direct Debit Guarantee. The guarantee allows for the legal collection of the income up to four working days after the date specified.

At the beginning of February 2015 the Sundry Debtor team went live with AUDDIS (the automated direct debit instruction service). This system enables the information to be submitted electronically into BACS processing and new mandates to be entered by staff over the phone, rather than the customer having to post a direct debit form back to the bank. This reduces the time for creating direct debits from ten days to four.

As part of this process the Service User Number (SUN) used by the service was transferred from a paper direct debit process to electronic (AUDDIS). The SUN number is unique and is used on the direct debit form. When a bank receives a mandate they enter the SUN number and the BACS process knows which bank account to pay any income or take expenditure from. As part of this transition there was a 30 day window during which time all existing direct debits needed to be resubmitted electronically through AUDDIS. This was completed for all sundry debtors.

At the end of the 30 day window all other direct debits were cancelled. It was not identified at the time that the SUN number was also being used by Barnet Homes as these are not sundry debtors. Unfortunately it was not possible for the Cooperative Bank to advise of the number of direct debits set up against this SUN number so the missed direct debit submissions were not identified.

Therefore this has been identified as the reason for the failure and was not related to the transition of bank accounts.

### **1.3.3 The Resolution at the Point of Failure**

The direct debit files submitted by Barnet Homes were taken and were manipulated to form an AUDDIS file and this was submitted to the BACS bureau service. The direct debits would have been available for collection after four working days; however in line with the Direct Debit Guarantee the earliest date for collection was 20th April 2015 as ten days' notice needed to be provided to tenants.

It was agreed with Barnet Homes that a letter would be sent to all tenants advising them of the failure and that the direct debit would be taken on the later date and offering them alternative payment options in the meantime. At the same time, Barnet Homes updated their call centre that a number of increased calls may be received and did not pursue non-payments.

The direct debit collection was run on the 20th April 2015.

#### **1.3.4 Ongoing Resolution**

An online form within the Council's finance system has been developed to enable Barnet Homes' staff to enter the details directly. This submits a daily file straight into BACS processing thereby reducing any time delay. On the back of the submission a report is produced by BACS confirming the successful submission. Training of this new form and roll out to Barnet Homes took place in April 2015.

### **1.4 PAYPOINT**

#### **1.4.1 The Incident**

Paypoint is the service provider used to take credit and debit card payments by Barnet Homes and a wider range of Council services.

On a daily basis a file is received from the Cooperative Bank as the partner for Paypoint into Axis as the Council's cash management system. Upon receipt of this file and a series of others, including all Council bank accounts, the system manipulates the files to produce files which are exported into a series of Council systems to update its records. Two such systems are QL and Saffron which are used by Barnet Homes for rent and service charge collection where Axis sends a file to update the rent and service charge accounts for tenants.

The processing of Axis is an automated system and therefore the focus is that on a daily basis it receives the necessary number of files and exports the correct number. It is the responsibility of the system owners who receive files from Axis to ensure they are accurate and meet their requirements.

As part of the banking change from the Cooperative Bank to the Royal Bank of Scotland some amendments were made by Capita Software Solutions on the Axis system as they are the owners of the software. During one of the testing cycles, it was identified that the Paypoint file once received was not processed correctly by the system.. Normally if this happens the file would fall into exceptions and be investigated on a daily basis by the Cashbook team, however the file didn't make it this far through the process. Once identified, the failure was corrected within the test system and subsequently retested and confirmed as working correctly before being moved into the live system.

On the morning of 16th April a call to the IT Helpdesk was placed by Revenue and Benefits which advised Paypoint transactions were not being posted to

their system correctly. The same issue was raised by Barnet Homes later during the day. The period affected was 1st April to 16th April 2015.

#### **1.4.2 The Resolution At The Point Of Failure**

Upon investigation it was identified, that despite fixing the problem in the Axis test system, the live system was mishandling the files for Paypoint. Capita Software Solutions resolved the matter within three hours of the call being raised and the correct backdated files passed on Friday 17th April and confirmed as being received and processed correctly.

#### **1.4.3 Ongoing Resolution**

The Axis system does not receive regular updates and therefore this should be an isolated incident with no further resolution required. However, it is important that all system owners (Barnet Homes and Revenue and Benefits) are aware of how they can identify from their own service systems if a failure has occurred.

### **1.5 DEPARTMENT FOR WORK AND PENSIONS**

#### **1.5.1 The Incident**

The Department for Work and Pensions submits a file once a month to the Council which is imported into the Axis system. This file contains the record of payments made to the Council by the Department for Work and Pensions in respect of tenants' rents.

Similar to the incident on Paypoint, the March file was not processed by Axis and failed to update the Barnet Homes rents system. This matter was resolved and the necessary correction files were provided on 16th April 2015.

#### **1.5.2 The Resolution At The Point Of Failure**

The resolution was provided by Capita Software Solutions as the owners of Axis which allowed the file to be successfully processed into the rents system.

#### **1.5.3 Ongoing Resolution**

The Axis system does not receive regular updates and therefore this should be an isolated incident with no further resolution required. However, it is important that all system owners (Barnet Homes and Revenue and Benefits) are aware of how they can identify from their own service systems if a failure has occurred.

## **2. REASONS FOR RECOMMENDATIONS**

2.1 None

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

3.1 None

### **4. POST DECISION IMPLEMENTATION**

4.1 None

### **5. IMPLICATIONS OF DECISION**

5.1 None

#### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The collection of income by the Council through direct debit is the preferred collection method. The impact of the content of this report is being monitored by Barnet Homes and reported through their collection rates during the year.

#### **5.3 Legal and Constitutional References**

5.3.1 Council Constitution, Responsibility for Functions, Annex A, sets out the terms of reference of the Audit Committee, including 'to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process'.

#### **5.4 Risk Management**

5.4.1 The risk of potential failure did not form part of the risk register maintained by the Council; however there is always a risk that a small number of direct debits may fail on each run, for any particular debt types (Barnet Homes, sundry debt, Council Tax or Business Rates).

5.4.2 As detailed within the body of the report, since the occurrence of the failures the necessary steps have been taken to mitigate the future risk of reoccurrence by all parties involved.

#### **5.5 Equalities and Diversity**

5.5.1 None

#### **5.6 Consultation and Engagement**

5.6.1 None

**6. BACKGROUND PAPERS**

6.1 None