

**FROM:** Audit and Risk Manager

**TO:** Head of Housing and Property Services  
Business Support Manager  
Sustaining Tenancies Manager  
Housing Advice Manager

**C.C.:** Chief Executive  
Deputy Chief Executive (AJ)  
Head of Finance

**SUBJECT:** Housing Lettings and Void Control

**DATE:** 24 June 2014

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## 1. **Introduction**

- 1.1. In accordance with the Audit Plan for 2014/15, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2. Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

## 2. **Scope and Objectives of Audit**

- 2.1. The purpose of the audit examination was to report a level of assurance on the adequacy of controls in place for effective administration of residential property letting to support relevant Council strategic aims and ensure compliance with relevant legislation and Council policies.
- 2.2. The examination comprised an evidential risk-based evaluation of structures and processes in respect of:
- § tenancy allocations and letting of Council dwellings;
  - § termination, transfer and exchange of tenancies.
- 2.3. The relevant modules of CIPFA Systems-Based Audit Matrices were applied as appropriate. This involved updating the Internal Control Questionnaires and performing testing using the generic Compliance Test programme as a guide.

## 3 **Findings**

### 3.1 Background

- 3.1.1. The audit took place in an ongoing change environment with service reviews taking place in the wake of recent restructures.

- 3.1.2 The area of audit examination has traditionally crossed over two distinct functional groups that until recently were separated at divisional (and in the past at service area) level. The restructure brings these together under the Strategy and Development Division, although certain functions within the scope of the examination also involve Sustaining Tenancies.
- 3.1.3 At the time of this report, the principal policy document governing the activities within the scope of this audit (i.e. the Homechoice Allocation Scheme) is scheduled for review with a report to Executive due in November.
- 3.1.4 The CIPFA audit model is now some years old and pre-dates the advent of Choice Based Letting principles, therefore the control questions and tests have been applied flexibly in recognition of this fact and the availability of reporting tools to aid data analytics.
- 3.1.5 The audit considered the structures and processes under the following themes:
- § policies and procedures
  - § application processing
  - § temporary accommodation
  - § allocations and lettings (including transfers)
  - § terminations and voids
  - § mutual exchanges.

## 3.2 Policies and Procedures

- 3.2.1 The Council has a clear formal policy in place entitled 'Homechoice Allocation Scheme' which is accessible via the Council's website in full form and more summarised version published in leaflet form. The existing Scheme was approved by the Executive in 2008 and, as stated above, is scheduled for imminent review.
- 3.2.2 It is noted that a Rural Lettings Policy has been approved which is targeted at new rural affordable housing development schemes granted planning permission after February 2011. There are no known applicable schemes completed at the time of this report.
- 3.2.3 Review of staff information resources on procedures showed a mixed picture reflecting the traditional functional division referred to above. A web-based Housing Advice Manual has been in place for several years and covers the application, bidding and allocation processes up to matching of bidders to properties. However, the functions of the Lettings Officers in organising new tenancies, terminations and transfers are excluded from the scope of the manual and certain manual procedures operated outside the ActiveH application system are not documented.
- 3.2.4 The manual itself warrants some revision to update staff lists/structures and legislative framework as well as to correct some orphan links found. This is recognised by management and update of the manual is planned as part of the service review – this will be an opportunity to consider expanding the scope to cover letting, termination and transfer processes.

**Risk**

***Opportunities for job flexibility under the new structure may be impaired by limited procedural documentation.***

**Recommendation**

**Expansion of the Housing Advice Manual to incorporate Lettings functions should be considered as part of the updating process.**

3.2.5 As with all Council staff, those involved in the functions covered under this audit are required to declare any personal interests they may have in accordance with the Employee Code of Conduct. The Business Support Manager co-ordinates annual declarations for all Housing and Property Services and maintenance of a register covering all staff (including agency sourced).

3.2.6 Data matching tests performed showed no indication of undeclared interests among the staff involved.

3.3 Application Processing

3.3.1 The fundamental features of the current Scheme (a banding structure for applicants and opening up of properties for bidding) are to a large extent system-driven .

3.3.2 Applications are required to be submitted on a standard Homechoice form - this applies irrespective of whether the application is merely to qualify for bidding under the Scheme or is in conjunction with a homelessness assessment. Sample testing confirmed that applications are supported by the requisite completed forms and are registered on the system promptly on receipt. The assessments and banding allocations were also shown to duly prompt as were acknowledgements to the applicants and banding notifications.

3.3.3 In the past, documents proving applicant identity, residency and household constitution were required before the case became 'authorised' on the system thereby allowing the applicant to place bids on advertised properties. In a change of procedure the presence of supporting 'proofs' is now only mandatory at the point of an offer of tenancy, although it is assumed that supporting documents offered at the time of application will still be accepted and copied.

3.3.4 The sample tests confirmed the presence of adequate supporting documentation in all cases examined, although there was an indication that the endorsement of the documents as 'certified true copy' has not been applied consistently across the board. In the cases there were no endorsements, there is no pattern to indicate any specific reception point.

**Risk**

***Evidence in case of legal challenge to eligibility of applicants or tenants may be compromised.***

### **Recommendation**

**Staff should be reminded that all retained copies of documents proving identity, residency and household of applicants must be endorsed 'certified true copy' with date and signature.**

- 3.3.5 Having established that applications have to graduate from 'registered' to 'authorised' status to allow bidding or matching, an extract was taken of applications with current status of 'registered' which showed a significant number cases going back several years (a small number of transfer applications also emerged). Although it was advised that case data is reviewed periodically, this is has not been supported by exception reports.
- 3.3.6 The Housing Advice Manager has been notified of this observation and has advised that a more automated approach to cancellation of cases not taken beyond registered status within a reasonable duration is being explored in consultation with ICT Application Support.
- 3.3.7 From the data analysis, actual refusal of a housing application is clearly a rare occurrence and no recent cases of appeal against refusal are apparent. The exercising of applicants' right to review and subsequent appeal tends in practice to be against banding decisions.

### 3.4 Temporary Accommodation

- 3.4.1 The management of temporary accommodation placements has been covered in more depth under separate audits of Homelessness. In the context of allocations and lettings, there two areas of examination that the CIPFA model homes in on:
- § local connection
  - § use of bed and breakfast establishments.
- 3.4.2 Criteria for determining local connection are detailed in the Scheme and the standard Homechoice application prompts for details where applicable as this can affect the band in which the applicant will be placed. It is a particularly important consideration in homelessness cases, especially where placement in emergency accommodation may be called for, but is not always an absolute prerequisite for Council assistance.
- 3.4.3 A sample test based on a snapshot of placements in Council temporary accommodation establishments found proven local connection under the Scheme's criteria in all cases.
- 3.4.4 The last year has seen an unusually high level of placements in bed and breakfast establishments at a cost of over £70,000 in the last financial year. In discussions, the Housing Advice Manager attributed much of this to staffing resource issues that have impacted on the ability to put homelessness prevention measures in place.

- 3.4.5 Analysis of financial data in the 12 months period prior to the audit showed the Council to have paid for 54 placements with durations ranging from one day to almost 17 weeks (average of 32 days). The most extreme cases in terms of duration were found to relate to special needs cases requiring intervention under the 12-week rule.
- 3.4.6 The vast bulk of the placements have been divided between two guest houses on Avenue Road, Leamington Spa thought to be under the same ownership.
- 3.4.7 One of them is listed as an 'approved' establishment in the Housing Advice Manual but not the other (seen as another updating requirement for the Manual).
- 3.4.8 The level of spend raises some concern regarding the Council dealing with a business that may conceivably be acting in breach of VAT Regulations. Invoices rendered indicate that the business is not registered for VAT. Considering that the Council payments alone in the year account for almost £70,000, only £11,000 short of the overall turnover threshold above which businesses have to be registered, this presents a case for questioning the appropriateness of using these establishments.
- 3.4.9 From further enquiry, it was established that bed and breakfast accommodation is a taxable supply and that VAT at standard rate is deductible where the duration of stay is not more than 28 days. VAT is relieved from charges for longer stays but only in respect of the 29<sup>th</sup> day onwards.
- 3.4.10 The Housing Advice Manager has advised that the choice of bed and breakfast establishments is an area flagged up for re-examination under the wider service review.

**Risk**

***The Council may be seen as condoning unlawful practice on the part of a supplier.***

**Recommendation**

**The Council's position should be reviewed with regard to the two Leamington Spa guest houses used for homeless placements in the light of possible VAT irregularities.**

- 3.4.11 It was observed that purchase orders for the bed and breakfast charges were not being raised at the time of placement, instead being raised when the invoice was rendered in each case. The Housing Advice Manager stated that this was being addressed in response to recent reports on order/invoice date relationships circulated throughout the Council by the Finance Administration Manager.
- 3.4.12 Bed and breakfast placements are logged in the ActiveH system by the case officers concerned and invoices checked against the dates logged as part of payment processing. Sample checks found no anomalies.

3.4.13 All placements in bed and breakfast are on an accommodation only basis which is reflected in rate of charge, thus there are no charges for ineligible services to recoup from applicants. Sample tests also confirmed that benefit claims are lodged promptly as part of the placement process.

### 3.5 Allocations and Letting

3.5.1 The allocation process is well established and the evaluation has confirmed that it is subject to robust control to ensure that applicants are allocated housing suitable for their needs as quickly as possible in a fair manner. The process for transfer applications is essentially the same as that for new housing applications, invariably involving bidding for available properties subject to direct intervention in the case of special needs.

3.5.2 Established pre-tenancy processes ensure that incoming tenants are made aware of important conditions, tenancy agreements signed up to and appropriate initial support given. All tenancy documents, including the agreements, are scanned in Housing DIP system and are accessible to authorised users by reference to the property records.

3.5.3 Post-tenancy checks tend to be in the form of settling-in visits undertaken by Housing Officers (Sustaining Tenancies) between 4 and 8 weeks after commencement. Results of sample testing on new tenancies recently constituted suggest, however, that application of the settling-in visit is somewhat 'hit and miss' with a fail rate of 40 per cent in attempts to trace settling-in forms on the DIP system

3.5.4 The 'fail' items were referred to the Sustaining Tenancies Manager for investigation, since when some have been notified as already scheduled for future date. The remaining items are still being investigated at the time of this report.

3.5.5 The Sustaining Tenancies Manager acknowledged that there are known issues with the management of settling-in visits with identification of tenancy commencements and arranging visits relying on manual processes outside the ActiveH system. In one sample case where there had not been a visit, a Notice of Seeking Possession had been served for rent arrears only 7½ weeks into the tenancy.

#### **Risk**

***Opportunities to identify and address tenancy issues early on are lost.***

#### **Recommendation**

**System alerts or reporting should be pursued to support the scheduling of settling-in visits by ensuring that all applicable tenancy commencements are identified.**

3.5.6 Sample testing showed that the rent accounts are promptly updated on commencement of tenancies (including those arising from transfers and exchanges).

### 3.6 Termination and Voids

- 3.6.1 The notice requirement for a tenant intending to move out of a Council property is clearly stated at the beginning of the standard tenancy agreement (four weeks in writing). In terms of enforcement, this has come to be interpreted loosely with telephone notification sometimes accepted.
- 3.6.2 That said, it is a strict requirement that an acknowledgement letter is immediately produced off the system and sent to the tenant or representative, basically acting as written confirmation. Sample tests confirmed adherence to this.
- 3.6.3 Procedures in place ensure that keys not returned by the due date and time are followed up promptly and action to have the locks changed initiated where necessary. After receipt from the tenant (or contractor if the locks are changed) movement of the keys is tracked through the ActiveH system (replacing the previous spreadsheet method). When finally collected at the start of the new tenancy, the incoming tenant is required to sign for receipt of the keys.
- 3.6.4 Relet periods vary widely, governed to a large extent by the bidding results. An analytical review of void episodes over 12 months prior to the audit show void periods ranging from 7 to 322 days, with an overall average of 38 days. At the high end, the extreme cases relate to special properties (e.g. large number of bedrooms, special adaptations, etc.) that either took a long time before suitable bidders emerged or had to be excluded from the bidding process due to special qualifying criteria.
- 3.6.5 Another major factor contributing to cases of long void periods is the extent of offer refusals before the properties are let. Timeline analysis on a sample of relets show that, in the best case scenario, the pre-let interview of the incoming tenant can be achieved one day in advance of the termination of the outgoing tenancy and new tenant sign-up three days after termination.

### 3.7 Mutual Exchanges

- 3.7.1 The primary focus for evaluation of mutual exchanges was on compliance with the 6-week deadline for decision on applications. The evaluation had to be based on a sample of completed exchanges as no known reporting facilities are available to isolate rejected applications.
- 3.7.2 The sample test generally confirmed that decisions are made within the 6-week period, although in a large proportion of cases this could only be discerned from the date of the exchange itself as the actual decision date did not come out clearly from the retained documentation.
- 3.7.3 Mutual exchanges are processed outside the ActiveH system and typically the only system record of an exchange is the transfer date. Therefore gaining a picture of significant events in the process had to rely on examination of the supporting documentation scanned in.

- 3.7.4 There was a noticeable inconsistency between the cases sampled in terms of make-up and file placement of supporting documentation for mutual exchanges which made tracing the key records difficult. In some cases, the applications could not be found for one of the exchange parties and letters confirming the Council decision could not be traced.

**Risk**

***Inconsistent record retention may result in inadequate documentation supporting mutual exchange determinations.***

**Recommendation**

**Specific standards and filing conventions for documentation on mutual exchanges should be considered along with logging of significant events in ActiveH.**

**4 Conclusions**

- 4.1 The examination has concluded that a robust control framework is established for the Council's housing tenancy allocation and letting activity. The findings give SUBSTANTIAL assurance that the structures and processes operate effectively to manage the applicable risks.
- 4.2 Some issues of a relatively minor nature are raised for management consideration as part of ongoing service reviews in Housing and Property Services.

**5 MANAGEMENT ACTION**

- 5.1 The recommendations to address these areas are reproduced in the Action Plan with management responses incorporated.

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