

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager

SUBJECT: Housing
Environmental
Functions

TO: Head of Housing and Property Services
Divisional Environmental Health Officer
(Private Sector Housing)

DATE: 10 March 2014

C.C. Chief Executive
Head of Finance

1. **Introduction**

- 1.1. In accordance with the Audit Plan for 2013/14, 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 systems in place to deliver private sector housing regulatory services economically, efficiently and effectively.
- 2.2. The examination comprised an evidential risk-based overview of structures and supporting processes for discharging the functions of the Private Sector Housing Team, considering the following broad areas as applicable:
- § strategies and policies
 - § roles and responsibilities
 - § processes and procedures
 - § performance and improvement
 - § information assurance.
- 2.3. Processes in respect of grant administration were excluded as they are reviewed under separate assignment. Also excluded at this stage are the functions previously ascribed to Supporting People that have recently transferred to the Private Sector Housing Team.
- 2.4. The recommendations from the previous audit report were considered and implementation status ascertained.

- 2.5 The findings are based on consultations with staff involved in the processes examined and reference to relevant documentation and records. The principal contact for the audit was Martin Brooks, Interim Divisional Environmental Health Officer (Private Sector Housing).

3. **Recommendations from Previous Report**

- 3.1 The current position in respect of the recommendations from the audit reported in February 2011 is shown below:

Recommendation	Management Response	Current Status
The balance on the HIMO Licences Fund should be reviewed to ensure that it remains appropriate for purpose. It should be taken into account in future reviews of the licence fees. <i>(Medium risk)</i>	Licence fee income to be considered in the context of this audit report with Finance colleagues, and there will be a review of HMO licensing in regard to HMO licences starting to fall due for renewal in December 2011.	This arose from an observation of inordinately high year-end balances in the HMO licence income fund account, suggesting that fees were being charged at levels in excess of what was necessary to recover costs (contrary to Section 63 of the Housing Act 2004). On further examination, it has been discovered that an accounting anomaly has caused the balance to be substantially overstated (discussed further in Para. 4.4.8 below.)
A copy of the till receipt for payment of the HIMO licence should be retained on the individual property files. <i>(Medium risk)</i>	HMO Administration Officer has been briefed to ensure receipts are attached to the licence application form. Acting DEHO to make quarterly checks on licence files to audit paperwork.	Evidence from testing shows this to be adhered to.

4 **Findings**

4.1 General Matters

- 4.1.1 The review found the management framework around Private Sector Housing functions in a state of transition emanating from the service redesign programme for Housing and Property Services. It was advised at the outset that the programme, as it applies to Private Sector Housing, had been put on hold. At the time of this report, however, draft redesign proposals have been formulated and are under officer consultation.

- 4.1.2 Previous audits under this assignment have focused primarily on the licensing process for Houses in Multiple Occupation (HMOs). The approach for this review has been to overview the structures and processes underpinning the functions of the Private Sector Housing Team more holistically, while focusing in greater detail on the areas of prominence in the risk and performance management frameworks respectively.
- 4.1.3 As it happens HMO licensing is one of these areas, the others within the scope of this assignment being gypsy/traveller sites and empty homes. Management of gypsy/traveller sites was the subject of a separate review in 2011 and the Council's overriding position influencing enforcement practices at that time (i.e. the absence of authorised encampment sites within the District) continues to prevail. It is noted, however, that the Local Plan process has produced a list of suitable sites which have been recently cleared for consultation by the Executive, but is subject to call-in for further consideration by Overview and Scrutiny Committee.
- 4.2 Strategies and Policies
- 4.2.1 The main focal point for future development of Private Sector Housing is the three-year Housing Strategy approved by the Executive in November 2013. While representing as appropriate the wider framework such as applicable elements of the Sustainable Community Strategy, along with national and regional policy agendas, the new Strategy is much more concise than previous versions. The document is mainly given over to listings of priority areas, in the context of feedback from consultations, and 'headline actions' to tackle them which are to be translated into a delivery plan.
- 4.2.2 Relevant key development areas to come out of the Housing Strategy 2014 – 2017 include:
- § educating private landlords and tenants on their rights and obligations;
 - § a new enforcement policy to be applied where attempts to obtain landlord co-operation through informal means prove ineffective;
 - § HMO data capture initiatives;
 - § consideration on invoking powers to implement selective licensing on HMOs and other private rented accommodation not currently captured by the mandatory scheme.
- 4.2.3 The need for a new enforcement policy stems from the existing policy, approved by Executive in 2003, not having been reviewed or updated since and therefore not reflecting changes arising from the Housing Act 2004.
- 4.2.4 Although not directly relevant to this assignment, it was advised that a new policy to replace the Financial Assistance Policy for Private Sector Housing Improvements (last updated in 2006) is also in the pipeline.

- 4.2.5 The Council also adopted an Empty Homes Strategy in 2011 at a time when government funding became available through the New Homes Bonus. By the time of the audit, the post had been discontinued although the Strategy itself is still treated as current with ongoing actions subsumed within the work of the Private Sector Housing Team.
- 4.2.6 It was advised that a new Empty Homes Strategy is to be prepared to align with the Housing Strategy 2014 – 2017.
- 4.2.7 Also prominent among relevant policy matters is the fee structure for HMO licensing. Under the Housing Act 2004, fees can be levied to cover the costs of licensing only and cannot be used to subsidise other local council work. Neither the Act nor any known government regulations or guidance make any specific provisions on how the costs are worked out.
- 4.2.8 The current fee structure is essentially the same as that implemented in 2009 following approval by Executive. Since then, the charges have been subsumed into the Council's general Fees and Charges setting processes. The structure is based on cost models for new application, renewal and licence variation scenarios. The model has been updated for the 2014/15 Fees and Charges submission with significant increases resulting.
- 4.2.9 Also within the 2014/15 Fees and Charges submission are additional charges being introduced for the first time invoking new charging powers under the Mobile Homes Act 2013 and existing powers not previously invoked (including service of statutory notices and immigration inspections).
- 4.3 Roles and Responsibilities
- 4.3.1 Based on reference to available sources, the following represent a summary of the current acknowledged roles attributed to the Private Sector Housing Team:
- § empty homes
 - § housing living conditions (e.g. disrepair, filthy/verminous, overcrowding)
 - § grants and loans
 - § HMOs – licensing and enforcement
 - § Landlord Accreditation Scheme
 - § travellers and gypsies
 - § caravan and camping sites – licensing and enforcement
 - § Joint Warwick/Stratford Landlord Steering Group
 - § aids and adaptations (Council tenants).
- 4.3.2 The Landlord Accreditation Scheme refers to a regional scheme sponsored by a consortium called Homestamp (of which Warwick District Council is a member). The Council's role is merely to publicise and promote the Scheme and has no active part in assessment of applications, nor any is there any commitment to financial contributions.

- 4.3.3 The Landlord Steering Group is a vehicle for engaging private sector landlords and promoting legal compliance and good practice in managing their tenanted properties. This includes organising Landlord Forum events. The Council's commitment consists primarily of officer representation on the Steering Group.
- 4.3.4 The Accreditation Scheme and Landlord Steering Group have not been examined further for this review.
- 4.3.5 Moving the theme of officer responsibilities, relevant delegated powers under the Constitution are almost entirely concerned with executing legal sanctions (mostly under the Housing Act 2004 but including other legislation), all vested in the Head of Housing and Property Services. By recent mandate from the Deputy Chief Executive, however, these powers have been delegated to specified named officers in the Private Sector Housing Team in accordance with their respective roles.
- 4.3.6 As a reference point for defined roles and responsibilities, job descriptions requested from Human Resources proved of only limited value with those for the more senior posts being either unavailable or woefully outdated. This has been addressed subsequent to the audit with as part of the service redesign proposals and which includes review of all applicable job descriptions.
- 4.3.7 At operational level, two posts are primarily devoted to HMO licensing and the salary costs arising are charged directly to the HMO cost centre where they are effectively funded from fee income. Only one post is given explicit responsibility for managing illegal encampments, although provision has been made in practice for support and cover from other officers. Support roles for HMO regulation and empty homes remediation are indicated across several posts.
- 4.3.8 Another change factor which will influence roles within Private Sector Housing is the piloting of a joint Housing Assessment Team as part of a wider project entitled 'Warwickshire Collaborative Home Improvement Agency and Adaptations Service'. This pilot project involves Warwick District Council partnering with Stratford-upon-Avon District Council and Warwickshire County Council' Occupational Therapy service with objectives related to improving adaptation services.
- 4.3.9 While the project was not regarded as within the remit of the audit, key aspects of project governance were looked at in overview with no issues to report.

4.4 Processes and Procedures

- 4.4.1 Two common elements emerge in respect of the key processes for Private Sector Housing:
- § They come across as well served by Communities and Local Government material to guide authorities on developing and maintaining policies and procedures;

- § The processes are underpinned by a well-proven PARSOL¹ business application system (APP Civica, previously known as Flare).
- 4.4.2 Key features embedded in the APP Civica system, and clearly utilised, include:
- § workflow aids including pre-populated lists of typical actions for respective areas covered and case history trails logging all actions taken identifying actioning officers with dates;
 - § auto-generation of standard documentation including routine notifications, acknowledgements, licences, statutory notices, etc. from pre-populated text templates;
 - § reporting tools supporting workflow management, performance review, government returns, etc.
- 4.4.3 As stated in 4.1.3 above, the three areas earmarked for examination in further detail are:
- § HMO licensing
 - § gypsy/traveller sites
 - § empty homes.
- 4.4.4 HMO Licensing
The Housing and Property Services Risk Register cites failure to meet statutory requirements on HMO licensing as a distinct risk. The process here is essentially unchanged from the previous audit (2011), the only exception being that renewals of initial licences have had to be dealt with for the first time. With use of reporting tools in APP Civica, the procedures for tracking and acting on licence expiries and renewals arising are seen as generally sound.
- 4.4.5 Review of procedures and limited testing on new license applications generally confirm that the stated risk mitigation controls operate effectively, though with some reservation on the reference to maintaining adequate staffing levels (discussed under Performance and Improvement below).
- 4.4.6 The testing showed one case where a discounted fee rate was incorrectly applied. Although the principle behind the multiple discount is sound, its practical application can become rather complicated when dealing with any landlord responsible for several licensable HMOs. From the test outcomes and wider review of financial data, it is concluded that the error in question was an isolated one and does not reflect any significant control issue.
- 4.4.7 The underlying fee structure was originally approved by Executive in 2008 and implemented from April 2009. The fee levels were based on unit cost models to comply with Section 63 of the Housing Act 2004.

¹ Planning and Regulatory Service On-Line

- 4.4.8 Given the wide annual fluctuation in fee income over the licence duration cycle (5 years), the accounting treatment for fee receipts is to credit them to a separate 'fund' from which contributions are transferred at each year-end to balance the HMO expenditure cost centre to zero. The previous audit report raised concerns about excessively large balances accumulating in the HMO fee 'fund' suggesting that fee levels were higher than those necessary to recover costs (see 3.1 above). These excessive balances have continued to appear even after allowing for extensive additional resources deployed to deal with the recent level of renewals.
- 4.4.9 However, it was discovered that an accounting anomaly has resulted in the balances being substantially overstated going back as far as 2007/8. The cost models include a loading of £150 per licence application to cover recharges in respect consultations with Building Control, when in fact no such recharges have ever materialised in the HMO expenditure cost centre.
- 4.4.10 It transpired that all these recharges have over the years ended up in the general Private Sector Housing cost centre resulting in the costs being met directly from the General Fund. Unadjusted, the HMO fee account balance at the end of the current year is estimated to be around £100,000, whereas the true balance after absorbing the Building Control recharges would be nearer £40,000. The average annual fee income over the last 5 years was around £49,000.
- 4.4.11 This anomaly has been reported to Accountancy for investigation and action.
- 4.4.12 Gypsy/Traveller Sites
This is raised in the Housing and Property Services Risk Register under the wider risk of inability of meeting Housing Strategy objectives. The mitigation measures are for the most part subsumed in the Local Plan process and supporting assessments and thus beyond the scope of this audit.
- 4.4.13 This leaves the matter of illegal encampments. In this context, the review was mainly concerned with confirming that the applicable policies and procedures observed in separate review audit undertaken in 2011 are still followed. This was confirmed by discussion with the officer responsible (the same officer as in 2011) and reference to recent records.
- 4.4.14 The only observation of note is that the Warwickshire Protocol for dealing with encampments was at the time of the audit withdrawn from publication by the Warwickshire County Council pending review and updating. Assurance has been received that the Protocol is still essentially recognised by the County.
- 4.4.15 Until recently, Members were not informed by Private Sector Housing on illegal encampments as a matter of course. Following a Councillor query, e-mail notification to all Members has been introduced.

4.4.16 Empty Homes

This is the only specific area relevant to the audit for which there are customer measures in the service planning process. In this case, the review was concerned with verifying that key processes arising from the Empty Homes Strategy Action Plan had been instituted.

4.4.17 Specifically these related to:

- § establishing empty homes database – now on APP Civica with full action trails and supported from time to time by review of council tax records;
- § communication channels for reporting empty properties – promotional initiatives were undertaken in 2011 and a website resource formulated with a dedicated on-line alert form;
- § risk scoring – uses the matrix appended to the Empty Homes Strategy applied selectively and overall scores are recorded against the respective properties in the database.

4.4.18 It was advised that a data refresh process is under way with assistance from Revenues. A test data match between the APP Civica and council tax records showed a small number of properties that could potentially be added to the database, but did not indicate any significant incidence of long-term empty properties escaping scrutiny.

4.5 Performance and Improvement

4.5.1 Apart from empty homes, the areas relevant to this audit are not given a high-level profile that requires regular performance reporting outside the Private Sector Housing Team. Operational workflow and staff performance are monitored through APP Civica data extracts. Outturn data for empty properties is produced for reporting on the Service Delivery Plan Customer Measures.

4.5.2 The main focus in the current year's Service Delivery Plan is on two areas – the service re-design process and Housing Assessment Team pilot.

4.5.3 Turning back to HMO licensing, examination of the last two year's Service Delivery Plans and relevant budget provisions indicate what is seen as a failure to adequately plan for a foreseeable upsurge in resource demands arising from the licence renewals. Since December 2012, the Council has resorted to the agency framework agreement (Comensura) for the additional resource of a full-time Technical Officer to deal with the caseload.

4.5.4 The question this raises is whether better foresight and preparation could have enabled direct recruitment on a fixed-term contract at less cost utilising funding already available through the HMO fee balance. While this is perhaps of only historic significance at this juncture, it is brought to management attention for consideration in advance of the next peak of renewals in about three years' time.

Risk

Failure to plan for future foreseeable peaks in HMO licence renewals will result in opportunities for cost economies being lost.

Recommendation

Forecasts of future resource demands for HMO licensing should be incorporated in the service plans and appropriate budget provisions made to enable early preparation for upsurges of licence renewals due.

- 4.5.5 The Housing Strategy 2014 – 2017 sets the scene for service improvements over future years. The areas identified appear to be in tune with national thinking as manifest in the parliamentary report 'The Private Rented Sector' published in June 2013.
- 4.6 Information Assurance
- 4.6.1 The APP Civica system was last subject to application control review in 2010 and since that time some additional functional modules have been rolled out. Observations made during audit generally confirm that the essential controls to preserve confidentiality, integrity and availability of the data are unchanged.
- 4.6.2 It has also been confirmed that key secondary electronic information resources are appropriately protected and restricted.
- 4.6.3 A considerable volume of paper records continues to be maintained, especially for HMO licensing. They are currently stored in open shelving units positioned to partially enclose the Private Sector Housing office area.
- 4.6.4 As HMO documents tend to be treated as public domain information, the means of storage does not really represent a confidentiality issue and any attempts by unauthorised person to access them would be unlikely to go unnoticed by Private Sector Housing Team members during office hours.
- 4.6.5 The main issue with the paper records, as the Divisional Environmental Health Officer pointed out during the initial meeting, is the restriction on space expected when the Council ultimately relocates its headquarters. This is a situation by no means unique to Private Sector Housing and calls for separate appraisal to determine the most feasible solution (or combination of solutions) for record retention, possibly on a wider corporate basis.

5 Conclusions

- 5.1 Due to the transitional state of the overall management framework, the assurance level ascribed from the audit findings is based on two key assumptions:
- § that the service redesign process will proceed to fruition with key records in respect of organisation, structure, roles and responsibilities updated;

- § that the delivery plan for the Housing Strategy will be formulated and adopted without undue delay.
- 5.2 In that regard, the findings give SUBSTANTIAL assurance that the control environment is suitably robust to deliver the applicable functions economically, efficiently and effectively and to manage the risks arising.
- 5.3 The only issues of significance to emerge are now historic ones relating to resource planning and accounting in respect of Houses in Multiple Occupation (HMOs). The accounting issue is being investigated and no recommendation is deemed warranted for this report.
- 5.4 There is an indication from the evidence that greater costs than necessary may have been incurred due to ineffective resource planning for the first peak period of HMO licence renewals. This is raised as a learning point for management to consider in advance of the next renewal 'peak' around 2017 and is the subject of sole recommendation arising.
6. **Management Action**
- 6.1 The single recommendation made is reproduced in the appended Action Plan with management response incorporated.

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