

**FROM:** Audit and Risk Manager  
**TO:** Head of Housing Services  
**C.C.** Chief Executive  
Deputy Chief Executive (BH)  
Head of Finance  
Service Manager Landlord  
Services  
Business Administration Manager  
Portfolio Holder (Cllr Matecki)

**SUBJECT:** Housing Rent Collection  
**DATE:** 10 November 2020

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## 1 Introduction

- 1.1 In accordance with the Audit Plan for 2020/21, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.
- 1.3 The audit was undertaken during the COVID-19 pandemic. This has meant a slightly different approach has been taken to complete the audit.

## 2 Background

- 2.1 Housing rents are managed using Active H. Various staff have access, allowing tenants details to be added and updated and ensuring that housing assets can be effectively managed.
- 2.2 The Council owns 5,391 houses and flats which generate an annual rental income in the region of £24.8m. As well as these rental properties, the Council also manages twelve shared ownership properties, 616 Leaseholders and 40 non secure / temporary accommodation places.
- 2.3 The Council also 'offers' the 'Right to Buy' (RTB) scheme. Twenty-six properties were sold under this scheme in the last financial year.

## 3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place using the CIPFA systems-based control evaluation models. Detailed testing was performed to confirm that controls identified have operated, with documentary evidence being obtained where possible, although some

reliance has had to be placed on discussions with relevant staff, including the Income Recovery & Financial Inclusion Manager and the Business Administration Manager.

3.2 In terms of scope, the audit covered the following areas:

- Staff within Housing Finance are aware of relevant regulations and have access to relevant procedural documentation
- Council employees that are also tenants have declared this interest and are up-to-date with the rent payments
- Annual rent reviews are performed, with rents subsequently approved at the appropriate level
- Rents are charged at the correct rate, with rents received allocated to the correct tenant's account
- Rent refunds are only undertaken when the tenant has no outstanding arrears
- Appropriate reconciliations are performed against other relevant systems (e.g. the income system and the general ledger)
- Rent arrears are correctly calculated
- Write-offs are only approved once all relevant recovery avenues have been taken and exhausted
- Management is aware of current rent collection and arrears levels.

3.3 The CIPFA Matrices for Housing Rents were used. The expected controls under these matrices are categorised into the following areas:

- Calculation and collection.
- Rent arrears management and collection.

3.4 Some tests were not performed as they were either considered not relevant to the operations at the Council or are covered under separate audits (e.g. data security is covered under a specific IT audit of the Housing Rents system). Observation based testing could also not be completed at this time due to the current homeworking arrangements.

## 4 Findings

### 4.1 Recommendations from Previous Report

4.1.1 The current position in respect of the recommendations from the previous audit, undertaken in July 2017, were also reviewed. The current position is as follows (see overleaf):

Recommendation	Management Response	Current Status
<p>1 As previously recommended the procedures and guidance notes held by Housing Services should be reviewed periodically and updated by a nominated officer. This should be evidenced by the inclusion of a version control table detailing the responsible officer, issue date and next review date. Furthermore, this should also be included when the Income Recovery and Financial Inclusion Manager develops the revised procedures for arrears and debt recovery.</p>	<p>Agreed. The rent procedures and guidance notes will be reviewed and updated as suggested.</p>	<p>Rent procedures and guidance are updated and reviewed, current guidance and procedures in place were reviewed and were up to date and complete.</p>
<p>2 The Business Administration Manager should coordinate the issue and retention of annual declaration forms for all staff across the Council and a central register should be maintained of completed forms. A log should then be produced of all Council employees who are also Council tenants, regardless of the method of rent payment.</p>	<p>It is not thought that a central register is warranted. However, the documentation for all Housing Services staff will be maintained.</p>	<p>There is no a central register. However, a system of tagging staff accounts is being developed which will allow easy identification of them in the future. Annual declarations are maintained by the relevant line manager.</p>
<p>3 All Tenancy Agreements should be signed and dated by the respective tenants and then retained on file.</p>	<p>Agreed. This should happen anyway.</p>	<p>All tenancy accounts reviewed in the sample testing had signed tenancy agreements.</p>

Recommendation	Management Response	Current Status
4 Write-off information should be included in the quarterly performance report to ensure the Council is aware of the uncollectable rent total and year to date rents written off.	A discussion will be held with Finance to ascertain whether the quarterly performance reports are the most appropriate place for this information to be circulated and action will be taken accordingly.	Although it was agreed that write-off information would be included in the quarterly reports from the start of 2018-19 it has not been.

## 4.2 Calculation and Collection

- 4.2.1 There are various policies and procedure documents in place that can be used when calculating rent, collecting rent and arrears. They set out the need for the procedures to be in place and why they need to be followed.
- 4.2.2 The procedure documents are available for Housing staff both in digital form and hard copy. They are reviewed regularly to ensure they provide current guidance. The procedures in place ensure there is appropriate segregation of duties amongst the Housing staff.
- 4.2.3 Access to Active H is granted to Housing staff providing them with the appropriate access for them to be able to carry out their role. Access to Active H is checked with line managers on a regular basis to ensure the access provided is still valid and appropriate for their role.
- 4.2.4 Rent amendments are made when the rent is changed. This is set up at the start of a new payment year. The rent increases are agreed at Executive committee. A review process is in place that ensures that the correct rent is applied to each property. Special arrangements can only be applied to rent accounts by the Income Management team, with the Rent Collection team being unable to adjust rent amounts, with this being enforced by system access controls.
- 4.2.5 Members of staff that rent a Council property do not have access to edit their rent account or details on Active H. This also applies if staff members have a close relative who rents a Council property. The staff who rent from the Council or have family that do are required to declare this on their annual declaration which is maintained by their line manager.
- 4.2.6 A process on Active H has recently been implemented where markers are attached to staff who rent from the Council. This allows for a report to be generated showing the status of these accounts and enables managers to check that the correct rent has been applied. As this has only recently been implemented, the report provided only showed staff registered on HomeChoice, the Council property bidding system.
- 4.2.7 Rent is reviewed annually in April. A report issued to Executive in February 2020 followed the Secretary of State's guidelines for the rent increases. The

resulting increases were applied at the recommended rate, a rise of 1.7% from September plus an additional 1% per annum, totalling 2.7%.

- 4.2.8 There is a two stage process to update the rent increase on Active H. The update is prepared on the system in advance by the Business Administration team and, as soon as the report has been approved at Executive, the changes can be implemented on the system and a notice of the increase is issued to the tenants.
- 4.2.9 The rent changes are calculated by the Principal Accountant. Active H has a parameter to make this change rather than having to make this change on each individual property. Changes are reviewed by the Business Administration Manager and reconciled by the Principal Accountant.
- 4.2.10 A spot check is carried out on the system when the changes are uploaded with further checks carried out on the first Monday of the new payment year to ensure the changes have been implemented. Any properties that are void when the changes are uploaded are manually updated on allocation of a new tenancy.
- 4.2.11 Sample testing showed that rents are being charged at the correct amount following the implementation of the increase.
- 4.2.12 A sample of void and deleted properties was also reviewed. It was found that all void dates corresponded with the tenancy agreements attached. Most of the deleted properties (i.e. those sold under the RTB scheme) had the appropriate documentation attached to the relevant file although some of the more recently sold properties were missing some of the documentation due to delays in receiving documents from solicitors because of the lockdown and ongoing pandemic.
- 4.2.13 All tenancies are allocated a unique number which allows for identification for correspondence purposes and allocation of payments. The unique number distinguishes the current tenant from previous tenants.
- 4.2.14 For the above sample of current tenancies the tenancy start date on the agreement was checked and these corresponded with the date input on Active H.
- 4.2.15 Active H shows all payments received, along with allowances, refunds and arrears history for each account. Rent statements are issued to tenants at the start of each payment. Where properties are let part way through the year, the rent amount is updated on the system and a statement is issued to the new tenant.
- 4.2.16 Tenants have access to their statements through the Council website. Once they have created an online account they can view their rent records and up-to-date account details. Other than the annual statement, tenants only receive a paper copy of their statement if they are in arrears.

- 4.2.17 Annual statements are issued to the tenants, independently from the Rent Collections team, by the Business Administration team. Active H automatically generates a statement for each active rent account.
- 4.2.18 When a refund is issued the rent account is updated and the relevant supporting documentation is saved to the account. A tenant may request a refund when they have overpaid rent or left a property whilst the account was in credit. Refunds are issued and approved separately from the Rent Collection team, being processed by the Business Administration team.
- 4.2.19 Rent payments are automatically allocated when they come in to the Council via PARIS. They are identified by their unique seven-digit account reference number. A payment with an incorrect reference number will go into the suspense account. In these instances, where possible the payment is allocated to the correct account manually using any reference information provided. Alternatively, the payment can be found when the tenant contacts the Council to inform them that their payment isn't showing up on their rent account. Payments received are posted to the correct account daily and reconciled against the payments expected.
- 4.2.20 Tenants can pay for their rent at the post office and Paypoint locations, although payment via direct debit is preferred. Where these 'in-person' payments are made, the income is allocated to the correct rent account as payment is made using a barcode which includes the rent account reference number. The post office and Paypoint payments are banked in full on receipt and this is checked daily on the banking statements.

### 4.3 **Rent Arrears Management and Collection**

- 4.3.1 A sample of accounts in arrears was reviewed. The sample included both current and former tenants. The accounts held all relevant information regarding the debts including: the dates the debts were incurred, the amount of debt, and the type of debt (rent arrears, court fee, repair recharges etc.). All correspondence was documented in the diary notes with some accounts having additional documentation saved to the relevant folder. Where arrangements were in place to repay the debt, it was detailed on the account, which also showed any payments that had been made towards debts.
- 4.3.2 Appropriate recovery action is being taken for all of the sample. Where the debts are for anything other than rent arrears this is also clearly detailed on the account in the appropriate tab. Where letters had been issued to the tenants, further recovery procedures were detailed should the tenant not repay the amount owed or take action as advised in the letter.
- 4.3.3 Rent recovery had been significantly affected since March 2020 due to the Covid-19 pandemic. During the lockdown the Government had introduced a stop on all evictions, which ended on 21 September. The guidance was updated in August which stated that, from the 21 September, the Council can only evict tenants that have at least twelve-months rent arrears and arrears which cannot be attributed to Covid-19.

- 4.3.4 A sample of accounts in arrears where the tenant was deceased was reviewed. These accounts were taking longer than normal to clear due to the ongoing pandemic. In many cases the lockdown had prevented the next of kin from accessing the property to enable them to clear it out or the ability to hire house clearance companies or skips when needed.
- 4.3.5 There is no acceptable level of arrears. All arrears form part of the workflow for the Income officers. Active H automatically generates a workflow for each individual officer listing any accounts which have arrears of one week or more. Officers also run their own reports to cross-check against the workflow ensuring that accounts in arrears are not missed.
- 4.3.6 Accounts in arrears are reviewed on an individual basis by the Income officer responsible for that 'patch'. They take into account the situation of the tenant and circumstances of the arrears, e.g. tenants may be waiting on a universal credit application, which can take four to five weeks, and the arrears would be allowed on a temporary basis until the universal credit becomes active.
- 4.3.7 Persistent debt is not monitored; each new phase of debt starts the debt process from the beginning. However, the Income office is able to view previous debt periods and arrangements.
- 4.3.8 Debt collection agencies are used only for recovery of arrears with former tenants. This is a last resort which is only used when all other methods of recovering the debt have been unsuccessful.
- 4.3.9 Where a tenant has various debts on their housing account, the rent arrears are always cleared first. Debts on their account can include recharges for repair work and court costs.
- 4.3.10 Quarterly reports are shared with management. They include relevant housing information allowing the service to be monitored and compared against the KPIs set in the Service Area Plan. The reports detail arrears, collection rates and payment type. However, as stated in 4.1 above, the performance reports do not include write-off information.

### **Risk**

**Management may not be aware of the loss of income from uncollectable rents and amounts written off.**

### **Recommendation**

**As agreed in the 2017-18 audit the write-off information should be included in the quarterly reports.**

### **Risk**

**Rents may be written off inappropriately as a method of reducing the arrears. (Arrears are monitored as a KPI whereas write-offs are not.)**

## Recommendation

### Management should review the KPI's in the Service Area Plan and consider including a relevant KPI for write-offs.

- 4.3.11 Debts that are written off are usually those incurred by former tenants where the debt collectors have failed to recover the funds or it is uneconomical to pursue them. Write-offs where the tenant is deceased can also be carried out only when there is no estate to reclaim the funds from. Write-offs over £70 must be authorised by the Head of Housing Services and amounts over £1,000 require authorisation from the Head of Finance.
- 4.3.12 A sample of write-offs and write-ons was reviewed. All transactions in the sample had appropriate documentation and authorisation. All transactions were for former or deceased tenants. The amounts written off corresponded with the amount owed on the account. Write-ons are carried out to re-add written off amounts to accounts, or on some occasions write-ons are used to transfer debt from a 'former account' onto a new one. Write-offs/ons are not just carried out for rent debts but include various other housing related reasons such as: contents insurance, court fees, benefits adjustments, rechargeable repairs, lifeline, service charges and buildings insurance.
- 4.3.13 In some cases, the debt has been written off for accounting purposes where the former tenant is still liable for the debt but there is little expectation of the Council receiving payment; this is classed as bad debt. It means it no longer shows as outstanding arrears and the system doesn't include it when producing the Income officer's workflow. In cases where payments are made against written-off amounts, periodic reconciliations are carried out which reduce the amount written off by the amount that has been paid. Full reversal of the total written off amount cannot be done as the bad debt will be counted as arrears again.

## 5 Summary & Conclusion

- 5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls that are currently in place in respect of Housing Rent Collection are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

- 5.3 Minor issues were, however, identified relating to:
- Management reporting of write-offs of uncollectable rent
  - KPI's included in the Service Area Plan.

6 **Management Action**

- 6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr  
Audit and Risk Manager

## Action Plan

## Internal Audit of Housing Rent Collection – November 2020

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.10	As agreed in the 2017-18 audit the write-off information should be included in the quarterly reports.	Management may not be aware of the loss of income from uncollectable rents and amounts written off.	Low	Landlord Services Manager	To be included in quarterly reports going forward, CR to liaise with BD & C Mgr (PS) to have report written and included.	31/12/2020
4.3.10	Management should review the KPI's in the Service Area Plan and consider including a relevant KPI for write-offs.	Rents may be written off inappropriately as a method of reducing the arears. (Arears are monitored as a KPI whereas write-offs are not.)	Low	Landlord Services Manager	Agree this to be included in the performance monitoring, to be decided at DMT whether this is a core or an operational PI.	31/12/2020

\* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.