

The Highland Council

Community Services Committee – 5 November 2015

Agenda Item	15
Report No	COM 62/15

Internal Audit: Management of Housing Voids

Report by the Director of Community Services

Summary

This report provides an overview and update in relation to a report on housing voids considered by the Audit and Scrutiny Committee on 30 September 2015.

1. Background

- 1.1 A final internal audit report on the management of housing voids was considered by the Audit and Scrutiny Committee on 30 September 2015. This report provides Members of the Community Services Committee with copies of the audit report and action plan, and an update on key issues and actions.

2 Audit Findings

- 3.1 The objectives of the review were to ensure that:
1. There are appropriate policies and procedures in place for the management of empty Council properties (voids) and these are adhered to by all staff.
 2. Appropriate action is taken to minimise the time that Council properties are empty and classified as void. Relevant performance and financial information is produced and monitored in order to assist with this process.
 3. Repairs to void properties are restricted to those essential to meet the Council's relet standard. All rechargeable repairs are fully and promptly charged to the outgoing tenant and appropriate action is taken to recover the sums due.
- 3.2 The full audit report is attached as **Appendix 1**. The main findings against the objectives can be summarised as follows:
- Objective 1: This objective was partially achieved, as the audit verified that the Council's Void Management Policy and Void Property Management Procedures are available to all relevant staff. However a number of instances were identified where target timescales were not met.
- Objective 2: This objective was partially achieved, as effective written procedures are in place for budget monitoring and

performance monitoring in respect of voids. Sample testing of tenancy offers found that the Allocations Policy was being followed. However, delays were identified in dealing with properties recorded as being "Performance Indicator Exempt".

Objective 3 This objective was partially achieved, as the Council's Housing Repairs Policy details which repairs are the Council's responsibility and which are the tenant's responsibility. However issues were identified in relation to the process for issuing invoices for recovery of costs from former tenants.

3.3 The action plan agreed for addressing the recommendations from the Audit is attached with the full audit report at **Appendix 1**. Since the Audit report progress has been made in implementing these recommendations.

3.4 A report on the management of void properties was considered by the Community Services Committee on 21 August 2014. The Committee agreed revised void management arrangements which have now been fully implemented across all areas.

4. Implications

4.1 Resource – there are no resource implications to highlight. Agreed management actions will be taken forward within existing resources.

4.2 Legal implications – there are no implications to highlight.

4.3 Equalities implications – there are no implications to highlight.

4.4 Climate Change/Carbon Clever implications – there are no implications to highlight.

4.5 Risk implications – the actions agreed and being taken forward will mitigate against the risks highlighted within the internal audit reports.

4.6 Gaelic implications - there are no implications to highlight.

4.7 Rural implications - there are no implications to highlight.

Recommendation

Members are asked to note the findings of the internal audit report and progress in relation to the agreed management actions.

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**INTERNAL AUDIT
FINAL REPORT**

COMMUNITY SERVICES

MANAGEMENT OF HOUSING VOIDS

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed review of the management of housing voids. The audit was undertaken as part of the annual plan for 2014/15 and considered void council properties, leased properties and temporary homeless accommodation.

During 2014/15 1,548 of the Council's 13,799 lettable houses became vacant (11.25%). The average time taken to relet void properties was 42 days, against a target of 35 days. The 2014/15 budget for rent loss from voids was £741,000 (£659,000 house rent voids plus £82,000 other rent voids).

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There are appropriate policies and procedures in place for the management of empty Council properties (voids) and these are adhered to by all staff (See 4.1).
- (ii) Appropriate action is taken to minimise the time that Council properties are empty and classified as void. Relevant performance and financial information is produced and monitored in order to assist with this process (See 4.2).
- (iii) Repairs to void properties are restricted to those essential to meet the Council's relet standard. All rechargeable repairs are fully and promptly charged to the outgoing tenant and appropriate action is taken to recover the sums due (See 4.3).

3. SCOPE, METHOD & COVERAGE

The audit reviewed the budget and performance monitoring procedures to assess whether the budget for the amount of rent lost to voids in 2014/15 would be achieved. This included reviewing a sample of void properties which did not meet the relet target to establish if there are any common issues, and analysis of refused tenancy offers.

The audit also reviewed a sample of void property repairs to ensure that repairs which were the responsibility of the tenant were recharged.

4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

- 4.1 This objective was partially achieved, as the audit verified that the Council's Void Management Policy and Void Property Management Procedures are available to all relevant staff.
 - 4.1.1 A sample of 30 void properties was reviewed to ensure that targets outlined in the policy and procedures for completing each stage of the void process were being achieved. This identified a number of instances where the targets were not being met which means that properties can be void for longer periods than necessary due to:
 - 2 instances where the issue of a termination letter exceeded the target of 1 day from receipt of notice from the tenant;
 - 4 instances where the pre-termination inspection exceeded the 14 day target from notice being given by the tenant;

- 2 instances where the void inspection exceeded the target of 3 days from the receipt of keys from the tenant.
- 1 instance where a works order was not raised within the target of 2 days from the void inspection.
- 4 instances where the time period for the works order to be completed exceeded the maximum target of 20 days. Satisfactory explanations for the delays have now been provided by the Performance & Building Maintenance Manager and the relevant Area Community Services Manager.
- 2 instances where there were delays in making tenancy offers.

(NB: Where explanations have been received they are recorded in the Action Plan).

The issues above affected 10 of the 30 properties reviewed. 8 of the properties had one of the above targets which was not achieved, 1 did not achieve 3 of the targets and 1 did not achieve 4 of the targets.

It was also noted that the void path within the Housing Information System was not being fully completed. The void path consists of 11 key process dates that a void goes through from the date notice is given on the old tenancy to the date the new tenancy starts and includes processes such as the date the property became void, the date of the void inspection and the expected date when the house will be fit for occupancy.

Some of the dates are automatically filled in from other parts of the Housing Information System such as the Estates and Allocations Modules. However, there are some dates, including those relating to inspections and work orders, which have to be entered onto the void path manually.

Each void event has a target date, generated by the system in response to the previous action taken, and an event date, the actual date the event happened. The monitoring process outlined in the Council's Void Management Guidance involves the use of a "Void Monitoring Spreadsheet" which is generated daily by Housing & Property Business Support using information logged on the void path in the Housing Information System.

When the void path is not fully completed, performance information on achieving voids targets cannot be produced centrally and therefore there is no Council wide overview or comparison of figures. Spreadsheets are used within Area teams to monitor void performance. However, this could result in administrative errors and inefficiency due to duplication of tasks if the data is input separately in the Housing Information System and on spreadsheets. It also leads to a situation where only those staff with access to the Area spreadsheet are aware of the current position for void properties in that Area.

- 4.2 This objective was partially achieved, as effective written procedures are in place for budget monitoring and performance monitoring in respect of voids. Sample testing of tenancy offers found that the Allocations Policy was being followed. However, there are delays in dealing with properties recorded as being Performance Indicator Exempt (PIE) under the categories "surplus to long term requirements" or "major structural work - refurbishment" and issues with budget monitoring as detailed below.

4.2.1 PIE properties

There are 4 properties within one street in Caithness which have been surplus to long term requirements since July 2008. The minutes of the Housing & Social Work Committee meeting of 06/08/08 show that Committee "agreed that 32, 34, 36 and 38 Kennedy Terrace would be considered for disposal as part of the regeneration of Pulteneytown in Wick and that detailed proposals be brought to a future meeting of the Committee". However, it appears that there has been no

subsequent report detailing how or when the properties would be disposed of. A further property with this status became fit for let on 27/03/14, but no tenancy offers were made before the property was returned to the owner on 12/05/15 (NB: The Council had leased the property from the owner). 5 other properties in the Ross & Cromarty area were identified which had been recorded as PIE for "major structural work – refurbishment" for a significant period. Delays ranging from 5 – 9 months were also noted in updating the property status on the Housing Information System when a further 5 properties became fit to be relet. Properties assigned PIE status are not included in the performance reporting figures as the technical guidance on the indicators provided by the Scottish Housing Regulator states that properties which are undergoing major repairs, structural work, or are due to be demolished or disposed of should be excluded from the performance figures. There is a resultant risk that this could lead to performance indicators showing relet performance within the Council's target, while the financial cost of voids exceeds the budget. A total of £154,185 of rental income was lost during the period the 15 properties detailed above were recorded with PIE status. In addition, maintenance costs of £5,700 were incurred over the same period as a result of the properties being unoccupied. It should be noted that there was also a loss of income to the Council from Council Tax that could not be collected due to the properties being void.

The 2012 Focused Inspection Report by the Scottish Housing Regulator found that the Council was incorrectly applying performance indicator exemptions to a significant number of empty properties. As a result, the Regulator stated that the Council was under reporting the average length of time it takes to re-let its empty properties. While guidance was issued to staff following the Regulator's report, this has not always been followed, and the issue therefore remains a concern.

Budget Monitoring

The audit identified that the budget monitoring figures for Quarter 3 of the 2014/15 financial year reported to the Community Services Committee on 05/02/15 (NB: this is the latest monitoring report) showed actual expenditure on house rent voids of £522K against a budget of 659K (79% of the annual budget spent to December), and projected an overspend of £32K. The anticipated year-end spend for other rent voids shown in the monitoring statement was £129K against a budget of £82K. The report also showed an actual spend to date of £198K but there was no reference within the covering report that outlined how the actual spend to December would be reduced by £69K to provide the anticipated year end figure. The other rent voids figure was queried with the Service Finance Manager, who stated that there should be a correlation between other rental income and other rent voids. Rental income was exceeding the budget, therefore the overspend in voids was expected to be lower than the amount shown in the ledger so the predicted overspend reported to Committee was reduced. He added that as part of the monitoring of the Housing Revenue Account for 2015/16 the income and expenditure lines listed below are to be scrutinised. Any potential variances will be reviewed to ensure accurate projections of outturn are reported to Committee:

Income

House rents, Other rents and Other income

Expenditure

Repairs and maintenance, House rent voids and Other rent voids

It is considered that this should result in more accurate budget monitoring information being presented to Committee.

4.3 This objective was partially achieved, as the Council's Housing Repairs Policy details which repairs are the Council's responsibility and which are the tenant's responsibility.

4.3.1 30 void properties where repairs were carried out were reviewed to ensure that applicable repairs were recharged, through the issue of a debtor invoice, to the outgoing tenant in line with the Repairs Policy. Where repairs were carried out as a result of "fair wear and tear" the repairs history for the property was reviewed to verify that this was reasonable. One instance was identified where a rechargeable repair was not identified by the Maintenance Officer and therefore no recharge was raised. Significant delays ranging from 6 to 15 months were identified in raising invoices to recover the cost of rechargeable repairs. These were largely due to the Housing Debt Officer being required to undertake a number of enquiries on the Housing Information System and, if necessary, with Maintenance Officers on each rechargeable repair to identify sufficient details of both the tenant and the work carried out for inclusion on the debtor invoice. It is understood that the Service have now introduced an improvement plan to reduce the delays in recharging. The Council's Financial Regulations require that invoices are "issued within 14 days from the date of the provision of service, at the month end for regular invoicing or when all associated charges are available". This requirement is not currently being met. Delays in issuing invoices reduce the likelihood of payment being received for rechargeable repairs.

During the initial audit meeting, reference was made to a review of the void letting standard being carried out with input from tenants. Following on from this a new "Empty Home Standard" was launched in May 2015. It is intended that this will ensure that all staff across all Areas are working to the same standard, and that tenants are aware of their responsibilities. However, as the standard was being reviewed during the period the audit was undertaken the application of the previous standard was not covered in the audit.

5. CONCLUSION

The audit found that policies and procedures were in place in respect of the management of housing voids. However, examples were identified where the policies were not being followed, or targets within the policy were not being achieved. The main issues identified relate to properties classified as Performance Indicator Exempt for a significant period of time, resulting in loss of income from rent and council tax and additional maintenance costs over a number of years. Regular delays in excess of 6 months for issuing invoices for rechargeable repairs were also found. These delays breach the Council's Financial Regulations and lessen the likelihood of receiving payment for the invoices once they are raised. There are 3 recommendations within the report, 2 of which are high priority and 1 medium priority. The recommendations have been accepted by management, and agreed action is due to be implemented by 30/11/15.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Limited Assurance** can be given in that weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk. The levels of assurance and their definitions can be found at Appendix 1.

7. ACTION PLAN

The Action Plan contains **3** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	2
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		3

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	<p>Targets for the completion of various stages of the voids process were not achieved:</p> <p>1) 2 instances were identified where the issue of a termination letter exceeded the target of 1 day from receipt of notice from the tenant. These were in properties NA1900360 (4 days – delay thought to be as a result of staff being on leave) and IN0350260220 (3 days – delay in passing the letter of termination to the appropriate officer).</p> <p>2) 4 instances were identified where the pre-termination inspection exceeded the 14 day target from notice being given by the tenant. The properties in question were LO0010270045 (16 days – The keys for this property were returned early by the client, so a full void inspection was carried out rather than also carrying out a pre-termination inspection), RC076180002 (20 days – delay partly due to logistical problems as the property is on the West coast. There were also difficulties</p>	<p>1-6) The targets outlined in the void procedures should be followed to ensure that the duration of voids is minimised. In cases where the target is not achieved the reason should be documented;</p> <p>7) The void path in the Housing Information System should be updated to enable performance monitoring of void properties to be carried out effectively.</p>	<p>Incorporate more detailed exception reporting into current management processes to identify cases where targets are not being met.</p>	Area Community Services Managers	30/11/15
				<p>Amend void path to record reason for delay where this is unavoidable.</p>	Performance and Building Maintenance Manager	30/11/15
				<p>End the use of separate area spreadsheets and ensure consistent use of the void path, per current procedures.</p>	Area Community Services Managers	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
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		<p>engaging with the tenant's family after the tenant moved into a care home), RC065730003 (18 days – delays due to staff shortages and competing Maintenance Officer workload) and CA7050410 (20 days – delayed as the tenant requested additional time to tidy up the property during the notice period. Request was agreed as it was better use of time to carry out the inspection once any works by the tenant were completed).</p> <p>3) 2 instances were identified where the void inspection exceeded the target of 3 days from the receipt of keys from the tenant. The properties affected were RC076180002 (7 days – see explanation at 2 above), and CA7050410 (4 days – delay due to high workload that week).</p> <p>4) 1 instance was identified where works orders were not raised within the target of 2 days from the void inspection. This related to property RC076180002 (8 days – see explanation at 2 above).</p> <p>5) 4 instances were identified where the time period for the works order to be completed exceeded the maximum target of 20 days. These related to properties IN0260440400 (63 working days), IN0263000123 (25 working days), RC076180002 (31 working days), IN0206411860 (50 working days). Satisfactory explanations for the</p>				

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		<p>delays have now been provided by the Performance & Building Maintenance Manager and the Area Community Services Manager.</p> <p>6) 2 instances were identified where there were delays in making tenancy offers. These were in respect of properties NA1360070 (New build property recorded on HIS as void from 22/09/14. However, this property only became available for let on 21/11/14. First offer made to a homeless applicant on 06/11/14, and was refused on 10/11/14. Second offer could not be made until the applicant's appeal process had been resolved) and CA7050410 (Fit for let 30/07/14, tenancy offered 24/09/14 refused on 02/10/14. Second offer made 27/01/15. Delays were due to there being no prospective tenants on the list for this low demand property).</p> <p>7) The void path in the Housing Information System was not always completed.</p>				
4.2.1	High	<p>Properties were identified where Performance Indicator Exempt status was applied over a number of years and delays were identified in updating the property status when the property became fit for occupancy:</p> <p>1) 4 properties within the same street in Wick have shown void status PIE1 (Surplus to long term requirement) since July 2008</p>	Properties with PIE status should be reviewed regularly to ensure that the status remains applicable, and there is progress towards returning the property to the lettable standard, or towards the disposal of the property. This would help minimise the loss of rental and council tax income and reduce	Incorporate more detailed exception reporting into current management processes to identify properties held at Performance Indicator exempt Status.	Area Community Services Managers	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>(Property refs CA7020320, CA7020340, CA7020360 and CA7020380). Testing also identified 2 properties (RC021720060 and RC021720062) which had recorded void status PIE4 (Major structural work - refurbishment) since May/August 2012, and similarly RC021440013 which has recorded status PIE4 since 15/03/13. These 3 properties are not fit for habitation and cannot be occupied and the Area Community Services Manager has been exploring options for refurbishment / redevelopment.</p> <p>2) Property RC032300026 has recorded void status PIE4 since 08/02/13 with a note stating that it is awaiting conversion. The property is now recorded on the Housing Information System as 2 properties (RC032300026A and RC032300026B). Tenancy offers for both properties were issued on 07/01/15, but no response to either was recorded at 06/05/15. Property A still records status as PIE4, however property B is shown as void. The Area Community Services Manager explained that the property was converted to 2 separate dwellings. There were different handover dates for the resulting units due to issues with the electrical supply for one of the properties.</p>	the maintenance costs incurred.			

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		<p>Similarly, property RC021490042 had PIE4 status applied from 13/01/14. This property has since been split into 2 units on HIS (RC021490042A & RC021490042B). RC021490042A was let on 05/03/15, but RC021490042B showed the status as PIE1 (Surplus to long term requirement) until 15/04/15 and has had no tenancy offers issued to date. The Area Community Services Manager explained that the property was converted to 2 separate dwellings and there was a delay in letting one of the resulting units due to risk assessment requirements.</p> <p>3) 5 Properties were identified where the status was not updated timeously. CA7800090 and CA7030360 are recorded as being fit for occupancy (FFO) on 09/05/14 but were shown with status PIE4 until 27/01/15. CA7060500 is FFO on 21/05/14 but the status was not updated from PIE4 to void until 09/12/14. CA7160230 is shown as FFO on 09/05/14 but was PIE4 until 20/10/14. Normally a property being relet acts as a trigger to end PIE status, however these properties were all low demand and were not quickly relet. As a result, the requirement to end PIE status was overlooked. RC065220085 was used as a decant property until 15/04/14, however the status was shown as</p>				

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		<p>DEC (Held for decant) until 06/02/15. As a result, these properties would not be included in voids performance indicators despite being fit for occupancy.</p> <p>4) Property RC702320004 has had status PIE1 since 19/02/14, but has been fit for occupancy since 27/03/14 with no tenancy offers being made. This property was returned to the owner on 12/05/15, but rental income could have been collected for over a year if it had been relet. The Area Community Services Manager explained that there was a lack of co-operation and ongoing dispute with the owner, which led to the property not being occupied whilst resolution over handback was finally resolved.</p>				
4.3.1	High	<p>There have been significant delays in the issue of invoices for rechargeable repairs.</p> <p>1) Invoice (103124648) was raised for £458.10 in respect of rechargeable repairs on property IN0150630180, however the invoice was not raised until 19/03/15 despite the works order being closed (and therefore the rechargeable costs finalised) on 27/11/14. Similarly, invoice (1000008662) for rechargeable repairs on property BA504086.2 was only raised on 30/04/15 despite the repairs being carried out in July 2014. A further 6 properties are included in the current invoicing batch to be</p>	As required in the Council's Financial Regulations, invoices should be issued within 14 days from the date of the provision of service, at the month end for regular invoicing or when all associated charges are available.	Review arrangements for rechargeable repairs to issue invoice as soon as work is completed rather than waiting for final costs.	Head of Housing/ Performance and Building Maintenance Manager	Completed

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		<p>raised on Integra, however the dates when the debtors vacated the properties range from 12/04/14 - 17/09/14. The total value of rechargeable repairs for these properties is £3,071.24.</p> <p>2) The process for invoicing for rechargeable repairs requires a significant level of work from the Housing Debt Officer to identify the details of work carried out for inclusion on the debtors invoice. As a result, the invoicing process is not carried out as regularly as intended (intended that the process would be carried out monthly).</p>				

Internal Audit Opinion

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Reasonable Assurance	Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.