

Item: 7.5

Monitoring and Audit Committee: 21 September 2023.

Internal Audit Report: Housing Rents.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the internal audit report on procedures and controls relating to housing rents.

2. Recommendations

The Committee is invited to scrutinise:

2.1.

The findings contained in the internal audit report, attached as Appendix 1 to this report, reviewing procedures and controls in place regarding the charging of rent and its collection from tenants of Council owned residential properties, in order to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

The administration of the charging of residential rent is carried out by the Housing Management Section within Housing Services while the administration of rent collection is carried out by the Revenues Section within Finance.

3.2.

The rent income from the Council owned residential properties is approximately £4m per year.

3.3.

The objective of this audit was to review procedures and controls in place regarding the charging of rent and its collection from tenants of Council owned residential properties.

4. Audit Findings

4.1.

The audit provides adequate assurance that procedures and controls relating to housing rents are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes three medium priority recommendations regarding writing off debt and collection of rent arrears. There are no high priority recommendations made as a result of this audit.

4.3.

The Committee is invited to scrutinise the audit findings to obtain assurance that action has been taken or agreed where necessary.

5. Corporate Governance

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations in this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officer

Andrew Paterson, Chief Internal Auditor, extension 2107, email andrew.paterson@orkney.gov.uk.

9. Appendix

Appendix 1: Internal Audit Report: Housing Rents.



Internal Audit

Audit Report - Housing Rents

Draft issue date: 11 May 2023

Final issue date: 1 September 2023

Distribution list:	Service Manager (Housing, Homelessness and Schoolcare Accommodation) Revenues Manager Head of Finance Head of Community Learning, Leisure & Housing Corporate Director for Education, Leisure & Housing Corporate Director for Enterprise and Sustainable Regeneration
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Audit Opinion

Based on our findings from this review we have given the following audit opinion.

Adequate

Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The objective of this audit was to review procedures and controls in place regarding the charging of rent and its collection from tenants of Council owned residential properties.

Council tenant arrears throughout Scotland have increased over the last decade and significantly since the commencement of the COVID-19 pandemic. During the pandemic there has been a mandatory suspension of some debt recovery actions and at the same time some households have faced reduced incomes. Inflation continues to impact on households cost of living.

Our audit provides adequate assurance that the framework of governance, risk management and control around housing rents is operating effectively. The Council now needs to increase its focus in reducing the level of rent arrears which have grown in recent years. The Council is currently reviewing its rent arrears procedures and debt collection processes.

Our audit has confirmed that there are several areas of good practice evident to housing rents, for example:

- Accurate and full reconciliations are regularly carried out between tenant ledgers, billings, monies received and the accounting ledgers.
- Regular review of tenant arrears and a range of activity taking place for collecting arrears including, phone calls made, letters issued, interviews, notice of legal proceedings to be initiated and court action.
- Support provided to tenants who are experiencing financial difficulty.

The report includes 3 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
3	0	3	0

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The administration of the charging of residential rent is carried out by the Housing Management Section within Housing Services while the administration of rent collection is carried out by the Revenues Section within Finance. The administration and management of rent arrears is carried out between the Housing Management Section, the Revenues Section, and an officer within the Payments section.

Rent payments are payable weekly in advance and a variety of payment methods are available to tenants. Rent payments may be reduced if the tenant is in receipt of housing benefit. When a tenant is in receipt of Universal Credit and is in rent arrears of 8 weeks or more the Council can make a request to the Department for Work and Pensions to deduct an agreed amount which is then paid to the Council instead.

When tenants are experiencing difficulties in paying their rent, they are advised to contact the Housing Management Section in the first instance.

When arrears are identified, the first option which is pursued is a voluntary arrangement, this is based on how much the tenant can afford to pay.

Should the tenant carry on without paying, or only make irregular payments, the Council may take legal action to recover the money owed. This could ultimately lead to the tenant being evicted from the property. Given the homelessness legislation, eviction is not a solution to the problem.

The findings of our most recent review on rent arrears were reported to the Monitoring and Audit Committee on 17 February 2022. The main focus of that review was on changes brought in during the COVID-19 pandemic. This review will focus on activity needed for the post COVID-19 pandemic era.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Scope

The scope of the audit was to gain assurance as to whether:

- Rent charges are properly raised for all relevant residential properties in accordance with rent levels and other charges set by the Council.
- Payment of rents received are promptly processed and correctly posted to tenant accounts.
- Arrears follow-up procedures are properly controlled.
- Internal controls are operating well to reduce the possibility of funds being misappropriated.
- There are adequate controls over the operation and management of the rents system.
- Processes for the management of rent arrears have been reviewed and adapted following the temporary measures in place during the COVID-19 period.

Audit Findings

1.0 Residential Rent Charging

- 1.1 Our review found a high level of accuracy and completeness for the raising of rent charges which are in line with the level of charges and annual rent increases set by the Council.

2.0 Collection of Rent Payments

- 2.1 Payment of rents received are promptly processed and accurately posted to the tenant's account.
- 2.2 Internal controls in operation are suitable in managing the risk and opportunity of funds being misappropriated.
- 2.3 There are adequate controls of system access to the rents administration software system and regular reconciliations carried out to the data held within the system.

3.0 Management of Rent Arrears.

- 3.1 Our audit included a detailed review of activity carried out on a random selection of 12 tenant accounts in arrears. There has been much activity carried out within the housing service to reduce and recover these arrears with 150 actions recorded against these 12 accounts. Actions taken include telephone calls, letters issued, home visits, interviews at the council offices, notice of legal proceedings being commenced and court actions.
- 3.2 In addition to the above actions, some 90 higher value arrears balances are reviewed by a team of Officers, across services, usually each month.
- 3.3 The table below summarises the annual collection rate of residential rent by Orkney Islands Council (OIC), compared to the overall collection rate for all Scottish local authorities (see figure 1).

Housing Rent Collection Rates			
<u>Financial Year end</u>	<u>Orkney</u>	<u>Scotland</u>	<u>Variance</u>
31-Mar-22	99.5%	99.3%	0.2%
31-Mar-21	96.6%	99.1%	-2.5%
31-Mar-20	94.8%	99.3%	-4.5%
31-Mar-19	98.2%	99.1%	-0.9%
31-Mar-18	98.8%	99.4%	-0.6%
31-Mar-17	98.1%	99.6%	-1.5%
31-Mar-16	99.4%	99.6%	-0.2%
31-Mar-15	98.8%	99.5%	-0.7%

NB: From data reported by the Scottish Housing Regulator

Figure 1

- 3.4 Figure 1 shows that Orkney's rent collection rate for financial year ending 31 March 2022 was above the Scottish average by 0.2%. This follows two financial years where the housing collection rate was 2.5% and 4.5% below the Scottish average. For the five preceding years, Orkney's annual rate of housing rent collection was between 0.2% and 1.5% below the overall collection rate for Scottish local authorities.

- 3.5 It should be recognised that different local authorities have experienced different impacts from the effects of the COVID-19 pandemic and in many cases these impacts were not necessarily universal. Difficulties were compounded with the move to Full Service Universal Credit.
- 3.6 For Scottish local authorities as a whole on 31 March 2022, rent arrears on council dwellings was £99.04million (this represents 7.8% of the Standard Rental Income from dwellings). The total rent arrears of £99.04 million was up £11.52m (13.2%) on the previous year. The 31 March 2021 total of £87.52m was itself £10.46m (13.6%) up on the 31 March 2020 total. Rent arrears on council dwellings for Scottish local authorities as a whole has risen steadily over the decade prior to this period.
- 3.7 For the Council, on 31 March 2022, rent arrears on council dwellings was £550,000 which equates to 13.66% of its annual Standard Rental Income from dwellings. This being the second highest percentage rate in Scotland. Due to issues with rent arrears the Scottish Housing Regulator’s (SHR) Engagement Plan has a requirement that the Council provides the SHR with information about the actions it is taking to improve its performance on, amongst other things, rent arrears. The total for 31 March 2022 is an increase of £20,000 on the previous year. The total rent arrears on Orkney’s Council dwellings on 31 March 2019 was £170,000. In broad terms, since the COVID-19 pandemic, rent arrears on Council dwellings has increased by £380,000 (225%) (see figure 2).

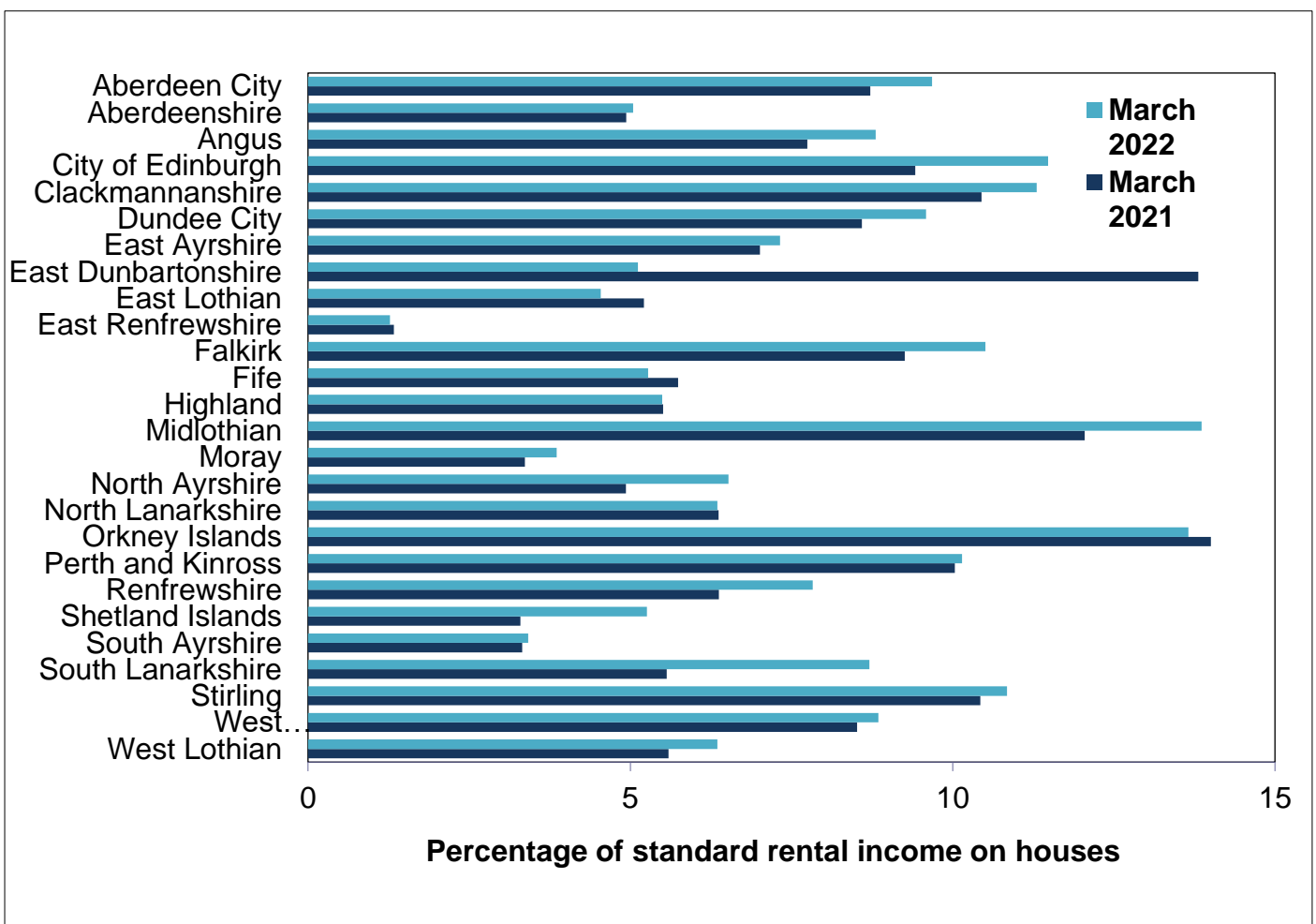


Figure 2: Rent Arrears at 31 March as a Percentage of Annual Standard Rental Income on Dwellings, by Local Authority, March 2021 to March 2022

- 3.8 Of the total rent arrears for the Council of £550,000 approximately 38% is for former tenant rent arrears. This is currently being analysed with a view to writing off unrecoverable debts.
- 3.9 In 2021/22 budgets, councils across Scotland wrote-off £9.7m of outstanding rent as unrecoverable (this represents 0.8% of Standard Rental Income) compared to £11.7m in the previous year. Write-offs for 2021-22 varied from none in Clackmannanshire and Dundee City to £1.8m in North Lanarkshire. Amounts of arrears written-off by councils can be influenced by councils' accounting policies and judgements on whether arrears are recoverable.
- 3.10 The Council's practice has been to make minimal write-offs of debt due. The Council should consider whether the provision it makes against tenant arrears is adequate in covering tenant potential and actual bad debt.

Recommendation 1

4.0 Conclusion

- 4.1 The Council is reacting to the increase in rent areas by reviewing its rent arrears and rent collection procedures.
- 4.2 The current method of managing rent arrears is labour intensive and can become disjointed amongst services. Tenant arrears are removed from the housing rent system and invoiced via the accounting system when debt collection action is escalated. Although invoiced housing debts are predominantly former tenant or tenants who have moved, there have been instances where tenants are sent statements with a balance due from one system which does not incorporate the balance from the other.
- 4.3 The Council should consider whether the process for the collection of arrears could be more streamlined.

Recommendation 2

- 4.4 The procedures in relation to the write off of former tenant arrears is currently being reviewed and the Engagement plan in relation to both former and current tenant rent arrears will be monitored by the Scottish Housing Regulator.
- 4.5 The Council should consider any further activity it could carry out to reduce rent arrears as part of reviewing its processes.

Recommendation 3

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 The Council should consider whether the provision it makes against tenant arrears is adequate in covering potential and actual bad debt.	Medium	This has now been considered and a process of reviewing Former Tenant Arrears has been put in place in July and January annually. First review in September 2023 as a one off prior to these being implemented.	Service Manager (Housing, Homelessness & Schoolcare Accommodation) Service Manager (Revenue & Benefits)	31 October 2023
2 The Council should consider whether the process for the collection of arrears could be more streamlined.	Medium	Currently working on test system to ensure that upgrades can go ahead. Delay in implementation of Direct Debits has occurred in respect of Council Tax which could impact on Housing being taken forward.	Service Manager (Housing, Homelessness & Schoolcare Accommodation) Service Manager (Resources) Service Manager (Improvement & Performance)	31 January 2024
3 The Council should consider any further activity it could carry out to reduce rent arrears as part of reviewing its processes	Medium	Housing are continually reviewing rent arrears activity. Housing now has a key member of staff dealing with serious arrears on part time contract who was recruited during COVID-19. Staff member available full time due to other role within Housing which has had a good impact on dealing with rent arrears.	Service Manager (Housing, Homelessness & Schoolcare Accommodation) Team Manager (Housing and Homelessness) Housing Officer (Income Collection)	Complete

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.