



Hinckley & Bosworth Borough
Council - Internal Audit Report

Housing Rents

January 2023

Final Report

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01 Introduction

As part of the 2021/22 Internal Audit Plan, we have undertaken an internal audit of housing rents at Hinckley and Bosworth Borough Council. The objective of the audit was to evaluate the adequacy of the system of internal controls and its application in practice with the area under review.

We are grateful to the Senior Tenancy Management (Rents) Officer and Head of Housing for the assistance they provided to us during the course of the audit.

This report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the review. Such matters have been discussed with the relevant staff.

02 Background

Covid-19 has led to an increase in rent arrears with more tenants now claiming Universal Credit (UC) due to reduced income. This, coupled with the ongoing cost of living crisis has continuously put rent collection mechanisms in the spotlight. The results of the most recent Regulator of Social Housing's (RSH) Quarterly Survey highlighted that in Quarter 1 of 2022/23, current tenant arrears had increased from 3.4% to 3.6%.¹

The Council has 3,229 homes across the Borough. The collection of rent and arrears management is the responsibility of the Tenancy Management team at the Council. The Team consists of the Head of Housing, the Anti-Social Behaviour (ASB) & Tenancy Manager, the Senior Tenancy (Rents) Officer, and the Tenancy (Rents) Officer. The Council has a Rent Arrears and Recovery Policy which sets out the expectations or requirements regarding rental arrears. The Council aims to collect all debts owed from former tenants in order to maximise its income and achieve its objectives of delivering an efficient and cost-effective Housing Service.

Preventing tenants falling in to rent arrears is a key priority and measures implemented include:

- Signposting tenants to support services such as the Money Advice Service and StepChange Debt Charity;
- Publishing Advice and guidance on the Council website;
- Providing support for new tenants through the Introductory Tenancy Officer.

Rent arrears collection is monitored through the housing management system, Orchard, using the Arrears Management module. The Council takes an incremental approach to rent arrears recovery. The initial 'Out of Court' stage states that tenants will receive notification of arrears, followed by a reminder and a final demand. If payment is not received, the case will progress to the Legal Action Stage, in which the Council will issue a Notice of Seeking Possession (NOSP). If payment is not received in 28 days, court action will be initiated, and notification of a court hearing will be issued.

The level of rent arrears by area across the borough is monitored on a weekly basis. The Council reports the following Key Performance Indicators (KPIs) quarterly to Senior Leadership Team (SLT):

KPI	2021/22 Actual	2022/23 Target	March 2022	June 2022
Percentage of rent collection and arrears recovery (including Former Tenant Arrears)	97.83%	97%	97.83% ↑	75.47% ↓
Percentage reduction year on year outstanding debt owed to HBBC	-5.72%	6.05%	-6.05% ↓	-15.91% ↓

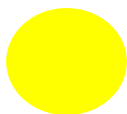
Following the termination of a tenancy, the Council will notify the tenant of any debt remaining on their account by means of a Former Tenant Arrears Letter (FTA). If any tenant (former or current) is unable to clear any monies owed in full, the Council should arrange a repayment plan. Where attempts to recover arrears by letter have failed, or the whereabouts of the tenant is

¹ [Quarterly Survey Q1 2022-23.pdf \(publishing.service.gov.uk\)](#)

not known, the Council may use all information and opportunities available to locate them, including tracing agents. If deceased, action will be limited to contacting the next of kin or executor to claim against the estate. Where a debt is uneconomical to pursue or there is no prospect of recovery, a write off should be considered, following review by the ASB and Tenancy Manager or the Head of Housing. The Council may also consider writing off debt where debt has been incurred as a consequence of financial hardship or there has been a delay in clearing the property in relation to the Covid-19 pandemic.

03 Key findings

Assurance Rating



Moderate Assurance

Rationale

Based on the agreed scope and rating criteria (see **Appendix A1** for the detailed scope and definitions of the assurance ratings), there is **Moderate** assurance over the system of internal control evaluated.

The operation of controls within a specific area of Former Tenant Arrears has been determined as Limited in the case of debt recovery, hence the High Priority recommendation. However, as this was a discrete area of the programme, Moderate assurance has been given overall.

We have identified several areas of fundamental and significant control deficiency, and areas with room for improvement. Further detail regarding the recommendations is in **Section 04** and a summary of key observations is included below.

Priority	Number of Recommendations
High	1
Medium	1
Low	1
TOTAL	3

3.1 Examples of areas where controls are operating reliably

- The Council has an approved Rent Arrears and Recovery Policy in place that governs the management of housing rents. The Policy was last reviewed by the Senior Leadership Team in November 2020. The frequency of review is two yearly, with the next review scheduled for November 2022.
- The Rent Collection and Procedure for collection of former rent arrears are incorporated as appendices of the Policy. These are also due for biennial review by the Senior Leadership Team. The procedure details that upon tenancy sign up, all rent charges and payment methods will be explained to them.
- Through review of the digital policy on the Council website, we noted that the Council has preventative measures in place to reduce the risk of the tenants going into arrears. They are as follows:
 - The measures that the tenants should follow in case they are faced with difficulties in paying their rent such as if their income has been affected by coronavirus and they are unable to make rent payments, they should contact the council. In addition, If the tenants need to make changes to their payment plan, or fall into financial difficulty, it is vital that they contact the Rents Team.
 - It is further outlined that, the tenants signed for their tenancy, all rent charges and payment methods will have been explained to them, but if they need to go through these again,

a member of the Rents Team will be happy to discuss your options.

- Furthermore, the tenants are afforded an opportunity to apply for Universal Credit or in some cases, Housing Benefit if they are struggling with paying their rent.
- This section was updated on 21/10/2021.
- The Rent Arrears and Recovery policy has considered the consequence of the Covid-19 pandemic impact and the Council has made a commitment that it will support those affected by the Covid-19 pandemic with repayment plan options and provide an alternative approach to legal action. This was outlined on the digital policy which is available on the digital website for public access.
- We selected a sample of ten current tenants in arrears from Orchard reports of 1189 tenants with arrears over £500 and £1000. We confirmed that a staged approach to attempt to recover the arrears was followed in line with the Rent Arrears and Recovery Policy and Procedures with letters recorded on the system. (We note that the Rent Arrears and Recovery Policy does not explicitly state the timescales for the staged in the recovery process and have raised a recommendation in Section 04 in relation to this).
- We reviewed system notes for the same sample of ten current tenants in arrears and observed that tenants who were identified as requiring financial support are referred to the benefits function at the Council to help with any applications to maximise benefit entitlement. In addition, tenants were also referred to charities where applicable.
- Weekly arrear reports generated from the Orchard system of cases over £500 and £1000 as priority to review.
- We were informed by management that there were seven cases that have been escalated to court since January 2022. We reviewed three cases out of the seven (43%) and confirmed that the Council initiated all the steps of recovery prior to legal action within the given

policy timeframes and had engaged with tenants in an attempt to arrange payment plans.

- The Council reports the following Key Performance Indicators (KPIs) quarterly to Senior Leadership Team (SLT):
 - Percentage of rent collection and arrears recovery
 - Percentage reduction year on year outstanding debt owed to HBBC
- We selected a sample of two quarterly reports (Quarter 4 2021/22 and Quarter 1 2022/23) and noted that management were informed of the rent collection issues. Comments on the performance indicators were made and if there were issues with collection for that quarter, that was highlighted on the report and if there were improvements, those were also highlighted. The Council uses a guide named (AC Best Value Guidance 2007/08 | 5 - Housing 108) to calculate performance on the KPIs using a defined formula as per the guide. We further tested the figures reported through recalculation using the data provided from Orchard and the reported performance agreed to the data.
- The Council also has the Council Housing Services Update report which is prepared annually for the Senior Leadership Team (SLT) and Finance and Performance Scrutiny. The purpose of the report is to inform members of key activities and performance within the Council Housing Service including; Anti-Social Behaviour, Rents, Tenancy Management, Housing Repairs, and Older person services. We reviewed the 2021/22 report and confirmed it included rent collection performance in 2021/22 compared to the prior two years.

3.2 Risk Management

The Council's Housing and Community Safety Risk Register includes the following risks relating to this audit:

- HCS.093 Current Tenant Debt- COVID; and
- HCS.098 Increase in bad debt.

Mitigating actions listed include:

- Revised rent arrears recovery process
- Specialist rents team in place and fully staffed
- Proactive work with those tenants affected by financial hardship as a consequence of the pandemic.

The Rent Arrears and Recovery policy has considered the consequence of the Covid-19 pandemic impact and the Council has made commitment that it will support those affected by the Covid-19 pandemic with repayment plan options and provide an alternative approach to legal action.

3.3 Value for Money

We have seen that some organisations are adopting additional software to analyse their rent accounts to identify high risk arrears cases as they emerge, which will need immediate action, and also cases where current payment levels will lead to accounts falling into arrears. The software is used to help to improve the efficiency or prioritising arrears cases and which ones the officers involved in income management are to focus on.

The Council does not currently have such a software in place, however, Orchard has a module to manage arrears which the Council uses. In addition, Orchard is configured in such a way that it sets thresholds values for arrears greater than £500 and £1000. This helps the council to flag the arrears which are accumulating and require intervention.

3.4 Sector Comparison

With the rollout of Universal Credit, the responsibility for managing rent payments lies with the tenants. While this scheme is designed to encourage financial responsibility and independence there is a serious concern that arrears from Universal Credit tenants will increase resulting in a higher rate of arrears-related evictions. However, resorting to eviction holds a risk of reputational damage. We understand that the Council are working with Department for Work and Pensions (DWP) to put in place direct payments.

There is an onus on organisations to place focus on personal contact with tenants to better understand and support them. Tenants who had previously been 'unseen' as their rents were paid directly now need greater support. This risk is further increased among vulnerable tenants who may rely on state funded housing. As such, we have seen a major push to improve the non-housing related support service offering from organisations to engage with the most at-risk individuals. Council's have established welfare support teams who provide financial or social advice, with links to external credit unions, money advice services and debt management firms if needed.

The Council is currently performing in line with peers by offering support to tenants through a number of services such as the Universal credit and Housing benefits.

04 Areas for Further Improvement and Action

Definitions for the levels of assurance and recommendations used within our reports are included in **Appendix A1**.

We identified areas where there is scope for improvement in the control environment. The matters arising have been discussed with management, to whom we have made recommendations. The recommendations are detailed in the management action plan below.

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.1	<p>Former Tenant Arrears (FTA)</p> <p>We selected a sample of five former arrears cases out of 383 cases and noted that in three cases arrears were not pursued by the Council in line with the Procedure for Collection of Former Rent Arrears. We identified:</p> <ul style="list-style-type: none"> one occasion where no FTA letter was issued to the tenant. A government initiative was introduced due to Covid-19 in which creditors could not chase debt for a period of time. After this expired, the Council failed to initiate any further chasing of the debt. two occasions where no FTA was issued as there was no forwarding address recorded on the system as the tenant did not provide the Council with the new address upon lease termination or expiry. <p>The Former Tenant Arrears Schedule as at September 2022 highlights 400 former tenant in arrears totalling £357k.</p> <p>Whilst we were not able to determine the age of these arrears, some values suggest many of these can be considered for write-off where the process of pursuing them has been exhausted.</p> <p>In addition, where a debt is uneconomical to pursue or there is no prospect of recovery, a write-off should be considered, following review by the ASB and Tenancy Manager or the Head of Housing.</p>	<p>Former tenant arrears should be monitored, and action taken in a timely manner.</p> <p>Cases should not be left un-actioned for a significant period of time. Where appropriate, debt should be written off, as per the requirements of the Procedure for Collection of Former Rent Arrears.</p>	High	I will be introducing a more robust approach to managing FTAs over the coming months.	<p>March 2023</p> <p>Head of Housing</p>

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/responsibility
	<i>Risk: Where action is not taken in a timely manner to retrieve former tenant arrears, there is an increased risk of no payment.</i>				
4.2	<p>Reported Performance</p> <p>The Council reports the two Key Performance Indicators (KPIs) quarterly to Senior Leadership Team (SLT) as tabulated in the background information of this report.</p> <p>Upon review of the KPI performance reported taking into account the actual performance versus the performance targets, we noted that the performance targets were not met on the first KPI for the quarter ending 30 June 2022 and on the second KPI for both quarters ending 31 March 2022 and 30 June 2022.</p> <p>There is currently no action plan in place to remedy the underperformance on the KPIs.</p> <p><i>Risk: There is a risk that the performance targets might not be realistic.</i></p>	<p>Management should consider reviewing the performance targets to determine if there is a need to adjust them based on the current factors such as the current cost of living crisis.</p> <p>In addition, management should introduce action plans on how they are going to remedy the underperformance on the KPIs.</p>	Medium	<p>Rent performance indicators are already provided with additional context regarding wider economic impacts.</p> <p>There is an action plan that looks at the cost of living crisis, which considers rent performance.</p>	N/A
4.3	<p>Incremental Approach Timelines</p> <p>Section 7.2 of the Rent and Arrears Policy outlines the stages of rent recovery which includes stages for out of court (e.g. notification, reminder and final demand) and legal action (for example, Notice of Seeking Possession).</p> <p>Whilst the policy clearly defines the stages of rent recovery that should be followed in trying to recover rent arrears, we noted inconsistencies regarding the timeframes on when each stage should be executed. Only the Notice of Seeking position and Notice of Seeking Possession Coronavirus Act 2020 had stipulated timeframes on when to execute the notice, the other stages did not have time frames explicitly defined.</p> <p><i>Risk: There is a risk of delays in incremental approach execution due to not having set timeframes on the steps.</i></p>	<p>The Council should consider amending the policy to explicitly outline the timeframe on when each stage of the incremental approach will be executed for all stages.</p>	Low	<p>Given the cost of living crisis a less prescriptive approach to rent recovery is currently required. County Judges are only evicting people in substantial rent arrears cases.</p>	N/A

A1 Audit Information

Audit Control Schedule	
Client contacts:	Madeline Shellard: Head of Housing Tricia Lavender: Senior Tenancy (Rents) Officer
Internal Audit Team:	Peter Cudlip: Partner Hannah Parker: Field Manager Axolile Kopman: Senior Internal Auditor
Finish on site / Exit meeting:	8 August 2022
Draft report issued:	18 October 2022 / 16 November 2022
Management responses received:	8 November 2022 / 24 January 2023
Final report issued:	26 January 2023

Report Distribution List		
Report	Name	Job Title
Draft & Final	Tricia Lavender	Senior Tenancy Officer
Draft & Final	Madeline Shellard	Head of Housing
Draft & Final	Sharon Stacey	Director (Community and Development Services)
Draft & Final	Ashley Wilson	Head of Finance (Section 151 Officer)
Final	Bill Cullen	Chief Executive

Scope and Objectives

Audit objective: Our objective is to provide assurance that HBBC has effective controls in place over rent arrears recovery arrangements for current and former tenants.

Our audit considered the following risks relating to the area under review:

- Policies and procedures - The Council does not have an adequate policy framework in place for rent arrears collection. The Council's policy is not reflective of current legislation, changes due to welfare reforms, increased financial challenges due to Covid-19 or good/successful practice in the sector.
- Arrears prevention - The Council has no measures in place to reduce the risk of tenants falling into arrears (e.g. maximising benefit take up and external publicity).
- Arrears recovery action - Arrears are not identified quickly, and appropriate action taken in line with approved policy and procedures. The Council does not have effective methods for prioritising and actioning arrears cases. Where Early Intervention has failed and increasing arrears are not identified in timely fashion, appropriate action is not taken in line with approved policy and procedures. Arrears action taken on cases is not recorded appropriately.
- Court escalation - Court action is inappropriately taken.
- Arrears monitoring - Monitoring and reporting of values and trends is not robust, so failing procedures or insufficient resources are not rectified by management in timely fashion.
- Performance reporting - Senior management are unaware of performance issues with rent collection.

The objective of our audit was to evaluate the adequacy of key controls and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

The limitations to this audit were that testing was performed on a sample basis and as a result our work does not provide absolute assurance that material error, loss or fraud does not exist.

Definitions of Assurance Levels	
Level	Description
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and 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 could 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.

Definitions of Recommendations	
Priority	Description
High (Fundamental)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.
Medium (Significant)	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.
Low (Housekeeping)	Scope for improvement in governance, risk management and control.

Statement of Responsibility

We take responsibility to Hinckley and Bosworth Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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