

REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

08 November 2018

Subject:	Riverside - Internal Audit Update
Director:	Executive Director – Resources – Darren Carter
Contribution towards Vision 2030:	
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DECISION RECOMMENDATIONS

That Audit and Risk Assurance Committee:

1. To note the contents of the internal audit update on Riverside.

1 PURPOSE OF THE REPORT

- 1.1 At the last meeting of the Audit and Risk Assurance Committee, the committee asked that an update on the internal audit arrangements with Riverside be provided.

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2 **IMPLICATIONS FOR SANDWELL'S VISION**

- 2.1 Internal Audit operates across the council and helps it accomplish its vision by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

3 **BACKGROUND AND MAIN CONSIDERATIONS**

- 3.1 In March 2006, Riverside Housing took on the management of 1,200 council properties on two estates (Harvills Hawthorn and Millfields) under the Housing Private Finance Initiative (PFI). The contract is for a period of 25 years. Each year the council receives £5.314 million in PFI credits from the Ministry of Housing, Communities and Local Government for the arrangement of the PFI. Riverside receive an annual management fee of approximately £8 million, however the council retains all rents and any capital receipts generated from this contract. At the end of the contract (25 years) the properties will be transferred back to the council in an improved state of repair.
- 3.2 The contract has been in operation for 12 years and the current cost for the delivery of the contract is around £730k per month; this sum is in line with what is budgeted in the council's HRA business plan.

Riverside provide:

- All repairs (emergency and day to day)
- Planned works
- Estate management
- Tenancy management and support
- Community cohesion
- Neighbourhood office provision.

- 3.3 It differs from the council as it offers additional services such as:

- A dedicated Occupational Therapist
- Manages Grant Funding Community Projects (ECF)
- Provision of a Community Hub Facility
- Provision of a dedicated Community Officer to support local tenants
- Continues to match fund the council in terms of neighbourhood upkeep

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3.4 This is an extract taken from the original Outline Business Case:

“During the 1990s there has been an extensive debate on the future of the Council’s housing strategy and in particular the need for significant levels of investment in the stock. The demand for capital resources to fund the housing strategy has far outstripped supply. A fundamental review of the housing strategy has taken place over that period which has resulted in the Council being at the forefront of the national debate in relation to private finance. The Council, its partners, tenants and residents recognised the need to explore innovative solutions to bring new resources into Sandwell and begin to tackle the weaknesses highlighted in the housing arena. The Council has worked in partnership with the private sector through a number of initiatives to promote the use of Private Finance to achieve investment priorities. The aim is to directly address the council’s vision for housing by providing well maintained, safe and affordable homes in a high quality environment. The PFI scheme will contribute to the revitalisation and regeneration of the neighbourhoods involved and will secure the diversification of the tenure base”.

3.5 The council’s contract provides for audits to be carried out in order to provide assurance that Riverside are complying with the contract.

3.6 Following recent changes to the staffing structure within Neighbourhoods, Audit Services have taken on a wider role in monitoring compliance with the contract with Riverside on their behalf. This arrangement will include a number of regular audit visits to Riverside PFI, and Hawthorn Fields Neighbourhood Office, and on a rolling basis, checks will be undertaken each month as directed by the Contract Manager. Follow up reviews, where weaknesses have previously been found, will also be undertaken.

3.7 All draft internal audit reports are issued to the Contract Manager and Riverside Management in order to agree the issues raised and to put in place actions and target dates for them to be achieved by. The key issues arising from each report are then discussed with the Riverside Partnership Board and Neighbourhood Monitoring Panel. The Funders (Sumitomo Bank) also have sight of the reports as part of their scrutiny process.

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3.8 The following audits have been completed to date:

Review	R	A	G	Assurance
Housing Stock	1	5	1	Limited
Gas Certifications	-	-	1	Substantial
Energy Performance Certifications	1	-	-	Limited
Rents	1	6	-	Limited

3.9 The key findings arising from the audit reviews completed are detailed below. In each report, a series of recommendations are agreed with Riverside and the recommendations followed up within a reasonable timeframe. Any non-implementation of recommendations will also be reported back to the committee.

3.10 Housing Stock Audit (reported to the October 2017 Committee meeting)

- Data protection issues involving records management - tenancy files had tended to become document repositories over many years, resulting in excessive information being held in the files dating back 40 years.
- The performance targets for void properties includes the requirement to ensure that they are ready for re-letting no more than 29 calendar days after the termination of the previous tenancy, unless the property void contains any aids and/or adaptations. Checks on a sample of void property records indicated overruns on several properties.
- The Environmental Challenge Fund is a fund provided by Riverside for investment in the wider community and environment in the Harvills Hawthorn and Millfields areas. The fund pays for small scale projects that add value to the regeneration and community capacity of the two estates. There were opportunities to further strengthen the allocation process for the fund by ensuring that checks carried out in order to ensure that the requirement that over 50% of 'the beneficiaries are required to live in the PFI area' are evidenced.
- The contract requires the undertaking of statutory and other inspections and checks. This includes annual inspections of gas

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appliances as required by legislation. Instances of late or overdue annual gas safety checks were identified alongside anomalies including missing certificates.

- While an up to date business continuity plan was held, a 'self-review' of the procedures resulted in a number of recommendations which had yet to be implemented. This included installing Wi-fi in the community bungalow and introducing an Electronic Data Management System for the manually held tenancy documents.
- A number of fire procedure checks on properties, while informed that they had been carried out, were not always being recorded as so in order to evidence this, and a small number of tenancy agreements were signed by the tenant as required but were not signed as witnessed by an officer.

3.11 Energy Performance Certificates (reported to the March 2018 Committee Meeting)

- Energy Performance Certificates are needed whenever a property is built, sold or rented and is a legislative requirement under Article 7 of the Directive implemented into law by the Energy Performance of Buildings Regulations (2007/991). The properties are assessed on a scale from A (most efficient) to G (least efficient). It also recommends improvements that could upgrade this rating, such as installing internal and external wall insulation, replacing the boiler with a more efficient model, or installing double-glazed windows. New homes are rated between A and C and older homes between E and G. The average rating is D.
- Since the PFI contract with Riverside was set up in March 2006, there have been 206 new properties built. All properties were built and handed over to Riverside between the period 2007 and 2011. It was confirmed by the Asset Officer, Riverside that on completion the contractor had provided a hard copy of the certificates to Riverside.
- All 206 new properties were reviewed. From this review 72 properties were built prior to the legislation, 64 certifications found and this therefore left 70 to be located. Evidence was retrospectively sought and provided for all but 14 properties. Failure to comply with Government Legislation could result in fixed sanctions of between £200 to £500 per breach. Financial penalties were then passed on to Riverside by the council after this review for

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the breaches found. It was also agreed for EPC's to be obtained for the remaining 14 new build properties handed over, and when the remainder of the new build properties that did not fall within the legislation are re-let EPC's would be obtained.

3.12 Rents (reported to the July 2018 Committee meeting)

- The rent debit reconciliation which provides a reconciliation of all the changes raised/rent debit each month had not been completed for two months.
- IT issues with the new system had hindered some of the everyday processes.
- In less than 12 months the number of tenants in arrears had increased by 47%.
- No recovery action was being undertaken on former tenant arrears.
- While the annual rent letters had been sent to tenants, the Open House system used by Riverside had not been updated with this data in a timely manner so if queries had arisen from tenants, officers may not have had access to the most up to date information in order to answer them.
- Court costs and Rechargeable repair costs were not fully monitored or chased for payment.
- The councils cash procedures were not fully followed as there were three instances where the float was issued by the supervisor, but not signed as received by the cashier and other instances where it was not signed back in.

3.13 An internal audit review of Planned Maintenance is also underway, alongside further visits scheduled over the next six months in order to monitor the work completed by Riverside's contractor Axis.

4 THE CURRENT POSITION

4.1 The report does not require a decision and therefore, no position analysis is necessary.

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5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

5.1 The report has been discussed with the relevant stakeholders and reported to the respective Director.

6 ALTERNATIVE OPTIONS

6.1 The report does not require a decision and therefore, alternative options do not need to be considered.

7 STRATEGIC RESOURCE IMPLICATIONS

7.1 There are no direct financial and resource implications arising from this report.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

8.1 The Internal Audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the Internal Audit Charter approved by the Audit and Risk Assurance Committee.

9 EQUALITY IMPACT ASSESSMENT

9.1 It was not necessary to undertake an Equality Impact Assessment.

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 It was not necessary to undertake a Data Protection Impact Assessment. Data gathered during audit reviews is used and retained in accordance with current legislative requirements.

11 CRIME AND DISORDER AND RISK ASSESSMENT

11.1 There are no direct risk implications arising from this report.

12 SUSTAINABILITY OF PROPOSALS

12.1 There are no direct sustainability issues arising from this report.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 There are no direct health and wellbeing implications from this report.

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14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 There is no direct impact on any council managed property or land from this report.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 The purpose of the report is to update the Audit and Risk Assurance Committee on the internal audit arrangements with Riverside. As such, no decision is required.

16 BACKGROUND PAPERS

16.1 None.

17 APPENDICES:

17.1 None.

Darren Carter
Executive Director – Resources