



NOTTINGHAM CITY HOMES

**REVIEW OF THE
VOIDS MANAGEMENT ARRANGEMENTS**

Report issued:	August 2010
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Audit Plan:	2009/10
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The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

Review of the Voids Management Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA have reviewed the Voids Management arrangements at Nottingham City Homes. The review was carried out in February 2010 as part of the planned internal audit work for 2009/10.

SUMMARY

2. Two Key Risk Control Objectives were identified and tested and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established. (figure 1 below).

Figure 1 - Evaluations of the Effectiveness of the Internal Controls

Evaluation
Reasonable Assurance

KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. The prioritisation of the findings are summarised below (figure 2):

Figure 2 - Summary of Priorities of Findings

Urgent	Important	Routine	Operational
-	-	3	2

MANAGEMENT RESPONSES

4. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented.

RELEASE OF REPORT

5. The table below sets out the history of this report.

Date draft report issued:	19 th March 2010
Date management responses recd:	2 nd August 2010
Date final report issued:	2 nd August 2010



MANAGEMENT ACTION PLAN
PRIORITY 1, 2 AND 3 RECOMMENDATIONS

Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy and procedures.	The Company has a Lettable Standard Policy but the document does not specifically identify the Company's policy toward voids management rather concentrating on the work to be carried out to empty properties and the standard to be achieved.	<p>Recommendation 1: A Void Management Policy be developed by the Company which sets out the Company's statement of intent towards the management of void properties. The Policy needs to incorporate: -</p> <ul style="list-style-type: none"> • The recognition that empty properties (void management) is one of the Company's highest priorities. • That the company is committed to meeting housing needs and maximising rental income by having the lowest possible number of empty properties. • The aims of the Policy, how, the aims will be implemented, responsibility, planning, monitoring, procedures, timescales, targets, recharges, and empty property security. • Identification of the risks if the void period is not managed effectively • The statutory and legislative framework surrounding the policy. 	3	<i>Company to develop and introduce a void policy which incorporates all elements of the vacant property management functions including pre terms, specification, lettable standard, completion of required works allocations and lettings and satisfaction monitoring of new tenants. Customer consultation to be included which includes the Tenant Inspection Team and proposals put forward for the decoration "gift" process.</i>	December 2010	<p>Chris Raynor – Service Improvement Manager</p> <p>Supported by Richard Holland – Assistant Director of Housing Services</p>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	control issue on which action should be taken.
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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy and procedures.	A review of the void flow charts identified that some processes are no longer carried out and the flowcharts need to be updated with the current actions required at each stage of the process.	Recommendation 2: A review be carried out on all voids flowcharts and be updated where required.	3	<i>Flow charts across the void section as a whole are already in place, however due to recent changes to the structure of the voids section and the high level process some of the flow charts require updating. These flow charts are also required to maintain our ISO 9001 accreditation and review of these flow charts will be completed.</i>	End of August 2010	Darrell Smith – Project Manager Voids Supported by Wayne Smalley – Technical Project Officer.
Void works are not carried out to the stated requirement of the Company thereby leading to financial loss.	A total of six potential recharges were noted from the sample of inspection forms reviewed and to date none of these have been charged to the former tenant.	Recommendation 3: The backlog of rechargeable invoices be cleared and all outstanding information required from Housing Offices be obtained.	3	<i>A review of the way tenant recharges are processed is required bringing together the information already collated by Property Services and the information required from Housing Offices to ensure recharges to tenants are made consistently. This will include ensuring that Void recharges are entered on the Northgate system by surveyors on an adequately timely basis.</i>	End of August 2010	Darrell Smith – Project Manager Voids Supported by Wayne Smalley – Technical Project Officer.

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OPERATIONAL EFFECTIVENESS MATTERS

Item	Management Comments
<p><u>Paragraph 13.11</u> Consideration be given to Energy Performance Certificates being completed by Property Services staff or Property Surveyors.</p>	<p><i>Savills currently provide the Company with Energy Performance Certificates whilst undertaking asbestos surveys, which is deemed cost effective.</i></p>
<p><u>Paragraph 13.30</u> Consideration be given to providing an incentive for properties returned to the required standard.</p>	<p><i>Consideration is to be given to a pilot scheme subject to identifying budget provision to fund the associated costs.</i></p>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

- DETAILED REPORT -

SCOPE AND LIMITATIONS OF THE REVIEW

6. The review considered the identification of need, scheduling the work, monitoring, and authorising payments. The review did not include tendering arrangements, funding arrangements, gas safety controls, major refurbishment projects, payment methods, health and safety arrangements or the specification of the works.
7. The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

8. This review identified and tested the controls that are being operated by the Company and an assessment of the combined effectiveness of the controls in mitigating the key control risks is provided. The assessments are:

Substantial Assurance	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
Reasonable Assurance	reasonable number of internal controls in place, however may not be operated all the time.
Limited Assurance	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
No Assurance	fundamental breakdown or absence of core internal controls.

MATERIALITY

9. Total funding for the year 2009/10 is £5,695,758 for revenue voids and £4,000,000 for capital voids. To date the actual spend on revenue voids is £5,467,014 and £3,790,146 on capital voids.

AUDIT FINDINGS

10. Risk	Failure to direct the process through approved policy and procedures.
Risk Control Objective	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.
Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Reasonable Assurance</u>

11. The following matters were identified in reviewing the Key Risk Control Objective:

11.1 The Company has a Lettable Standard Policy Document, which sets out the specification to which an empty property must be brought up to before re-letting. The document does not specifically identify the policy toward voids management but concentrates on the work that will be carried out to empty properties and the standard to be achieved.

Recommendation 1: A Void Management Policy be developed which sets out the Company's statement of intent towards the management of void properties. The Policy needs to incorporate: -

- *The recognition that empty properties (void management) is one of the Company's highest priorities.*
- *That the company is committed to meeting housing needs and maximising rental income by having the lowest possible number of empty properties.*
- *The aims of the Policy, how the aims will be implemented, responsibility, planning, monitoring, procedures, timescales, targets, recharges and empty property security.*
- *Identification of the risks if the void period is not managed effectively.*
- *The statutory and legislative framework surrounding the policy.*

11.2 The Company has Standing Orders and Financial Regulation, updated in August 2009, which include details of the delegated authority relating to all repairs, variations to works and contracts and project management.

11.3 The Company has a Lettable Standard and a Recharge Policy and Procedure, last updated in September 2005. There are flowcharts covering the processes involved in fire damage, voids inspections, major voids, non-standard fixtures left in void properties, suited locks, variations on voids works orders and void completion to a high standard. All of the flowcharts were produced in September 2008.

11.4 A review of the void flowcharts identified that some processes are no longer carried out and the flowcharts need to be updated with the current actions required at each stage of the process. The Major Void flowchart, for example, states that if the cost of completing the void is over £16,500 the property is subject to a Stock Option Feasibility Appraisal (SOFA), but the actual amount is £15,000. The flowchart also states that when works orders are raised, bonds and certificates (i.e. fire insurance) are to be sent to the Treasury function, but this action is no longer required and the Voids Completed to a High Standard flow chart states that the Surveying Technician will check 20% of all completed voids, however the current procedure is that a formal post inspection is not completed, the state of the works is checked as it is ongoing.

Recommendation 2: A review be carried out on all voids flowcharts and these be updated where required.

- 11.5 The Tenants' Handbook 2008/09 sets out tenant responsibility regarding repairs and the responsibility of the Company. It advises on the Lettable Standard and the work the Company will carry out before the tenant moves into the property. The process for ending a tenancy is also recorded in the handbook, including that four weeks notice in writing is required to terminate a tenancy.

12. Risk	Losses arising from unauthorised action by staff.
Risk Control Objective	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.
Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Reasonable Assurance</u>

13. The following matters were identified in reviewing the Key Risk Control Objective:

Risk: The work required from voids contracts is not correctly specified thereby leading to failure to consequential financial loss.

- 13.1 Once a tenant has left a property and the keys have been received, a key log is maintained on the system identifying the whereabouts of all keys through out the voids process.
- 13.2 The keys are passed to the Surveying Technician for a void inspection to be carried out. Utility meter readings are to be taken, the property assessed on whether it needs to be cleared and cleaned and a risk assessment is carried out.
- 13.3 The Surveying Technician completes a voids package that includes a Lettable Cleaning Specification, a Utilities Pro-forma and a Lettable Standard Pro-forma. If the property needs clearing, this is passed to the Voids Cleansing with a form for the property to be cleared.
- 13.4 A Voids and Allocations folder is held on the shared drive with a sub-folder for each void property. Within this sub-folder are held the inspections completed by the surveyors together with digital photographs of all areas of the property and any variation authorisation forms where relevant.
- 13.5 A target of eight days has been set for the property inspection to be completed and the works order raised following the keys being received. This period may involve the clearance of the property and garden, an inspection by the kitchen contractor Spen Valley and a second inspection prior to the final works order being raised. A Gant chart has been produced to enable this period to be correctly planned and this proposes that the first inspection is completed on the first day after the keys are received. A sample of 40 properties that became void were reviewed, with minor delays noted between the property becoming void and the inspection being completed on the following properties: -
- Property ref 24GRQ021008, keys received 25/09, initial inspection completed 05/10, property inspector initials EBROWN
 - Property ref 24BUS003003, keys received 05/10, initial inspection completed 14/10, property inspector initials LWRESC

- Property ref 24HAY03500A, keys received 27/07, initial inspection completed 05/08, property inspector initials LEDMON
- Property ref 1121007004, keys received 13/10, initial inspection completed 22/10, property inspector initials LBOULT
- Property ref 24ROD004017, keys received 29/12, initial inspection completed 12/01, property inspector initials LWRESC
- Property ref 24MOD048009, keys received 07/01, initial inspection completed 14/01, property inspector initials LWRESC

However, management response to this issue was provided and the it is understood that the majority of keys from outgoing tenants are received on a Monday resulting in high volumes of properties requiring inspection to facilitate them being repaired to the required standard prior to being relet.. A robust performance monitoring process exists to ensure surveyors complete the initial inspection within agreed targets.

- 13.6 If the property requires a clearance, the Surveying Technician will revisit the property once it has been cleared to produce a detailed Specification of Works that sets out the work required for each room and area of the property, and includes whether there are grounds for recharging the tenant. If clearance is not required, the inspection will be carried out at the first visit.
- 13.7 The information from the Specification of Works is fed into the Northgate Housing Management system, which interfaces with the Rok system, which produces the voids works order for the contractor.
- 13.8 The Company does not currently carry out pre-void inspections. This is due to the fact that approximately only 15% of tenants give five four weeks notice for the termination of their tenancy.
- 13.9 A target has been set for the number of lettable voids in any period to be under 300. The Company is to consider in its 2010/11 improvement plan how to reduce this number further and is to review what work can be done during the four week notice period, if given by the departing tenant.

Risk: Work is inappropriately allocated thereby leading to failure to consequential financial loss.

- 13.10 Following a full tendering exercise carried out in 2008, the contract to carry out void works was awarded to the Company's in-house Property Services Division (the contractor), on a five year contract from July 2008, with an option to continue for a further two years.
- 13.11 Asbestos work and the Energy Performance Certificate work, together with the fitting of new kitchens, are carried out by specialist contractors under the management of the Asset Management division of the Company. (Operational Effectiveness Matter).
- 13.12 The status of a works order is changed in the system to "completed" and the client (NCH) is informed in this way that the works order has been completed. All 40 voids works reviewed had been marked as completed on the same day that the work was actually finished.
- 13.13 A number of properties with particularly long void periods were reviewed. In all cases there were valid reasons for the void period, including being used as a decant property and being considered by Nottingham City Council for decommissioning.

Risk: Void works are not carried out to the stated requirement of the Company thereby leading to financial loss.

- 13.14 The Lettable Standard (Policy Document) was last updated in August 2008. The Company identified that from April 2009 to June 2009, the average amount spent per property to carry out the work to the Void Specification was £4,500. The Company is

a member of the Association of Public Service Excellence and has been benchmarking itself with other housing landlords. The Company identified that the void specification is too high compared with other housing associations and councils.

- 13.15 Following the benchmarking exercise a Void Improvement Initiative Briefing Note report was compiled by the Service Improvement Manager in July 2009 and included the proposals to: -
- Channel all future replacement door requirements for voids through the planned process,
 - Appoint two electrical maintenance managers to enable accurate electrical specifications to be included in Building surveyor specifications and potentially save on the number of re-wires completed when they are not an essential requirement,
 - The Decent Homes programme should be the main driver for property modernisation and not the voids process as it is believed that this is an area of “over specification” on new kitchens,
 - Utilising and initiating a “fit for purpose” affordable decoration voucher scheme to enable a significant time and cost saving to be achieved by reducing the number of void properties that are being specified as being in need of major decoration works.
- 13.16 The Company also reviewed the interpretation of the work required per the specification and is now only carrying out health and safety work and any obvious property defects. Following the reduction in work, it has been identified that the cost of bringing a void property to standard is currently averaging £1,400, and in January 2010, the average cost of void works per property was £1,200.
- 13.17 The Void Specification is to be re-written with the work required to be carried out and areas of work redefined.
- 13.18 Minor and major voids work is classified by the value of work required. Minor voids work is up to £5,000 and major work is over £5,000.
- 13.19 The cost of each job to be carried out is priced under a schedule of rates that was agreed and included in the tender submitted by Property Services Division.
- 13.20 If additional work is identified by the contractor from the original Specification of Works, the surveyor is advised and will arrange to visit the property and agree any variation work with the contractor. Any additional work is added to the original order. On a daily basis, the Technical Project Manager produces a report of all amendments to original works orders which gives the reasons for the variation and the Technical Project Manager authorises the additional work to be done on the system. If the value of additional work takes the total costs over £5,000 then the work becomes a major void and the job will then become a 25-day job instead of a 10-day job.
- 13.21 The process adopted by the Company is for inspections to be carried during the work cycle. Inspections are carried out by Maintenance Managers in three geographical areas - North, South and Central Nottingham. Regular contact is made with the Property Service Team and site visits and inspections are carried out. Weekly Progress meeting are held with Project Manager - Voids.
- 13.22 When each stage of the voids work is started and completed the information is logged into an access database for the Project Manager - Voids to track the progress of each void property. A report is produced that identifies the stage that each property has reached in the voids process.
- 13.23 Inspections carried out during the cycle of work are not formally recorded, unless the work is to take longer than the target date as a result of additional work being required. The Maintenance Manger carries out a quality assurance site inspection

and a Post On-Site Quality Assessment form (POSQA) is completed for each trade inspected. The forms are scanned and can be retrieved from the computer system.

- 13.24 Voids performance indicators and a voids performance analysis is presented to the Performance Directorate Management Team on a monthly basis and on a bi-monthly basis at the Performance and Quality Contract meeting.
- 13.25 Performance results are monitored against the targets for the average number of days to complete 10 day voids (up to £5,000 repairs), average number of days to complete 25 day voids (over £5,000), percentage of voids properties accepted at the handover inspection from Property Services Division to Nottingham City Homes (the client) and the percentage of defects rectified within 3 days of notification following handover inspection.
- 13.26 For the quarter ending December 2009 the reported voids performance indicators were as follows:

	Target	October	November	December 2009	January 2010
Average number of days to complete 10 day void	10	9.8	11	8.7	9.9
Average number of days to complete 25 day void	25	21.9	31.3	26.2	23
% of void properties accepted at handover from contractor to client	95%	100%	100%	100 %	Data Not available
% of defects rectified in 3 days of handover	97%	No Defects	No Defects	No Defects	Data Not available

During October 2009 the use of the general trade external contractor (Bodells) and electrical contractors ceased and this lead to the temporary deterioration in performance.

- 13.27 A number of properties that are currently void were reviewed to establish the current position. Property reference 24CHB016003 was made ready to let in September 2009. At the accompanied viewing it was identified that a new front door was required. A works order was raised for this at the time; however this property is still showing as a 10 days major works. The door has yet to be fitted and the prospective tenant has not signed up to the tenancy. Management were made aware of this issue and responded immediately with regard to the door being fitted and the property being let.
- 13.28 The stock condition register has not been updated to reflect work that has been completed to void properties. The updating of the register is to be completed as a one-off task for work carried out in 2009/10 and will be updated as and when works are completed for all future void works.
- 13.29 From a sample of 40 properties that had been let in November and December 2009 there were four where the tenant had reported responsive repairs soon after the tenancy commenced. These were: -
- Property ref 24WHL001008
 - Property ref 24TUW141004
 - Property ref 24HAY03500A
 - Property ref 24SUS007009

However, management response was provided and it is understood that a process exists at the sign up stage of a new tenancy where minor repairs are agreed, and raised, with the new tenant present. Appointments are available to tenants for all such repairs. This approach is consistent with, and facilitates, the Company's efforts to reduce the number of vacant lettable properties and maximise revenue income by keeping the time a property is empty to an absolute minimum.

- 13.30 Any items of the works order that are identified by the surveyor as being due to the former tenant are listed on the inspection sheet and are passed through to the Rechargeable Repairs Officer. An invoice is raised to the former tenant where their forwarding details are known. A practice adopted by other Registered Providers is to offer an incentive to tenants to return the property to the agreed standard. (Operation Effectiveness Matter).
- 13.31 A total of six potential recharges were noted from the sample of inspection forms reviewed and to date none of these have been charged to the former tenant. During February 2010 the system of passing the information on to the Rechargeable Repairs Team was amended to improve the process and an oversight in this method meant that the Rechargeable Repairs team were not informed of the recharges and this therefore created a backlog. This issue has now been rectified. The potential recharges identified are: -
- Property ref 24ASO013004 £378 – included in the backlog, will be invoiced
 - Property ref 24MIM249004 £56 – included in the backlog, will be invoiced
 - Property ref 24ALH178003 £382 - no forwarding address given, an Experian trace will be carried out
 - Property ref 24CHJ038006 £129 – no forwarding address given following eviction, an Experian trace will be carried out
 - Property ref 24DIC037001 £60 – invoice not raised, information not provided by Housing Office
 - Property ref 24FUD028005 £94 - not raised as customer is in residential care

Recommendation 3: The backlog of rechargeable invoices be cleared and all outstanding information required from Housing Offices be obtained.

Risk: Ineffective monitoring of the contractors invoices may lead to payment being made for works that were not authorised.

- 13.32 The information from the specification of works is fed into the Northgate Housing Management system, which interfaces with the Rock system to produce the voids works order for the contractor. Any additional work will have been added onto the contractor's work sheet. When the work is completed, the Rock system will interface back to Northgate to advise that the work is completed and is ready for "invoicing". All jobs are priced on the copy of the contractor's work sheet in the system, although prices are not on the actual work sheet issued to the contractor. The total cost is then allocated to the voids budget.
