

AUDIT COMMITTEE – 25 JULY 2014

Title of paper:	INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION	
Director(s)/ Corporate Director(s):	Acting Corporate Director for Resources	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Internal Audit ☎ 0115-8764245 ✉ shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	<p>To critically appraise the Internal Audit report at Appendix 1 (Bulwell St Mary's Church of England Primary School) and Appendix 2 (Housing Rents) to:-</p> <ul style="list-style-type: none"> • Determine whether the audit work was of an appropriate quality and scope; • Determine whether the service's response was sufficiently proportionate, robust and prompt; • Make any further observations and/or comments considered relevant; • Determine any further action. 	

1. REASONS FOR RECOMMENDATIONS

This report presents Internal Audit reports selected for detailed examination, from the 29 November 2013 meeting. The Audit Committee's role is to appraise the quality and scope of the Internal Audit work and determine whether the action taken by the audited service was sufficiently robust and prompt in response to the audit findings. Colleagues from Internal Audit and the reviewed service will be present at the meeting to assist this activity.

- 1.1. The Bulwell St Mary's 2012/2013 audit report was issued on 12 July 2013 and selected for examination at the November 2013 meeting of this Committee. . The area has been revisited as part of the 2013/14 Audit Plan and the latest report is attached at **Appendix 1. Table A** outlines the audit work involved and summarises key issues found.

TABLE A – Bulwell St Mary’s

Reason for audit: The Audit was conducted as part of a rolling programme of audits covering all City schools.

Latest Assurance level:	Limited
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Key findings

- The school should ensure that detailed minutes are taken at each of the Governors' committee meetings. The approval of policies and key decisions made by the Governors should be clearly recorded in the relevant meeting minutes. In addition, declarations of interest should be prompted at all committee meetings by including this as a separate agenda item. Evidence of this item being raised and any resulting declaration of interest should be recorded in the minutes.
- Alternative quotations should be obtained for all purchases between £1,000 and £5,000 in value made by the school and a record should be retained of all such quotations as evidence that value for money has been obtained. If alternative quotations can not be obtained, the school should provide details of the firms they have tried to contact.
- All invoices should be authorised by an appropriate person before being processed for payment.

Recommendations Update

Total:	11	High Priority:	3	Medium Priority:	5
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Time taken

Actual days:	3.3	Planned days:	3.5
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Implementation of recommendations

The ownership of Internal Audit recommendations is the responsibility of the audit client and an update of progress has been included in the report.

1.2.A Housing Rents internal audit report was issued on 22 July 2013 and selected for examination at the November 2013 meeting of this Committee. The area has been revisited as part of the 2013/14 Audit Plan and the latest report is attached at **Appendix 2. Table B** outlines the audit work involved and summarises key issues found.

TABLE B – Housing Rents

Reason for audit: The system was reviewed as part of the 2013/14 audit plan which covers the City Council's main financial systems.

Latest Assurance level:	Limited
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Key findings

The report noted that the rent increase approved in 2014-15 is a useful step towards providing an income base that supports future expenditure. However findings were reported regarding:-

- the current level of rent convergence,
- future rent setting
- the lack of development of the approved tenant incentive scheme
- the accuracy of the Housing Revenue Account 30 year business plan
- access control to the Northgate housing system.

The report noted that the rent increase approved in 2014-15 is a useful step towards providing an income base that supports future expenditure.

New Recommendations Made

Total:	4	High Priority:	4	Medium Priority:	
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Time taken

Actual days:	31.5	Planned days:	20
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Implementation of recommendations

The ownership of Internal Audit recommendations is the responsibility of the audit client and an update of progress has been included in the report.

2. BACKGROUND

The critical appraisal of selected Internal Audit reports by Audit Committee is an important aspect of the Council's governance framework. This helps the Committee to fulfil its responsibility to receive reports on the work undertaken by Internal Audit and to critically appraise its performance. In doing this, the Committee is testing the robustness of and contributing to the organisation's audit and other governance arrangements. This also aids development of a deep understanding of the Council's internal control environment and Internal Audit working practices. Issues to consider are:

- How the audit was selected – for example the risk assessment, the potential for fraud, previous track record of the service, frequency of the audit;

- Whether the audit coverage was appropriate, adequate and correctly focussed;
- The time spent on the audit against the outcomes and findings;
- The quality of the internal audit report;
- The actual findings and the impact on the service and the council overall;
- The service's response to the audit recommendations;
- The speed and robustness of the actions taken to address the recommendations;
- Whether there are any learning points or principles that could be applied in future audit or governance work.

This list is for guidance only and the Committee is at liberty to explore other governance issues.

3. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Minutes from the Audit Committee meeting on 29 November 2013



**FINAL INTERNAL AUDIT REPORT
Bulwell St Mary's Church of England
Primary School**

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Distribution List	
Issue Date:	12 th July 2013
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Executive Summary

- 1.1 This report has been prepared following the visit to your school by Internal Audit on 5th March 2013. Relevant records have been examined, and discussions held with staff as appropriate.
- 1.2 We consider that most of the arrangements in place within the school are satisfactory and provide adequate systems of control. However, our review identified some weaknesses where improvements should be made, in particular to:-
- The standard of committee meeting minutes.
 - Demonstrating best value in the procurement of goods and services.
 - Authorisation for payment of invoices.

Due to these recommendations being classed as a high priority, it is important that these are implemented within the next 3 months.

Opinion

- 1.3 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the scope section of this report. We are able to give **limited assurance** on the controls in this area.

Summary of Recommendations

- 1.4 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.
- 1.5 Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

Priority	Number of Recommendations
High	3
Medium	5
Low	3
Total	11

School Responsibilities

- 1.6 Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested
- 1.7 Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.
- 1.8 The City Council's Audit Committee review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary. As a consequence we provide details of each final audit and recommendations made. Management may be required to attend Committee or respond to it in relation to actions agreed and taken
- 1.9 Management should note that any recommendations that relate to Financial Regulations must be implemented unless a satisfactory business case has been agreed justifying why the recommendation will not be implemented.

Scope

- 2.1 The purpose of this review was to assess the standard of financial management operating within the school. The following areas were examined during the course of the audit :
 - Leadership & Governance
 - People Management
 - Policy & Strategy
 - Processes
 - Purchasing
 - Processing Purchase Invoices
 - Banking Arrangements
 - School Fund

Detailed Findings and Action Plan

Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date / Latest Status
Leadership & Governance					
01	<p>The standard of the sub-committee minutes were found not to be always up to the satisfactory standard due to the limited information recorded. For example, there is no record in the committee minutes that the budget for 2012/13 was agreed by governors.</p> <p>In addition, it is not always minuted that the opportunity to declare interests had been provided.</p> <p><u>Risk</u> Governors would not be made aware of financial developments or key financial information.</p>	<p>The school should ensure that detailed minutes are taken at each of the Governors' committee meetings. The approval of policies and key decisions made by the Governors should be clearly recorded in the relevant meeting minutes.</p> <p>In addition, declarations of interest should be prompted at all committee meetings by including this as a separate agenda item. Evidence of this item being raised and any resulting declaration of interest should be recorded in the minutes.</p>	High	<p>Minute taker changed, someone not involved in meeting.</p> <p>New minute taker to include.</p>	<p>Executive Head Teacher</p> <p>Complete</p>
02	<p>There has only been one virement of the school's budget share in this financial year but this was not presented to the governors' committee for approval or signed by the Chair of Governors.</p> <p><u>Risk</u> Governors are not made aware of changes to the budget.</p>	<p>Any variation to the schools budget in excess of £1,000 should be recommended to the governors and actioned after minuted approval.</p>	Low	<p>Will be put as an agenda item.</p>	<p>Executive Head Teacher</p> <p>September 2013</p>
03	<p>A register of pecuniary interests had been compiled by the school but the register held by the school was found to be</p>	<p>The register of pecuniary interests should be reviewed and updated annually for all governors and for senior</p>	Medium	<p>Updated by Administrative</p>	<p>Executive Head Teacher &</p>

Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date / Latest Status
	incomplete and in need of updating. <u>Risk</u> Conflicts of interest are not reported in an open manner.	staff involved in the school's finances.		Assistant. To be a standing item at committee level	Administrative Assistant Complete
People Management					
04	The school does not have an Office Manager. Support is provided one day a week by the Office Manager of Sneinton CoE School with which the school shares an Executive Head Teacher. For 2012/13 the school had a budgeted expenditure of around £1.3 million. <u>Risk</u> The school's financial administration may not be controlled adequately	Given the size and budget of the school, the governors should consider implementing procedures which will allow for greater control over the day-to-day financial administration of the school.	Medium	Discussed by Governing Body – not financially viable as already x2 FT staff in school office.	On-going discussion of options Complete
Processes					
05	There is no audit trail to evidence that additional time payments have been authorised. <u>Risk</u> Unauthorised payments could be made.	The monthly return to Payroll should be printed off and signed by the Executive Head Teacher or Head of School to provide authorisation for the payments made.	Medium	Office Manager to print off and Executive Head Teacher to sign it off.	Executive Head Teacher July 2013
Purchasing					
06	Testing identified purchases for plumbing works, painting and decorating and completion of an inventory completed around the school. It was found in one	Alternative quotations should be obtained for all purchases between £1,000 and £5,000 in value made by the school and a record should be retained	High	x3 quotes obtained. (if emergency, not always appropriate)	Site manager to submit to Executive Head Teacher or Head of School to go on

Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date / Latest Status
	<p>case that no alternative quotations had been obtained by the school and in the others that alternative quotes had been obtained but incomplete evidence had been retained to demonstrate this.</p> <p><u>Risk</u></p> <p>This could lead to potential for poor value for money in the procurement of goods and services.</p>	<p>of all such quotations as evidence that value for money has been obtained.</p> <p>If alternative quotations can not be obtained, the school should provide details of the firms they have tried to contact.</p>			<p>agenda.</p> <p>Complete</p>
07	<p>Official orders are not always completed by the school before an order is placed with a supplier.</p> <p><u>Risk</u></p> <p>If official orders are not issued there is a risk that the school could become committed to unauthorised expenditure.</p>	<p>Official order forms, signed by the Executive Head Teacher or other authorised member of staff, should be issued to suppliers for goods and services being purchased by the school.</p>	Medium	<p>Review office procedure – this is standard practice.</p> <p>(However, Amazon etc will not accept official order.)</p>	<p>Executive Head Teacher & Head of School</p> <p>Complete</p>
Invoice Processing					
08	<p>All invoices should be examined before being paid to ensure that they are for authorised purchases, the goods or services have been received by the school, the prices are correct and invoices are arithmetically correct. From our review of paid invoices there is no evidence of these checks being carried out before payments are made to suppliers.</p> <p><u>Risk</u></p> <p>There is a risk that inaccurate invoices are</p>	<p>The following checks should be made on all invoices before payments are made to suppliers, and evidence should be provided on invoices that these checks have been completed:</p> <ol style="list-style-type: none"> 1) goods/services received by school 2) invoice is arithmetically correct 3) invoice not previously passed for payment 4) where appropriate, equipment 	Medium	<p>Audit office procedure – produce checklist.</p>	<p>Office manager</p> <p>Complete</p>

Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date / Latest Status
	processed.	entered on inventory and equipment security marked. This may be assisted by the use of an invoice certification stamp.			
09	The invoices selected for testing were not authorised by an appropriate person prior to being processed for payment. As the school only has two cheque signatories, the Executive Head Teacher and the Head of School, there is some assurance that their signing of the cheque provides authorisation but if the number of cheque signatories is increased, as recommended later in this report, there should be a separate authorisation of the invoice. This could be achieved by signing or initialling an invoice certification stamp. <u>Risk</u> This could lead to payment of unauthorised or invalid invoices.	All invoices should be authorised by an appropriate person before being processed for payment.	High	Overview office procedures. Invoices to Administrative Officer prior to being processed for payment. Administrative Officer to be 3 rd signatory.	Executive Head Teacher Complete
Banking Arrangements					
10	It was noted that the school currently has only two cheque signatories for the school bank account. <u>Risk</u> Payments may be delayed due to lack of personnel.	The school should ensure that an additional senior member of staff is added on to the bank mandate, in order to allow for an additional cheque signatory.	Low	Increase number of signatories to three. Third signatory to be Administrative Officer.	Agreed by Governors 09/07/13 Complete
School Fund					

Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date / Latest Status
11	<p>Accounts relating to the school (voluntary) fund for the year ending 31 March 2012 have been prepared and audited but have not yet been signed by the Executive Head Teacher or presented to the Governing Body.</p> <p>Minor discrepancies were noted between the balances recorded in the accounts and the balances recorded on the bank statements for the beginning and end of the year. The auditor should be asked to clarify his figures before the accounts are presented to Governors.</p> <p><u>Risk</u></p> <p>Failure to apply suitable oversight to voluntary fund accounts and make the Governing Body accountable for the related accounting information.</p>	<p>Audited accounts relating to the school (voluntary) fund should be presented to the Governing Body and the minutes should record the accounts as having been accepted.</p>	Low	<p>Accounts presented to Governors at meeting on 09/07/13.</p> <p>Governors agreed that accounts should be externally audited on an annual basis.</p>	<p>March 2014</p>

Date: 12th July 2013

Appendix A – Definitions of Audit Opinion

Levels of Assurance

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

High Assurance	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
Significant Assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
Limited Assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
No Assurance	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

High Priority	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium Priority	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low Priority	The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases Internal Audit will follow up implementation of the recommendations by the agreed date.



FINAL INTERNAL AUDIT REPORT Housing Rents 2013-14

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Executive Summary

Introduction and Background

- 1.3 Internal Audit has reviewed the Housing Rents system as part of the 2013/14 audit plan. The agreed scope covered assurance that the key controls in operation within the Housing Rents system are operating effectively to ensure that the rent debit is raised accurately and rent collection is maximised, and the system is secure. We also considered whether the Housing Revenue Account (HRA) has sufficient resources over the life of the business plan by looking at convergence to target rents and the HRA's 30 year business plan.
- 1.4 Housing rents are set by Nottingham City Council, as owner, but management of the housing rents billing and collection function was transferred to an ALMO - Nottingham City Homes (NCH) in April 2005, along with over 1,400 City Council Staff. NCH administers approximately 28,000 homes, 2,000 garages and 1,000 leasehold properties and is responsible for the repairs, rent collection and tenancy management.
- 1.5 NCH is a non-profit making organization run by a Strategic Board, made up of 14 members (5 tenants/leaseholders, 3 Councillors nominated by Nottingham City Council, 4 non affiliated members, and 2 co-opted members). The Strategic Board has 4 committees (Audit, Resources – which has an HR sub-committee, Performance and Service Improvement, Policy and New Business). Agendas and minutes etc are published on the NCH website and NCH has its own auditors for final account purposes and uses the company BDO for internal audit until April 2014.
- 1.6 The HRA is the Council's landlord account, which provides for the management and maintenance of the Council's stock. Legislation requires this account to be ring-fenced from the Council's other financial transactions. Since 2012/13 the HRA also has to be self financing (like housing associations) and this is ultimately achieved through raising sufficient income through rents charged to tenants. Whilst target rents are set to increase by CPI plus 1% from 2015-16 for 10 years, Government Guidelines if followed would limit actual rent increases to the same rate of increase, limiting opportunity for rent convergence (see **Appendix B** for a brief history of Government Policy on Social Rents).
- 1.7 In 2013 rents and service charges were increased by 5.48% overall, which was below the level the government determined. A 7.50% increase has been recommended for 2014-15 but this is offset in part by the tenant incentive scheme which could reduce the net increase to 4.68% or lower. A 30 year business plan based on the HRA Asset Management Plan has been updated this year. Its aim is to ensure that the HRA has sufficient resources over the life of the business plan. The main assumptions in the updated business plan are now stated to be:
 - Rent increases above RPI for each year of the plan
 - Average Inflation at 2.5% per annum over the business plan
 - Cost of borrowing increasing to a medium to long term average of 5%
 - Total investment in the housing stock of £2.0bn over 30 years

- A further assumption is that average rent will move towards the limit rent over the medium term
- 1.8 The housing rents system uses Northgate I-World software which has a number of modules: 3 main ones are Estates (tenancy details), Rents and Repairs. Each tenant is given a unique Tenancy Number which links the tenant to a property. This can also be used to link tenants to previous tenancies. Each rent account is given a unique account number and each property has a unique property reference.

Key Findings

- 1.9 We reviewed some of the figures reported to the Executive Board on 25th February 2014 as part of a report to authorise the Medium Term Financial Plan including rent increases and compared them with increases applied. We found that the headline increase was not applied to all accounts. The increase was limited to target rent plus 5% and was 3.7% as required to prevent reduction in housing benefit subsidy for affordable rent homes.
- 1.10 The latest Medium Term Financial Plan no longer states that the 30 year business plan assumes rent convergence. We have analysed existing rents and target rents and projected them forward assuming rent increases at their maximum allowable levels and rent increased to target rent on tenancy turnover (at 7% as in 2012-13). This shows that rent convergence cannot be achieved in the 10 years to 2024-25 if the new Government guidelines are complied with. The guidelines have not been complied with for 2014-15 following legal opinion that confirmed that this approach was within the Council's power. In our report last year we suggested that additional measures would be needed to fairly apportion the cost of maintaining and improving stock between existing tenants (see **Appendix C** for a graph of rent convergence by ward in 2013-14) and between current and future tenants. The rent increase this year goes some way towards that goal but is less effective for rents which are at lower levels of convergence – these still need additional measures. **Appendix D** shows progression towards convergence under several future rent increase scenarios.
- 1.11 The business plan has been updated showing a reduction of £100m in capital expenditure. This is broadly consistent with our finding last year that total rent income would be between 3 to 4% lower than target rents by 2019-20, which is equivalent to £3.8m to £5.0m per year. Capital expenditure levels are broadly consistent with a continuing higher level of rent increase.
- 1.12 The introduction of a tenant incentive scheme, whilst reducing net income has contributed politically to an almost maximal rent increase. The scheme is being developed but appears to preclude payment of incentive if the tenants
- Fail to look after their garden
 - Fail to make arrangements to pay their rent arrears
 - Commit crime and anti-social behaviour
- 1.13 Part of the justification for the scheme is that it will generate savings by changing tenant behaviour, though these savings are not quantified. We suggest that clear measures are prepared and incorporated into the NCH Performance Framework to

identify the monetary savings which can be attributed to the scheme. We also note that the cost of the scheme is assessed at virtually full compliance and that the cost of administering the scheme has not been assessed. It is disappointing to note that the scheme's parameters and administration have not been developed and costed. Given this lack of detail and the description of the scheme in the report there is no evidence to suggest that the scheme aims to do anything other than reduce the rent increase.

- 1.14 To comply with government guidelines, void properties' rent should be increased to target rent. We understand that currently there is no automatic mechanism tested and available for activation to put this policy into effect, but that it will be put in place through controls in the advertising process. The overall average rent increase should be monitored to ensure that the potential for loss of housing benefit subsidy is minimised. There is likely to be sufficient headroom between average rent and the housing benefit subsidy limit rent in 2014-15 for the level of void relet at target rent expected.
- 1.15 Of the assumptions given for the HRA Business Plan,
- the inflation rate used is acceptable;
 - the interest rate on debt is acceptable because it is more prudent than figures obtained from weighting existing debt and forecasts of future rates;
 - rent rises above RPI is not acceptable because Government guidelines for future rent increases from 2015-16 suggest they are no more than CPI + 1%. The reference to RPI rather than CPI may be an error. An Office for Budget Responsibility paper indicates that in the long run RPI will average 1.4% higher than CPI whereas it is currently 0.7% higher. Also to achieve rent convergence and therefore an appropriate income base to support capital expenditure and borrowing our models in Appendix D indicate rent rises will not just need to be above, but substantially higher than Government guidelines;
 - the total investment figure appears to be acceptable because it appears to correct at the appropriate scale for the inability to converge rents in the short term, however, the HRA business plan spreadsheet is due for thorough updating to reflect changes in the social rent and welfare environment and we cannot use it to provide assurance for a long term figure in these circumstances.
 - The assumption that (average) rent will move towards the limit rent over the medium term is only acceptable if Government guidelines are not followed, as the maximum guideline rent increase until 2024-25 is the same as the set increase in limit rent (CPI +1%). If guideline increases are applied we estimate that the gap between limit rent and average rent will have changed by a figure in the range - £0.39 to £0.59 by 2019-20.
- 1.16 2013-14 rents were approved by Executive Board on 19Feb2013. Our testing identified errors in the application of government caps and limits to rent modelling and the rent increase approval submitted for 2013-14. This issue was first raised in March 2013.
- 1.17 For the second successive year the effect of the government guidelines on rent increases was not reported to Executive Board, the application of a guideline maximum rent affected 1711 properties in 2014-15, and a further 57 affordable rent

homes had rent increases limited by housing benefit subsidy rules. The full year effect before voids and bad debts was around £100k and £10k respectively.

- 1.18 An annual reconciliation of housing stock has been carried out, we have queried the treatment of some properties within this reconciliation, however we believe that this would only result in changes to opening and closing decommissioned stock and not to the operating stock figure. As part of our review we identified properties which lacked a figure for target rent – we understand that amendments are being made to correct this.
- 1.19 A review of rents lower than £20 on the Northgate housing system is carried out annually, and this year a full investigation of all leases of HRA properties has been carried out. This is intended to provide a record and lead to consistent charging.
- 1.20 NCH performance reports include property voids. These reports and actions arising are reviewed by the Housing Partnership board annually and at monthly partnership meetings.
- 1.21 Cash postings to the rent account are checked for each day of the week, and are compiled into a weekly reconciliation. The reconciliation is 3-way: 1) Rents cash recorded through Radius to Northgate Housing rents cash received, and 2) Northgate Housing rents cash received to bank (and Oracle General Ledger (GL)). The first reconciliation is exclusive of direct debits and direct debit rejections. The second includes direct debits and rejections but adjusts for service charge direct debits and rejections paid into the weekly rents bank account (no adjusting Oracle transactions are made). The relevant GL account is N-H-9151-B32-975-2. Service charge direct debit and direct debit reject cash is also posted to this account (a separate GL account N-H-9151-B30-975-4 exists for service charges but transfers to correct these postings are accumulated and entered as one journal at year end). Service charge cash is not reconciled. Whilst weekly rents cash was accounted for in full the lack of adjusting transactions in respect of service charge direct debit income and reconciliation of service charge income are weaknesses and also weaken the weekly rents reconciliation.
- 1.22 Amounts are cleared from the former post office payment bank account. Some tenants continue to make internet transfers to this account in respect of weekly rent. There is some delay in postings being made which can affect recovery processes - NCH are aware of the idiosyncracies in these rent accounts and delay recovery accordingly. This bank account is subject to transaction charges and amounts are cleared net of charges. We recommended last year that the relevant customers are notified of the correct bank payment details (again) and this account is closed to simplify the reconciliation and avoid the bank charges, but NCH Finance state they have had no instruction from the City Council.
- 1.23 Audit testing has confirmed that the reconciliations of both cash and housing benefit onto rent accounts are up to date and that with there are no significant issues in respect of housing benefit.
- 1.24 The Northgate Housing system holds records of housing, tenants, and households.
- 1.25 Northgate is a browser based application that is accessible via any computer connected to Nottingham City Council's network. It is also accessible through Citrix and by a number of partner organisations, those signed up to HomeLink, access the system by connecting to the City's network via VPN, using an RSA SecurID fob.

- 1.26 Access to the application is provided by the NCC IT's Service Desk who create accounts based on the system access given to current users who share a similar position, i.e., an existing member of the Call Centre will have their permissions copied when a new colleague starts.
- 1.27 All accounts are assigned a profile which determines such things as password shelf life, access attempts before account suspension and grace time for changing passwords – there are currently 20 such profiles. The only stipulation for passwords is that they must be at least six characters in length, passwords are not required to be alpha numeric, with no requirement for symbols and are not case sensitive. This does not comply with corporate rules.
- 1.28 The level of system access a user has is determined by the job roles attached to their account, currently there are 204 job roles which give access to all parts of the system, these job roles can be added or removed at any point in the account lifecycle without disabling the users access to the Northgate application, but restricting or granting access to functionality and data. Job roles can and have been created as required. The highest level access is provided by the job role ALL_ACCESS, there are 26 accounts that have this access including the system account HOU.
- 1.29 The HOU database schema owner for the Northgate Housing system is in use for more processes and by more users than is necessary. Northgate have confirmed that no front end processes should be run using the HOU database schema owner as they could and should be run using the user's own user account. Using the HOU database schema owner obscures accountability for transactions and provides greater access to Northgate Housing than is appropriate to some colleagues who currently use it. It is also understood that the password for the HOU user has not been changed for some time and does not meet the corporate standard or the more stringent standard for superuser passwords. An interim audit report has been raised in respect of this finding on 15Oct2013. IT applications team and colleagues are attempting to resolve the issues and meet password standards.
- 1.30 A new service charge was created this year by NCH. This is an example of inappropriate access to the Northgate database. We understand that the charge was created incorrectly but was detected and corrected during integrity testing for new rents. As rents and service charges are the responsibility of the Council, they should only be set up by Council colleagues with appropriate authorisation, though NCH should be consulted.
- 1.31 There is no systematic audit in place that looks at the users access, a script is run against the passwords table to look for those passwords that have not been changed in over 90 days. A trace script has been run in October 2013 to identify inappropriate use of a system account. IT is reliant on managers from the business to inform the Service Desk when a colleague leaves or moves department so that their account can be locked or changed. In a report provided to Internal Audit at the end of March 2013 there were 3688 accounts, 1458 open, 2106 locked, 85 suspended because of incorrect passwords and 39 with no access to any modules.
- 1.32 Northgate does have a comprehensive audit function but this has not been configured to monitor user access.

- 1.33 We understand that leavers and change of role is not adequately reported by users' managers to system administrators. Our testing showed that new starters on the system were created after a request from their supervisor or another appropriate manager.
- 1.34 Recommendations from last year's report have been followed up as part of testing. Those issues still relevant are reported above and updates are shown in the Action Plan section of this report.

Opinion

- 1.35 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the agreed Audit Brief. We are able to give **Limited Assurance** on the controls in this area.
- 1.36 The opinion is based on concerns around the current level of rent convergence, future rent setting, the lack of development of the approved tenant incentive scheme, the accuracy of the Housing Revenue Account 30 year business plan, and access control for the Northgate housing system. We do note however, that the rent increase approved in 2014-15 is a useful step towards providing an income base that supports future expenditure.

Summary of Recommendations

- 1.37 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.
- 1.38 Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

Priority	Number of Recommendations		Number Complete	Number Remaining
	2013-14	2012-13	2012-13	All years
High	4	3*		7
Medium		6	1	5
Low		1		1
Total	4	10	1	13

*1 recommendation upgraded from Medium to High priority as a result of updating findings in 2013-14

Added Value

- 1.39 We have provided support and advice concerning the government's new rent guidelines during the guidelines' consultation period and have highlighted the

serious effect that the guidelines and past rent setting behaviour has on future capital plans. We have also highlighted errors in budgeting and reporting on rent increase in 2014-15.

Responsibilities

- 1.40 Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested
- 1.41 Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.
- 1.42 The City Council's Audit Committee review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary. As a consequence we provide details of each final audit and recommendations made. Management may be required to attend Committee or respond to it in relation to actions agreed and taken
- 1.43 Management should note that any recommendations that relate to Financial Regulations must be implemented unless a satisfactory business case has been agreed justifying why the recommendation will not be implemented.

Detailed Findings and Action Plan

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
2013-14 01	<p>The HOU database schema owner for the Northgate Housing system is in use for more processes and by more users than is necessary. Northgate have confirmed that no front end processes should be run using the HOU database schema owner as they could and should be run using the user's own user account. Using the HOU database schema owner obscures accountability for transactions and provides greater access to Northgate Housing than is appropriate to some colleagues who currently use it. It is also understood that the password for the HOU user has not been changed for some time and does not meet the corporate standard or the more stringent standard for superuser passwords.</p> <p>Update: A new service charge was created this year by NCH. This is an example of inappropriate access to the Northgate database. We understand that the charge was created incorrectly but was detected and corrected during integrity testing for new rents. As rents and service charges are the responsibility of the Council, they should only be set up by Council colleagues with appropriate authorisation, though NCH</p>	<p>Urgent action should be taken to review access to the Northgate Housing system and limit access by the Council and its partners to the HOU database schema owner to appropriate uses and users. Appropriate alternative access arrangements should be provided where they are necessary and not already in place. The password for the HOU database schema owner should be changed in line with currently proposed Password Standards and in future according to corporate approved Password Standards.</p>	High	<p>Key progress made.</p> <ul style="list-style-type: none"> IT Infrastructure colleagues have begun running a trace script on the live Northgate Housing database to determine the extent of the issue. We have examples that show that show that there is an issue to be addressed. Outline plans have been put together and shared with relevant colleagues. The project will run for around 18 months with HOU user restrictions being implemented in 2014 following year end. Potential actions and implications for NCC & NCH were discussed with Beth Lawton – NCH ICT Director on Wednesday 30th October 2013. Provisional agreement has been reached subject to 	<p>Applications Manager</p> <p>Initial restrictions 30/04/2014</p> <p>Completed by April 2015</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p>should be consulted.</p> <p><u>Risk</u> Inappropriate transactions are carried out by a colleague, for which they are not then accountable. Access control weakness within the Northgate Housing system results in Council colleagues being refused access to Public Service Network systems.</p>			impact on NCH.	
2013-14 02	<p>We identified errors in the November 2013 update to the HRA business plan spreadsheet which when corrected show shortfalls in capital funding from 2015-16.</p> <p>Update: Capital expenditure has been reduced by £100m over the 30 year business plan.</p> <p><u>Risk</u> Revenue is insufficient to fund capital requirements.</p>	<p>The HRA business plan spreadsheet should be fully updated and be separately audited to provide assurance that assumptions within it are consistent with existing, historic and likely scenarios for future data, and with enforceable government guidelines. Any major financial issues arising should be reported to Executive Board together with a mitigation plan.</p>	High	<p>The HRA 30 year business plan will be updated and all assumptions will be reviewed by a joint NCC/NCH working group. The impact on the capital programme will be reviewed and updated accordingly via the appropriate approval routes.</p>	<p>Finance Analyst (Housing)</p> <p>30 June 2014</p>
2013-14 03	<p>The tenant reward scheme's parameters and administration have not been developed and costed. In effect councillors have been asked to approve a scheme without understanding how it will work and what it will cost.</p> <p><u>Risk</u> All risks and opportunities of the scheme are</p>	<p>The tenant reward scheme's parameters and administration should be fully developed and costed and reported to councillors for authorisation.</p>	High	<p>The tenant reward scheme was costed based on broad parameters, and included likely levels of award in 2014-15 based on current tenant behaviour. The scheme does not take effect until 2014-15 so the</p>	<p>Finance Analyst (Housing)</p> <p>30 June 2014</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	unmanaged			administration of the scheme is now being developed and undertaken by NCH and the costs of administration absorbed into existing operations by either the rents team or the estates team. NCH will also be responsible for monitoring the changes to tenant behaviour and quantifying the savings generated	
2013-14 04	<p>The report presented to Executive Board on 25Feb2014 stated that under revised government guidelines relets should be at target rent, but we understand that currently there is no automatic mechanism tested and available for activation to put this policy into effect.</p> <p><u>Risk</u> Relet rents do not conform with policy leading to loss of income and maintaining an unfair distribution of rents.</p>	Housing and Finance should ensure that an effective mechanism for relet at target rent is in place and operational by 1st April 2014 in consultation with IT Applications Management.	High	<p>The government guidance referred to does not come into effect until 2015-16.</p> <p>It is planned to implement relets at target rent during 2014-15, subject to approval with Portfolio Holder. NCH will put the relevant changes to the processes in place.</p>	<p>Housing Partnership Manager</p> <p>PHD during June 2014</p> <p>30 June 2014</p>
2012-13 01	We modelled potential rent future increases and found that the proposed rent increase plan given in Table 6 of Annex 4 to the Medium Term Financial Plan approved by Executive Board on 21Feb2012 were insufficient to achieve overall convergence, and in any case rent increases applied in	A long term rents setting policy should be prepared setting out how income will be optimised to ensure that the cost of capital and maintenance is fairly apportioned between all	High	For each year rent increases and their impact on future position of the HRA were discussed with the Portfolio Holder and for 2014 this was also presented to Leadership and Executive	<p>Finance Analyst (Housing)</p> <p>30 June 2014</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p>February 2012 and 2013 had been lower than this plan. We noted the financial effect of these decisions and their impact on forecast revenue and forecast revenue contribution to capital expenditure. Our work indicated that there was a significant opportunity to optimise income within the framework of a long term rents policy.</p> <p>Update: No additional measures have been taken in 2013 to ensure rents are fairly apportioned or safeguard future capital resources, though capital resources over the 30 years of the business plan have been reduced by £100m. We estimate the effect of non-convergence to be between £3.8m to £5.0m per year. (See also 2013-14 02 below)</p> <p><u>Risk</u> Revenue is insufficient to fund capital requirements. Rent income is not optimised and / or inequities exist within the apportionment of the cost of capital and maintenance through rents to all current and future tenants.</p>	<p>current and future tenants. In the medium term the policy should be benchmarked against rent convergence targets and rents income required in the 30 Year Business Plan. The policy should be reported to Councillors for approval.</p>		<p>Board.</p> <p>The HRA 30 year business plan will be updated and all assumptions will be reviewed by a joint NCC/NCH working group. The impact on the capital programme will be reviewed and updated accordingly via the appropriate approval routes.</p>	
2012-13 02	<p>We noted that the government suggested convergence in order to bring an 'end to 'arbitrary' differences between the rents of similar properties in a locality and between</p>	<p>In order to optimise the income supporting capital and maintenance plans, both in the shorter and</p>	High	<p>This is a policy decision; in addition there is a consultation on rent setting policy by DCLG which will</p>	<p>Finance Analyst (Housing) PHD during June</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p>similar properties in neighbouring areas'. We consider it to also be a sensible approach to ensure that the cost of capital and maintenance is fairly apportioned between all current and future tenants. We believe that a key objective in such a fair apportionment would be optimising income within government guidelines.</p> <p>We found that increases with a flat rate element were more effective in producing a fair distribution of rents and convergence than percentage increases.</p> <p>We suggested that alternative plans would be required to optimise income from rents. Such plans may include rents being increased twice a year, void properties' rent being increased to target rent (or part way to it), and different rent increases being applied to segments of the housing stock.</p> <p>Update: A flat percentage increase of 7.5% has been recommended for 2014-15. The Council intends to introduce a tenant reward scheme to limit the effect of the increase on tenants. We have commented upon this separately.</p> <p><u>Risk</u> HRA debt is constrained by government</p>	<p>longer term, innovative approaches should now be considered to support achievement of convergence of rents to target rents. The effect of these changes on the overall average rent increase should be monitored to ensure that the potential for loss of housing benefit subsidy is factored into the decision, as it would be in the case of an annual percentage increase. The innovative approaches should be consolidated within a rent increase policy, to be approved by councillors. This would be in keeping with the longer term outlook required by HRA self financing, and provide more certainty around the rent income stream for lenders when the Council finances capital expenditure on stock through debt, which could in turn lead to lower interest rates on debt.</p>		<p>determine maximum rents from 2015-16. The introduction of a policy of rent increase to target rent on re-letting is under consideration.</p>	<p>2014</p> <p>30 June 2014</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	caps and rents income is insufficiently optimised to support capital and maintenance plans leading to the requirement for savings affecting the quality of housing stock or to property disposals if imbalances in the HRA build up.				
2012-13 04	<p>12661 properties on the 2013-14 rents upload file sent by Housing Finance to IT didn't have the full 5.54% increase approved by Executive Board applied due to incorrect application of the government's limit on rent increases. This resulted in a loss of rent increase of up to £72,475 p.a. with an increasing knock on effect on future years' rents.</p> <p>Update: The rents had not been corrected when we reviewed the rents in December 2013.</p> <p><u>Risk</u> Loss of rent.</p>	<p>The limits on increases in rent should be checked annually and brought into calculations to set new rents. These limits are currently set by the Homes and Communities Agency.</p> <p>Consideration should be given to correcting the rent increase for the affected tenants taking into account the knock on effect of the rent loss in future years.</p>	Medium	The Finance Analyst (Housing) will review the calculations to ensure that DCLG guidance is followed correctly where applicable.	<p>Finance Analyst (Housing)</p> <p>Immediate</p> <p>30 Apr 2014</p>
2012-13 05	<p>The limit to rent increases applied was not mentioned in the 2013-14 Executive Board report on the Housing Revenue Account.</p> <p>Update: The limit to rent increases applied was not mentioned in the 2014-15 Executive Board report on the Housing Revenue Account. Priority upgraded to High.</p>	The intention to apply limits or caps set by government or its agencies and their effect on rents should be reported within the approval request for rents.	High	In future reports reference will be made to the current government target rent or equivalent policy.	<p>Finance Analyst (Housing)</p> <p>Immediate</p> <p>30 April 2014</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p><u>Risk</u> Rents set are unapproved. Councillors are not made aware of the true level of increases and discrepancies in rent levels when approving rent increases.</p>				
2012-13 07	<p>We identified that there was insufficient knowledge of charges made outside the Northgate housing system (mainly leased out properties) and the reason for low charges or zero charges although an annual review of rents less than £20 was carried out</p> <p>Update: A full confirmation and recording of leases has been carried out during 2013-14. This will support future work to regularise charging and improve accountability, make the cost of services transparent, and provide assurance that the HRA ring-fence is applied.</p> <p><u>Risk</u> Appropriate rents are not obtained for all properties</p>	<p>A review of rents lower than £20 on the Northgate housing system is carried out annually, and charges outside the Northgate Housing system should be recorded on the file showing these properties. Additionally the reason for setting any low rents should be recorded together with confirmation that they are consistent with rents policy.</p>	Medium	Action now complete, but ongoing following reviews.	<p>Finance Analyst (Housing)</p> <p>From 2014-15</p> <p>30 April 2014</p>
2012-13 08	<p>Password structure is not forced to be compliant with corporate standard. Account profile determines password shelf-life. There is no report providing a review of user access to the system, but a script is run to identify accounts where passwords have not been changed for 90 days or more. We understand that leavers and change of role</p>	<p>If possible the Northgate password structure should force compliance with the corporate standard.</p> <p>System administration should review the level of leaver and role change</p>	Medium	A discussion is being had with Northgate the supplier to look at the feasibility of deploying a tool which links the Nottingham City Council Active Directory (NCCAD) account password to a users Northgate account.	<p>Housing Partnership Manager</p> <p>31/08/2013</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p>is not adequately reported by users' managers to system administrators. IT Helpdesk have not yet provided information requested to test new starters on the system so we can provide no assurance in this respect.</p> <p>Update: A sample of new starters was found to be requested by appropriate managers. (See also below 2013-14 01)</p> <p><u>Risk</u> Inappropriate access to Housing or personal data.</p>	<p>requests annually against the corporate personnel turnover report to determine whether users are being managed appropriately and target action if necessary.</p>		<p>This request links with a larger corporate programme to allow a single sign in for many applications deployed across the Council.</p> <p>A discussion has been held at the Northgate Governance meeting (7-6-13) for further action.</p> <p>IT have confirmed that although Northgate does not deploy the "forced compliance" structure of the Council's corporate standards, to actually access Northgate a user must have access to the Corporate network which does require a forced password compliance.</p>	
2012-13 09	<p>The reconciliation of cash onto rent accounts reconciles rents but excludes service charges which are received into the same bank account. Cash received for service charges is not regularly reconciled to records on the Northgate Housing system and ledger.</p>	<p>Responsibility for reconciling service charges should be assigned and periodic reconciliations should be carried out.</p>	Medium	<p>This needs to be discussed in detail with NCC Housing Finance Team to understand the process of reconciliation.</p> <p>Finance teams from NCH and NCC have met to discuss reconciliation of</p>	<p>Housing Partnership Manager</p> <p>31/07/2013</p>

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p>Update: NCH Finance state that they have not been instructed by Nottingham City Council to reconcile service charges.</p> <p><u>Risk</u> Fraud or error in accounting for income.</p>			<p>service charges. Further work is required and will continue throughout 2014-15.</p>	
2012-13 10	<p>Amounts are cleared from the former Post Office payment bank account. Some tenants continue to make internet transfers to this account in respect of weekly rent. There is some delay in postings being made which can affect recovery processes – NCH are aware of the idiosyncracies in these rent accounts and delay recovery accordingly. This bank account is subject to transaction charges and amounts are cleared net of charges.</p> <p>Update: NCH Finance state that they have not been instructed by Nottingham City Council to make arrangements to close the Post Office bank account.</p> <p><u>Risk</u> Unnecessary use of resources.</p>	<p>Relevant customers should be notified of the correct bank payment details (again) and this account should be closed to simplify the reconciliation and avoid the bank charges.</p>	Low	<p>This has been raised with Andrew Webb at Nottingham City Homes. Andrew confirmed those tenants sending payments to the old accounts were written to a few years ago.</p> <p>A request has been made that the payers identified be written to again to update their payment account details.</p>	<p>Housing Partnership Manager</p> <p>31/12/2013</p>

Signed.....

Date.....

(3rd tier manager or above)

Appendix A – Definitions of Audit Opinion

Levels of Assurance

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

High Assurance	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
Significant Assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
Limited Assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
No Assurance	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

High Priority	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium Priority	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low Priority	The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases Internal Audit will follow up implementation of the recommendations by the agreed date.

Appendix B – Government Policy on Social Rents

Rent Convergence Policy

In 2002 the Government introduced a policy of rent convergence and rent setting guidelines to enable alignment of the rents of local authorities with those of housing associations. The intended convergence was to be achieved in 2012/13. This was later delayed to 2015/16 because of the global economic crisis.

The Government also introduced target (or formula) rents to enable it to establish what income could be derived from housing stock and consequently the level of debt that could be supported. Target rents were calculated based on key factors such as the number of bedrooms, the 1999 property valuation and local earnings.

Increases in target rents (fixed increases) and actual rents (maximum allowable increases) were ½% above the RPI increase calculated each September with an addition of up to £2 on a 52-week rent for actual rents to provide for convergence. The Executive Board took the decision on 20 November 2012 to extend the period to achieve rent convergence for City Council housing stock to 2019/20 to avoid a steep rent increase for tenants at the start of the 30 year business plan.

Withdrawal of Rent Convergence Policy

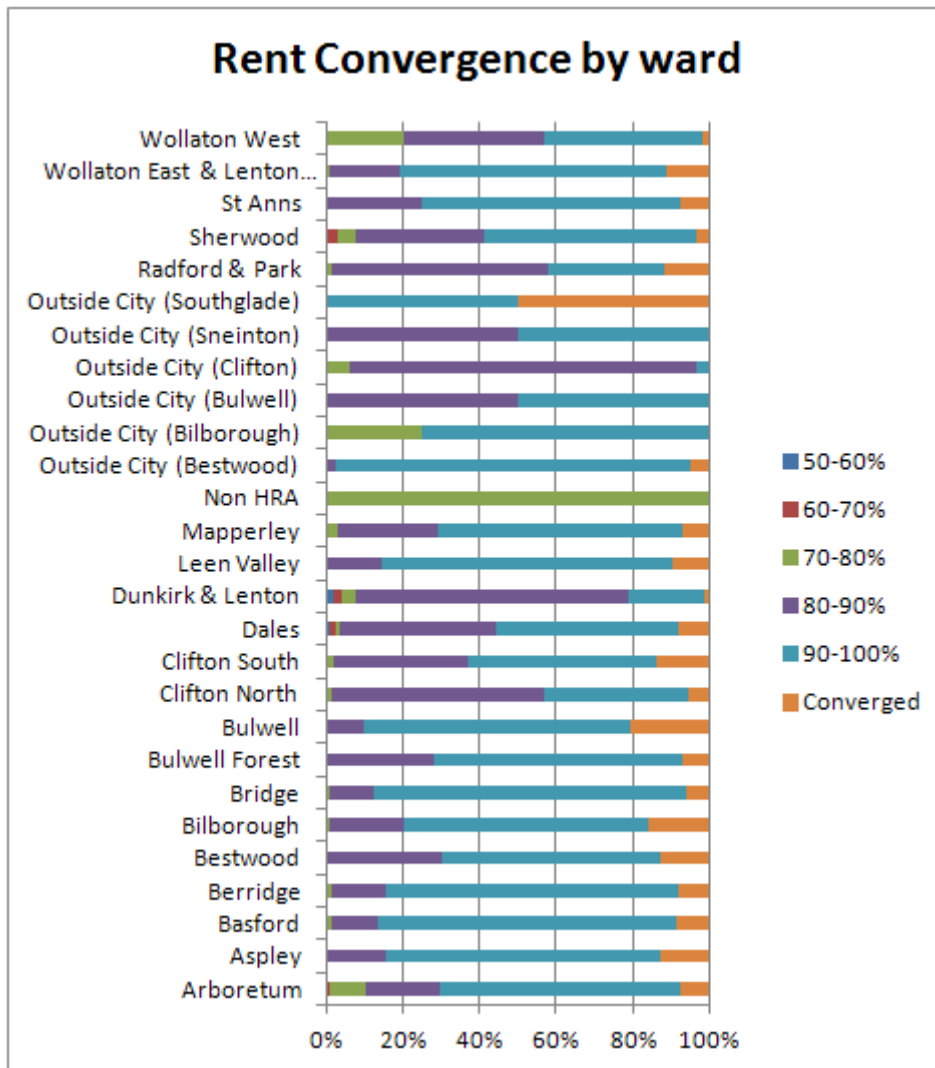
Draft guidance was issued in October 2013 which will remove the convergence element of rent increases from 2015-16 onwards. This will mean that if the guidelines are followed with maximum guideline increase applied, where actual rents have not already converged to target rents, they will diverge further in cash terms due to the effect of applying a percentage increase to a lower value.

Rents charged should be moved to target rent on re-let according to the new guidance, but at a rate of 7% tenancy turnover in 2012-13 this will take at least 10 years to affect only 50% of tenancies, with each passing year contributing successively lower impacts to convergence.

Effect of Non-Convergence

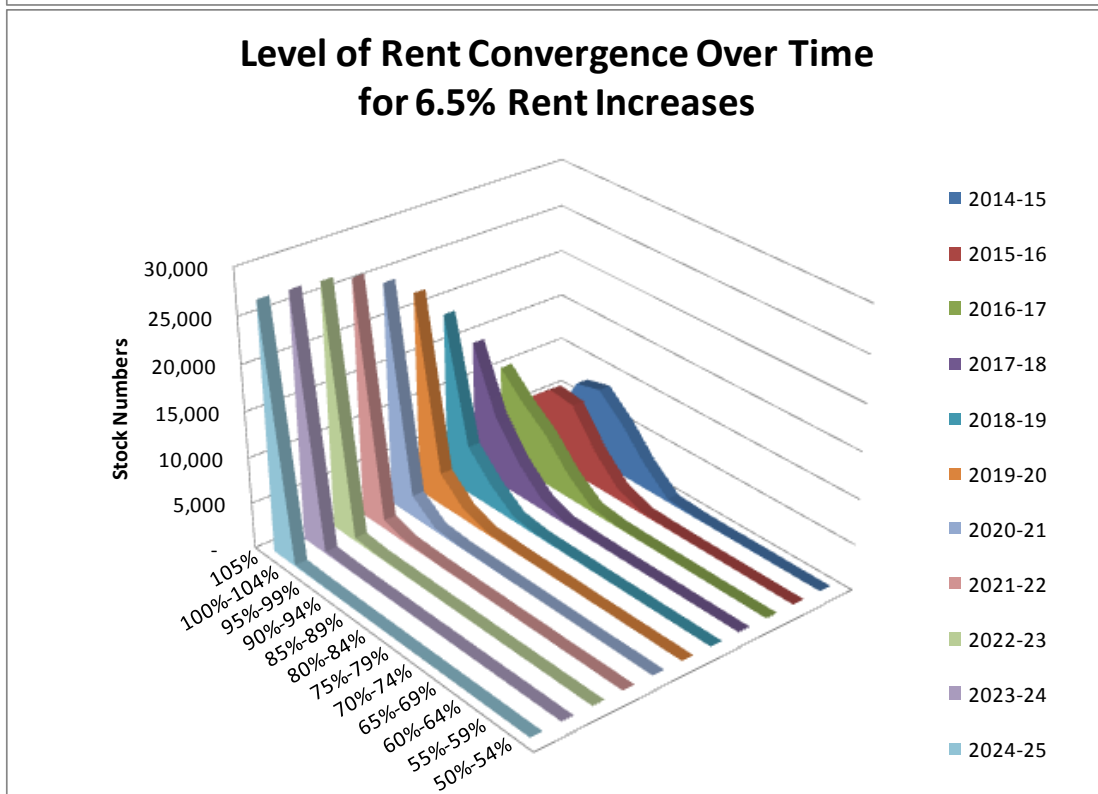
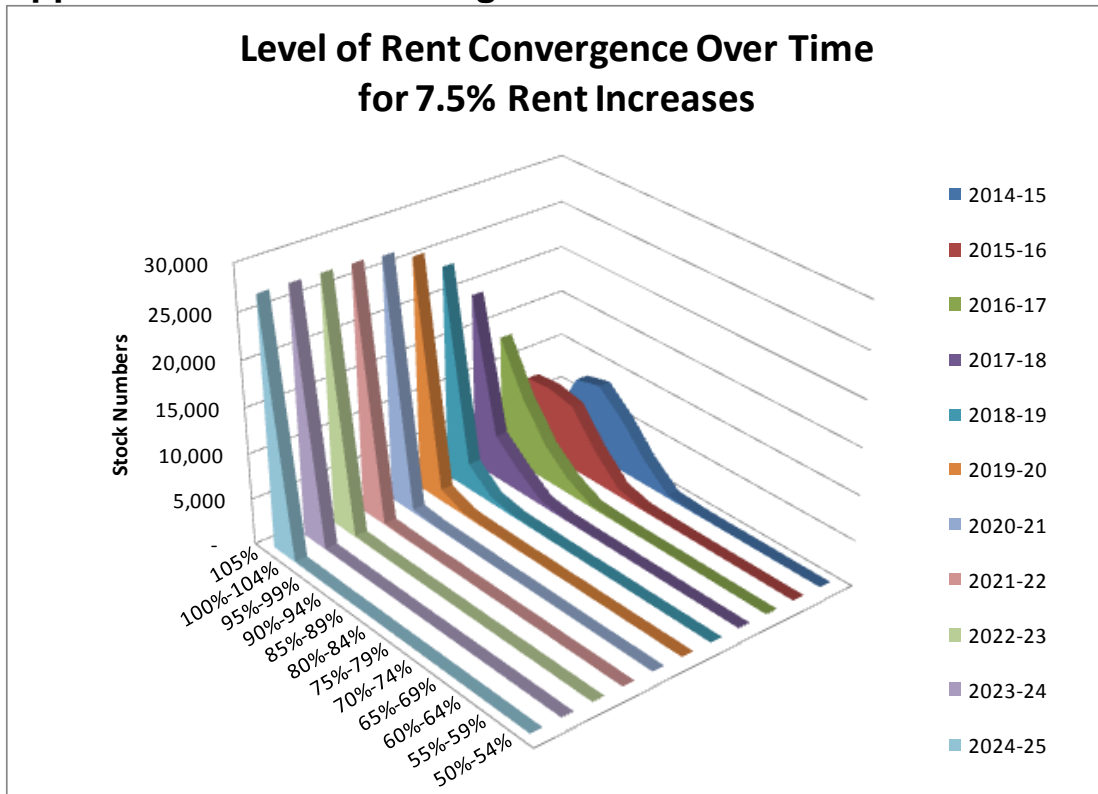
In cash terms, in 2013-14, 35% of NCC tenants pay between £5 and £10 per week less than the government thinks they should and a further 14% have even wider gaps between what they pay and the government's guideline. This has a cost to NCC of around £6m per year allowing for 4% bad debts. It also means that the cost of maintenance and improvement of housing stock is not shared fairly between all tenants.

Appendix C – Rent Convergence by Ward in 2013-14

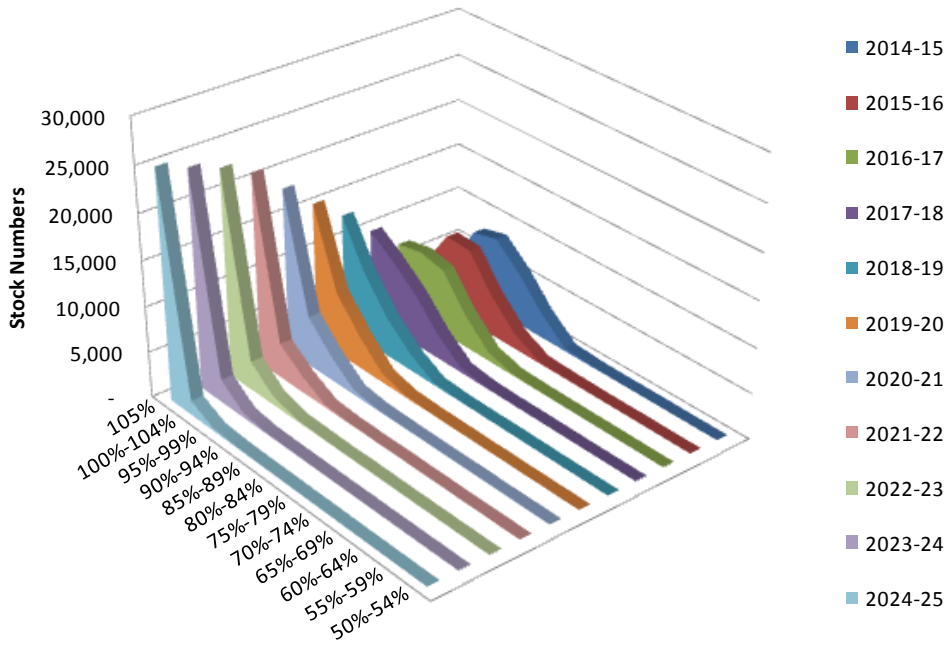


The Stock by ward chart shows the proportion of stock in each ward indicating the contribution of the above figures to overall convergence / lack of convergence.

Appendix D – Rent Convergence Over Time With Constant CPI



Level of Rent Convergence Over Time for 5.5% Rent Increases



Level of Rent Convergence Over Time for 4.5% Rent Increases

