



SLOUGH BOROUGH COUNCIL

Council Buy Backs

DRAFT

Internal audit report: 39.18/19

23 May 2019

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Debrief held	8 March 2019	Internal audit team	Daniel Harris - Head of Internal Audit Chris Rising - Senior Manager Amir Kapasi - Assistant Manager Louis Banks - Internal Auditor Barney Doyle - Internal Auditor
Draft report issued	23 May 2019		
Responses received			
Final report issued		Client sponsor	Joe Carter - Director of Regeneration Neil Wilcox - Director of Finance and Resources
		Distribution	Joe Carter - Director of Regeneration Neil Wilcox - Director of Finance and Resources

1 EXECUTIVE SUMMARY

1.1 Background

We undertook a review of Council Buy-Backs as part of the 2018/19 audit programme for Slough Borough Council (SBC), in order to ensure that appropriate processes, controls and approval mechanisms are in place for the buying back of properties.

The 'Right to Buy' scheme allowed individuals to purchase their council-owned homes for a discounted price. Following an update to the legislation in January 2005, any owners intending to sell properties bought under the scheme within 10 years of purchase are required to grant the Council the Right of First Refusal. Many councils took up this buy-back option to use for temporary accommodation, estate regeneration projects and general use. Since April 2018, SBC has bought back eight properties at a combined cost of £2,030,000.

Upon receipt of offers to buy-back a property, the Council either declares its interest in the potential purchase, declines the offer or defers this to a registered housing provider. For those cases in which the Council has an interest in purchasing, the Leasehold team informs both the Asset Management and Property Services teams to undertake assessments to determine the valuation and estimated costs of required work to return the property to an appropriate standard. These are then taken into consideration when submitting offers to purchase the property.

Each application has a turnaround time of eight weeks to make an offer or reject the proposal. Once the sale has been completed, keys are handed to the Voids team (Repairs, Maintenance and Investment (RMI) team) to undertake any remedial work.

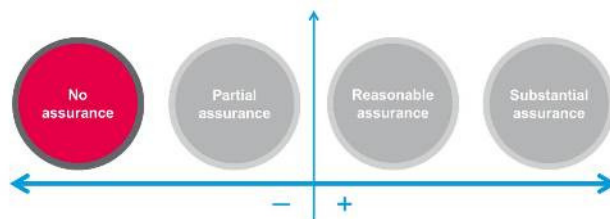
1.2 Conclusion

Our findings identified that buy-backs are potentially being approved for purchase below the levels identified in the Financial Procedure Rules as part of the Council's Constitution, which stipulate that expenditure above £250,000 should be approved by the Chief Executive. In addition, we identified a lack of a strategy to align the buy-backs to the Council's objectives, outlined within the HRA Business Plan and Asset Management Strategy.

Whilst we found that there is a process followed for the buying-back of properties, there is no comprehensive and authorised framework as to what this process should entail and does not incorporate changes which have occurred within the Council. This in turn has led to issues relating to the receipt of offers, departmental communication / involvement and the reporting of the buy-back process. In addition, we found that the appraisal process did not allow for effective scrutiny of decisions to buy back properties.

Internal audit opinion:

Taking account of the issues identified, the Council can take no assurance that the controls to manage this area are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified area(s).



1.3 Key findings

We identified the following key issues which have resulted in **eight** medium and **one** high priority management actions being agreed:

Approval of Buy-Backs

As per the Council's Constitution, the acquisition of leasehold interests up to £250,000 requires Chief Executive and Director authorisation, whilst acquisitions exceeding this threshold require Cabinet approval. Despite this, we found that the approval for the purchase of buy-back properties both within and above the threshold amount, had been granted by the Service Lead - Strategic Housing. Without suitable approval, there is the risk that properties are inadequately procured without appropriate scrutiny. **(High)**

Buy-Back Strategy

There is currently no overarching strategy in place to align the buy-backs process with the Council's strategic objectives. There is also no inclusion of buy-backs within the Asset Management Strategy or Housing Revenue Account (HRA) Business Plan 2017-2047. In the absence of a strategy outlining a clear appraisal framework for council buy backs, there may be an inconsistent approach to accepting and rejecting buy-back offers. **(Medium)**

Procedural Documentation

There is a 'Buy-Back Application Procedure' in place at the Council, which has been developed by the Leasehold team. This document includes the 11-steps to be followed from receipt of a buy-back offer to the legal proceedings to complete the purchase, however does not capture the entire end-to-end process including remedial works.

If there is insufficient procedural guidance in place, there is a risk that staff may administer inconsistent practices through the buy-back process. This may cause untimely processing of applications, potentially compromising the Council's ability to process application within eight weeks. **(Medium)**

Receiving Buy-Back Offers

A progression spreadsheet is used to record the dates on which key milestones such as receipt of offer, acknowledgement letter and bid to seller, occur. Through review of the spreadsheet, we identified that there were 20 buy-back properties listed, for which 15 had incomplete entries. While this was updated during the time of our audit, there is still a gap in the process which needs to be addressed to ensure completeness of information.

Without a complete record of properties, assessment cannot be made on the efficiency of the buy-back process and therefore it cannot be identified if statutory or internal timescales are met. Additionally, where key milestones are not monitored, there is a risk that the Council could miss out on opportunities to buy back available property, if not processed in a timely manner. **(Medium)**

Department Communication

The Council's Asset Management, Property Services, Finance and Performance and Legal teams are contacted by Leasehold Services to complete various tasks to complete buy-back purchases. These tasks include, valuing potential properties, performing rent appraisals and conducting the conveyancing amongst others.

Only after this is the RMI / Voids team contacted to undertake any remedial work, upon receipt of keys. We found that the variance between estimated costs, as per the Property Services evaluation and actual RMI costs amounted to a total of £33,913 for our sample of eight properties purchases since April 2018 (a difference of 25 per cent). If comprehensive cost evaluations are not completed prior to purchase, there is an inaccurate knowledge of remedial costs and a risk of inappropriate decisions and bid values being made. **(Medium)**

Decision-Making Process

In order to make buy-back decisions, key information is gathered relating to the property including a profit calculation spreadsheet, property valuation and remedial cost report. For a sample of eight properties bought-back since April 2018, we identified that only the market value was presented to the approver rather than the property value, taking account of remedial work required to bring the property back to an appropriate standard, with the basis for the property valuation excluded. As a result of this, there is a risk that decision-makers are not provided with sufficient material to approve potential purchases given that they cannot take assurance of the factors behind valuations. **(Medium)**

We also noted that the estimated remedial costs required to bring properties up to market standard are not factored into the Council's bid price. The total estimated costs amounted to £80,440, for our sample of properties, representing four per cent of the total bid prices. Without factoring in remedial costs, there is a risk of the Council potentially overpaying for buy-back properties. **(Medium)**

Financial Appraisal

A profit calculation spreadsheet is used to provide a forecasted financial analysis of buy-back proposals. Through discussion with the Group Accountant - Housing, we identified that this calculation was using outdated assumptions regarding debt financing and that the Finance and Performance Team were not afforded the opportunity to review any buy-back financial assumptions. There is a risk that with a lack of appropriate scrutiny, inaccurate financial appraisals are escalated and used to make buy-back decisions. **(Medium)**

Buy-Back Reporting

Buy-Backs information is presented monthly to Housing Services via a Performance Table document which includes a key performance indicator (KPI) scorecard. Although the number of buy-back applications and completed buy-backs are reported, we found that no process performance related data such as timeliness, is mentioned to allow for the review of efficiency. Furthermore, there is currently no information shared with the Corporate Management Team (CMT) and so, there is no scope for decisions to be considered by individuals making strategic decisions within Council Leadership. In absence of this, there is a risk that due challenge and scrutiny on the function of buybacks is not undertaken. This may lead to underlying issues to not be identified and addressed accordingly. **(Medium)**

We have also agreed **one** low priority management action which is detailed within section two of the report.

1.4 Additional information to support our conclusion

The following table highlights the number and categories of management actions made. The detailed findings section lists the specific actions agreed with management to implement.

Area	Control design not effective*		Non Compliance with controls*		Agreed actions		
					Low	Medium	High
Council Buy Backs	9	(10)	1	(10)	1	8	1
Total					1	8	1

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

2 DETAILED FINDINGS

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Responsible owner / Implementation date
Council Buy-Backs							
1.	Buy-back Strategy There is currently no overarching strategy in place documenting the Council's strategic initiatives with regards to processes concerning buy-backs. There is also no mention of buy-backs within the Council's Asset Management Strategy (dated March 2018) or Housing Revenue Account (HRA) Business Plan 2017-2047, merely detail on the implications the Right-to-buy scheme is	No	NA	We were advised by both the Project Manager - Housing Development & Contracts Team and the Service Lead - Strategic Housing that the Council currently does not have any strategy in place with regards to the buy-backs process. We were advised by the Project Manager - Housing Development & Contracts Team that there are current plans to produce an overarching 'Housing Acquisition Strategy,' which will be underpinned by the Housing Strategy, Development Strategy and Asset Management Strategy. We were also advised that this had not yet been drafted. We were subsequently advised that decisions	Medium	As part of the wider 'Housing Acquisition' strategy, the Council will implement a Buy-Backs strategy. The strategy should be approved by Cabinet and include: <ul style="list-style-type: none">Scope of the strategy, setting out the legislative parameters around right-to-buys and buy-backs;Aim of the policy, set in the context of the Council's Housing Strategy;Criteria documenting the factors which will determine whether the Council buy-	. John Griffiths Service Lead Housing Development and Contracts A new Development Strategy is currently being drafted by the Service Lead for Housing and Development

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	having on levels of housing stock.			<p>around buying back properties are appraised on a case by case basis by the Service Lead – Strategic Housing and as such without a clear, coordinated approach.</p> <p>In absence of a clear framework, the Council does not have a coordinated approach to repurchasing Right-to-buy properties as well as clearly defining a framework for which properties are appraised. Without this, there is a risk that the appraisal of potential buy backs are performed in an inconsistent matter.</p> <p>We have reviewed buy-back policies or strategies within the sector and have identified common practice in terms of their content. We have raised an action which details the various different components of a potential buy-back strategy for the Council.</p>		<p>back the property. This will include (amongst others):</p> <ul style="list-style-type: none"> ○ The purchase price and the availability of capital funds; ○ The financial viability of the investment including NPV analysis and payback periods; ○ Nature and extent of remedial work to be carried out; ○ There is a specific need for a type of property being offered; and ○ Whether there are incidental benefits (for example, savings through alleviating temporary accommodation costs) <ul style="list-style-type: none"> • Procedures around processing offers under the Right of First Refusal (RoFR); • Procedures around processing offers under non RoFR properties; • How buy-backs are financed; • Framework detailing how bid price is determined; and 	<p>contracts. One of the specific areas that will be covered in the strategy is the buy back process and methodology for assessing opportunities.</p> <p>This will cover the areas raised within this audit.</p> <p>Date for completion 31/12/19</p>

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						<ul style="list-style-type: none"> The governance structure in place to approve buy-back proposals including the following: <ul style="list-style-type: none"> The scrutiny of proposals at a relevant forum (i.e. the current Strategic Acquisition Board or founding a Housing Acquisition Board as per finding 6.4) Authorisation from the Housing Development and Contracts Services Lead; and Authorisation from the Director of Regeneration. <p>The policy will be subject to periodic review and will be made available to the public via the Council's website.</p>	
2.	Procedural Documentation The Leasehold Services Team have in place a buy-backs application procedural document in place. The procedure provides step by	No	NA	The Council has in place an internal "buy-back application" procedure for staff to follow, which details the processes to be followed following receipt of a notice of intention to sell. We reviewed the document and tested to confirm the procedure was adequate in content and had been subject to appropriate review and scrutiny. From our review, we identified the following	Medium	The buy-back procedural document will be formally reviewed with input from each of the following departments involved within the buy-backs process: <ul style="list-style-type: none"> Leasehold Services; 	Kamal Lallia Neighbourhood Contracts & Business Services

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	<p>step guidance over the processes to be administered up until offer acceptance from the prospective seller.</p> <p>The procedural note however does not detail the processes to be administered following the purchase (for example, the undertaking of condition survey's following purchase)</p>			<p>exceptions:</p> <ul style="list-style-type: none"> The procedure note did not differentiate between timescales that are required by statute and those that are internally set; Response times to send prospective seller acknowledgement of offer were not stated; The document referred to requesting 'target rent' figures from finance. The figures that should be used are the new Slough affordable rents; and The procedure did not document the process to be followed once the property has been purchased. This might include subsequent condition surveys and processing into the neighbourhood's team. <p>We were advised that Leasehold Service Charge Officer that the procedure note had been developed internally by themselves (Leasehold Services) and reviewed by the Leasehold & Right to Buy Manager (Leasehold Services). We obtained email correspondence and confirmed that this escalation and review had occurred.</p> <p>We also obtained email correspondence sent by the Neighbourhood Contracts & Business Services Manager to parties within Asset Management, Leasehold Services, Property Services, Neighbourhoods Team and the Repairs, Maintenance and Investment (RMI) Team as part of a meeting to discuss the buy-backs process.</p> <p>Despite the procedure document being escalated to the above parties, we were advised by the Project Manager - Housing Development</p>		<ul style="list-style-type: none"> Property Services; Asset Management; RMI/ Voids Team; Finance; and Legal. <p>The document will be updated to include the Statutory and internally set timescales for customer correspondence as well as the revised processes concerning buybacks.</p> <p>Given the comprehensive nature of the procedure, the document will be subject to approval by Service Lead's for each of the above-mentioned departments.</p> <p>Upon review, the document will be accessible to all relevant parties.</p>	<p>Manager</p> <p>An updated buy back process has been drafted. This will be consulted on with all relevant stakeholders and will be incorporated into an appendix in the new Development Strategy</p> <p>Date for completion 31/12/19</p>

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				<p>& Contracts Team that no scrutiny of the procedure note had taken place outside of the Leasehold team. This lack of scrutiny may have resulted in the issues described above not being identified and rectified accordingly.</p> <p>We were informed by the Leasehold Service Charge Officer that the procedural document in place is accessible to Leasehold staff only via their shared drive. We confirmed that the document was accessible to leasehold staff, however not to the various departments involved with the buy-backs process.</p> <p>As per the finding above, we found that the procedure document in place did not adequately provide guidance to staff due to both its content and its accessibility.</p> <p>We were advised by the Project Manager - Housing Development that the Council are currently in the process of revising the procedures to be adopted going forward.</p> <p>This will include communication with the different departments throughout, earlier engagement of the RMI team rather than just Property Services to ensure the Council are more accurately forecasting voids costs. We were, however, advised that no revised procedures have yet been drafted.</p> <p>Through our testing of eight sampled properties bought-back by the Council since April 2018, we identified timeliness issues with acknowledgment letters (further information in finding 4), responses from Asset Management</p>			

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				<p>and Property Services and the end-to-end buy-back process. We found that Asset Management and Property Services both responded in a timely manner in two instances, with the remaining six exceeding the three-week timescale. The entire buy-back process for five properties exceeded the eight-week timescale.</p> <p>If there is insufficient procedural guidance in place, there is a risk that staff may administer inconsistent practices through the buy-back process. This may cause a lack of timely processing of applications, potentially compromising the Council's ability to process application within eight weeks.</p>			
3.	<p>Information available to sellers</p> <p>Notifications of intention to sell properties back to the Council are made through the submission of an application by the prospective seller to the Council.</p> <p>The Council has limited information available on their website regarding the Council's approach to buying back ex-council properties sold through the right-to-buy scheme.</p>	No	NA	<p>We located the guidance made available to sellers on the SBC website under the Leaseholders- Selling your home section and confirmed that this provided information relating to the requirement to repay some or all of the discount received by the leaseholder. There was no additional information as to the set repayment parameters and so we found that this was not comprehensive in nature.</p> <p>Through our review of the available information on the SBC website, we noted that there was no guidance for potential sellers relating to how they should register a request for a buy-back.</p> <p>Based on the guidance provided on the websites of other local authorities, sellers should be instructed to include specific criteria on their offers, including the details of the house, the open market valuation as per a Chartered</p>	Low	<p>The SBC website will be updated to provide information relating to the following:</p> <ul style="list-style-type: none"> How sellers register interest in the buy-back scheme including: <ul style="list-style-type: none"> The details that should be included in requests, such as house specifications, seller contact information and property value; and Where requests should be sent. The next stages in the buy-back process including: <ul style="list-style-type: none"> The timeliness of 	<p>Kamal Lallian Neighbourhood Contracts & Business Services Manager</p> <p>Under the current process this area of responsibility remains with the leasehold team. This issue will be raised with the leasehold team as part of the consultation and the actions highlighted to the</p>

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				<p>Surveyor, seller contact details and where to send this information.</p> <p>Through our testing of eight properties bought back by the Council since April 2018, we identified six instances for which additional information was requested from the seller by Leasehold Services. Upon receipt of an intention to submit a buy-back proposal, a Leasehold Service Charge Officer sends the potential seller a letter, containing the information required to process their request. In each of the six instances, the appropriate information was supplied following receipt of the letter. In the two cases for which no additional information was requested, the offer had been sent from the legal representative of the seller.</p> <p>If comprehensive guidance is not provided with regards to how sellers should register interest, there is the risk that sellers do not know how to apply, applications that are sent do not include all the relevant information or applications are sent to the incorrect team, all which in-turn may cause delays to the buy-backs the process.</p> <p>Further information made available by other local authorities includes the key timeframes after an application is submitted, guidance on appeals and obtaining an external valuation of the property. In the absence of the direct availability of this information, the efficiency of the buy-backs process may be adversely affected.</p>		<p>recognition of request receipt;</p> <ul style="list-style-type: none"> ○ The timeliness of accept, reject or deferral decisions; and ○ Visits to the property for Council evaluation. <ul style="list-style-type: none"> • Further information including: <ul style="list-style-type: none"> ○ The option to sell on the open market; ○ The amounts that must be paid back to the Council if the property is disposed of on the open market; and ○ The requirement to offer the property to the Council if this has not been sold on the open market within 12 months. 	leasehold team.

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4.	<p>Receiving Buy-Back Offers</p> <p>In line with the Housing Regulations 2005, the Council is given first refusal on properties bought under the Right to Buy scheme if sold within 10 years of purchase.</p> <p>Property owners inform Leasehold Services of their intention to sell and are advised that they must first offer the property to the Council. This is completed through a Notice of Intention form.</p> <p>The same process is followed where properties are offered back to the Council outside the right of first refusal period.</p> <p>If the initial purchase by the tenant had been acquired more than 10 years ago, whilst there is no legal obligation to offer the property to the Council, prospective sellers are still able to.</p> <p>Where a notice of intention to sell is made, Leasehold service team are required to provide the seller with a notification of acknowledgement to confirm receipt of their intention.</p>	Yes	No	<p>We obtained the buy-back progression spreadsheet as at 27 February 2019 and identified that a total of 29 enquiries to sell properties to the Council had been made since 1 January 2019.</p> <p>Of the 29, we identified that the spreadsheet detailed that following enquiry, 20 notice of intention to sell had been made to the council (none of these were under the right of first refusal).</p> <p>The spreadsheet also identifies where acknowledgement of intention has been sent to the seller, however through our review, we identified that the spreadsheet had been not been fully completed for 15 of the 20 properties offered. Through discussion with the Leasehold & Right to Buy Manager, we were informed that the spreadsheet was incomplete due to an oversight, given that the document is intended as an internal record only.</p> <p>As such, we have not chosen to use the spreadsheet to evaluate the timeliness of processes completed, given the lack of completeness within the data.</p> <p>Additionally, where data within the spreadsheet is not complete, the Leasehold services team cannot assess how efficiently the team are responding to potential sellers. Where this assessment is not made, there is a risk that the team cannot identify whether they are meeting both statutory set and internally set timescales with regards to communicating with both sellers and other departments involved within the</p>	Medium	<p>The progression spreadsheet will be maintained to accurately reflect the following:</p> <ul style="list-style-type: none"> • Date notification to sell was received; • Date acknowledgement of receipt was sent; • Date other departments were engaged with (Property Services, Asset Management, Finance, Legal, RMI team); • Date of each departments' response; • Date the proposal was presented and approved; • Date the outcome has been reported to the seller; • Date the Council's offer has been accepted; • Type and scale of voids work required; • Date voids work starts; and • Date voids work ends. <p>Any instructions to 'hold' the buy-back process will also be noted.</p> <p>In addition to this, the spreadsheet will be expanded upon to include performance measures including but not limited to the following:</p> <ul style="list-style-type: none"> • Timeliness to send acknowledgment of receipt letters; 	<p>Leasehold Services Manager</p> <p>31st August 2019</p> <p>This action has been assigned to RJG in error. We will engage and request action to be re-assigned to Leasehold Services Manager</p>

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	The above processes are manually recorded into the buyback progression spreadsheet which details when each of the above stages have been completed.			<p>buybacks process.</p> <p>As per the above, we selected a sample of eight properties where the owner had issued a notice of intention to sell and tested to confirm whether acknowledgement of receipt had been issued in a timely manner. Given that there was an absence of any defined timescale for acknowledgement within the procedural document, we used five days as a proxy in line with common practice.</p> <p>In six instances, the time taken to recognise receipt of an offer exceeded five working days, with an average of 16 working days between receipt of the offer and the sending out of an acknowledgment letter.</p> <p>Through discussion with the Leasehold Service Charge Officer, we were informed that there is often a delay in responding to offers due to the time taken to inform Leasehold Services of the Council's intention to buy-back properties and requests by the seller to hold the process. Offers may be put on hold by sellers due to a number of reasons, such as accessibility or availability issues, and this may prolong the eight-week buy-back process timescale.</p> <p>For the remaining two buy-back cases, the seller was represented by a solicitor and so acknowledgement was given via phone-call.</p> <p>We confirmed that for each of the buy-back properties, the Leasehold Services team had received the following:</p>		<ul style="list-style-type: none"> • Timeliness of responses from the other departments; • Timeliness of the entire process (from date of receipt of offer to date of outcome reported to seller); and • Timeliness of conveyancing timescales between date legal services are instructed and date the purchase is completed. 	

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				<ul style="list-style-type: none"> • A condition survey in the form of a Buy-Back report/ survey from Property Services; • A property valuation in the form of a market value and 99-year value from Asset Management; and • Target rent amounts from the Group Accountant- Housing. <p>Through comparison with our findings and the detail within the progression spreadsheet, we noted that seven of our sample had been recorded. The entries for 22 Chichester Court and 132 Doddsfield Road were complete, however there was outstanding information for the remaining five properties.</p> <p>The process to buy-back the final property in our sample (76 Lincoln Way), had begun in 2017 and so was recorded on a different spreadsheet. We confirmed that this separate spreadsheet had been completed for the property. During our testing, Leasehold Services updated the spreadsheet to provide comprehensive detail on each of the properties.</p> <p>We noted that there was no performance measurement information detailed within the spreadsheet, such as the timeliness of acknowledgment letters, timeliness of other departmental responses and timeliness of the entire buy-back process.</p> <p>As mentioned above, if the progression spreadsheet is incomplete and does not include performance related information, there is no way for the Council to assess the efficiency of the buy-backs process. This may lead to delays in</p>			

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				responding to sellers, which in turn, can have negative repercussions including the risk of the Council missing the opportunity to purchase the property.			
5.	<p>Department Communication</p> <p>Communication between departments through the buy-back process occurs when the function is engaged with.</p> <p>Leasehold Services act as the origin for the processes, receiving and evaluating offers.</p> <p>After receipt of a notification of intention to sell (see control 4 for more detail), the Leasehold Services Charge Officer communicates with Asset Management and Property services to request a property valuation and condition survey respectively.</p> <p>The procedural document in place states that this should be done within three weeks.</p> <p>The above information is required to be provided to the Leasehold Service Charge Officer (LSCO) within three weeks of the application being</p>	No	NA	<p>Through review of the email correspondence between the Leasehold team and the other departments involved in the buy-back process, we identified three properties for which the RMI team (Voids team) had been contacted prior to the decision to purchase the property, (15 Maryside, 27 Thorndike and 280 Trelawney). In each case, the Lettings and Voids Manager had been included in the initial email request for property valuations.</p> <p>Through discussion with the Leasehold Service Charge Officer, we were informed that the RMI team are first contacted to hand over keys on the day of purchase completion. Therefore, with the exception of cases such as the aforementioned where by a voids team member is included in the email correspondence, the RMI/ Voids team is only aware of a property once it has been purchased.</p> <p>In order to substantiate the impact of the inclusion of the voids team at the end-stage of the buy-back purchase process, we compared the estimated costs as per the condition survey from Property Services to the actual incurred voids costs.</p> <p>The voids work is currently ongoing for of the two properties (27 Thorndike and 280 Trelawney), and so we found that for the</p>	Medium	Leasehold Services will include the RMI/ Voids team (or Capital works team, as appropriate) in the initial contact with the other departments, to ensure cost valuations are completed to an adequate standard.	<p>Leasehold Services Manager</p> <p>An updated buy back process has been drafted. This will be consulted on with all relevant stakeholders and will be incorporated into an appendix in the new Development Strategy</p>

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	made. On receipt of the above, the LSCO is responsible for requesting target rent from the Finance Department. The above is used to inform the decision-making process outlined within control 6. Following the decision-making process and agreement of an offer, the legal team are referred to complete the conveyancing of property title deeds with the seller's solicitor. Additionally, the outcome of the decision needs to be made within eight weeks of the notice of intention to sell being made in line with Housing Regulation 2005. Otherwise, the seller can sell their property on the open market (if it is a right of first refusal case). The Repairs, Maintenance and Investment Team (RMI – responsible for carrying out voids work) are not contacted until the buyback is complete. This means they do not have oversight over work that needs to be completed until they have gained access to the property. This increases			remaining six properties, the total variance between the cost figures amounted to £33,913. The actual voids cost for remedial works totalled £66,554, 25 per cent greater than the initial evaluation. Notably, the residual work required to prepare 22 Chichester Court was £9,873, despite an initial estimate of £1,900, whilst £3,695 of voids charges were attributed to 132 Doddsfield Road, despite the proposal reporting that no work was necessary. The lowest variance (£1,919) was identified in the one instance for which the Lettings and Void Manager had been contacted prior to purchase (15 Maryside). If the RMI/ Voids team are not contacted in relation to the buy-back process until after the purchase of properties, there is the risk that the estimated residual costs used as part of the appraisal process are inaccurate. Inappropriate bids may then be offered by the Council without proper knowledge of the work required to bring the sites up to standard, resulting in overpayments for the properties.			

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	voids times where they are unaware of work which needs to be carried out, as determined by the condition survey carried out by Property Services.						
6.1	Decision Making Process (1) The basis for the property valuation is not provided to the Service Lead, during the decision-making process.	No	NA	<p>We obtained a report which detailed all buy-backs that have occurred since April 2018. We identified a total of eight buy-backs have occurred since this date. As such, we sampled all eight properties and reviewed the decision-making process including the information used to inform this and where the buy-back had been approved.</p> <p>We were advised by the Leasehold Services Charges Officer that all buyback acquisitions are approved by the Service Lead – Strategic Housing to whom Leasehold Service provide key information including a profit calculation spreadsheet and information regarding the property following reviews undertaken by the Property Services Team (a condition Survey) and the Asset Management Team (a valuation).</p> <p>We confirmed for each of our sampled buybacks, the Service Lead had been in receipt of a profit calculations spreadsheet and a report from property services outlining the remedial works to be undertaken at the property, if purchased.</p> <p>We did, however, note that the basis for the property valuation is not provided to the Service Lead, only the market value of the property that was concluded by the Asset Management</p>	Medium	The basis for the property valuation will be included in the documentation provided to the individual or forum approving buy-backs.	<p>Kamal Lallian Neighbourhood Contracts & Business Services Manager</p> <p>Valuations are currently carried out as part of the process. An updated buy back process has been drafted. This will be consulted on with all relevant stakeholders and will be incorporated into an appendix in the new Development Strategy</p> <p>Date for completion</p>

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				Team. As such, there is a risk that the Service Lead would not be able to provide themselves with assurance of the factors behind the valuation.			31/12/19
6.2	Decision Making Process (2) Bid prices do not factor in remedial works and only incorporate market factors such as location and number of bedrooms'	No	NA	<p>We noted through review of email correspondence between the Service Lead and the Leasehold Services Charges Officer that the bid price approved had aligned in each case to the valuation provided by the Asset Management Team. We were advised by the Principal Asset Manager that their valuation does not consider remedial costs, only market factors including location and bedrooms amongst other factors.</p> <p>As such, the amount of remedial works to bring the property up to market standard are not being factored into the bid price of the property. We identified through review of the reports provided by the Property Services Team to the Leasehold Services Team that this amount equates to £80,440 which represents 4% of the total bid prices for the sampled eight properties. If the Council are not factoring remedial work into their bid prices, there is a risk that the Council are potentially overpaying for buy-back properties.</p>	Medium	The cost of remedial work determined by Property Services and the RMI/ Voids team will be factored into the bid price for buying-back properties.	<p>Kamal Lallian Neighbourhood Contracts & Business Services Manager</p> <p>The current process identifies any repair works required to bring the properties up to a lettable standard. This will be formalised and included in the appendix of the Development Strategy</p> <p>completion 31/12/19</p>
6.3	Financial Appraisal The Leasehold Services Charges Officer is required to prepare a profit calculation spreadsheet as	No	NA	We also reviewed the profit calculation spreadsheet to ascertain whether the assumptions behind the model are appropriate, in order to provide an appropriately forecasted financial analysis. We performed a walkthrough	Medium	The Finance and Performance Team will receive the financial appraisals for buy-back properties, so as to allow for appropriate scrutiny of the	Kamal Lallian Neighbourhood Contracts &

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	<p>part of the appraisal of the buy back.</p> <p>The above is not provided to the Finance and Performance Team and as such do not obtain the financial appraisal prior to its escalation to the Service Lead – Strategic Housing. There is therefore no opportunity for the assumptions to be scrutinised by those with sufficient finance experience.</p>			<p>of the model and made the following observations:</p> <p>The model takes into account the market price of the property as a proxy acquisition price as well as well as the reported remedial work costs to be performed, as advised by Property Services.</p> <p>The model also considers gross annual rent, through the 99-year valuation provided by Asset Management, maintenance costs, the annual cost of debt financing and is appraised over a 40-year period.</p> <p>The outcome of the model provides users with the net present value over the appraisal period and a net rental income.</p> <p>We did however identify through discussions with the Group Accountant - Housing that the model is outdated with underlying assumptions around debt financing not being valid. For example, for each appraisal the level of borrowing is determined at 70% in line with the Right-To-Buy scheme introduced by the government. The scheme provides that only 30% of right-to-buy receipts can be used in acquisition costs, meaning 70% would have to be debt funded. However, as part of the appraisal process, the whole 100% of the funds required should be debt financed to take into account the opportunity costs of using the funds, rather than just the debt finance utilised. As such, the outcomes and usefulness of financial appraisals undertaken will be compromised.</p>		<p>financial assumptions, prior to the escalation of proposals for approval.</p>	<p>Business Services Manager</p> <p>Under the current process a financial assessment is carried out on properties that are being considered for re-purchase. As part of the adopted process these appraisals will be forwarded to the Finance Team.</p> <p>completion 31/12/19</p>

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				<p>We noted that for each of the buy-backs appraised, the net present value ranged between a loss of £35,465 and a profit of £6,103 for the 40-year appraisal period. Given that the debt costs may be understated, the present value of these buy-backs may be overstated meaning the payback period of the project is increased. This thereby indicates that the financial viability of these buy-backs has not been sufficiently considered.</p> <p>We were advised by the Group Accountant – Housing, that the Finance and Performance Team do not obtain the financial appraisal prior to its escalation to the Service Lead – Strategic Housing. As such, there has been no opportunity for the assumptions to be scrutinised by those with sufficient finance experience.</p> <p>Without such scrutiny, the unreviewed appraisal has been escalated to the Service Lead – Strategic Housing for their approval. Whilst it should be noted that the financial viability of projects is not the sole factor to be considered (for examples, factors such as the level of existing housing stock), there is a risk that the Council are procuring buy-backs properties where the costs do not justify their means (in essence, the addition of housing stock), where inaccurate appraisal documentation is used to determine decision making. Additionally, where financial viability is insufficiently considered, there is a risk that the Council are not effectively investing their finite capital funds.</p>			

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6.4	<p>Approval of Buy-Backs</p> <p>From the information gathered through Finance, Property Services and Asset Management teams, the Leasehold Services Charges Officer is required to prepare:</p> <ul style="list-style-type: none"> • A Property Asset form; • Profit calculation spreadsheet; and • A management report highlighting key information and location for the property. <p>The above is provided to the Service Lead for Strategic Housing Services to review the documentation and approve a bid for the property.</p> <p>In addition to the lack of strategic documentation, there is a lack of framework or criteria in place which enables decision making to be performed in a systematic, consistent manner.</p>	No	NA	<p>Through discussion with the Leasehold Services Charges Team, we were advised that approval for each buy-back is sought from the Service Lead – Strategic Housing. For each of our sampled buyback projects, we confirmed that the Service Lead had approved each project, evidence through email correspondence with bid requests from the Leasehold Services Team.</p> <p>We reviewed the delegation of authority provided within the Council's Constitution and noted in line with section 2C.1, any acquisition of leasehold interests in land and property costing up to £250,000 requires Chief Executive (level one) and Director (level two) approval. We also noted that the Scheme of Delegation does not explicitly detail the approval requirements for acquisitions above £250,000 however was advised by the Service Lead – Governance that any expenditure in relation to buy-backs in excess of £250,000 requires Cabinet approval.</p> <p>For our sample of eight, we identified five of which were below £250,000 expenditure with the remaining three in excess of the threshold. As the Service Lead (equivalent to level three), their approval would be insufficient for each sample and therefore contravening the terms detailed within the schedule of delegation. If insufficient approval is sought prior to the acquisition of buy-back properties, there is a risk that properties may be inappropriately procured where the terms of the Council's constitution have been breached. This is further exacerbated by the lack of financial scrutiny as documented in finding 6.3.</p>	High	<p>The purchase of buy-back properties will require two-fold authorisation, from both the current Housing Development and Contracts Services Lead and the Director of Regeneration.</p> <p>In addition to this, the Council will explore the possibility of discussing and scrutinising buy-back decisions, either via the current Strategic Acquisition Board or by founding a Housing Acquisition Board.</p>	<p>John Griffiths Service Lead Housing Development and Contracts</p> <p>This should now be the Director of Place and Development and the Housing Development and Contracts Service Lead following the recent restructure.</p> <p>This requirement will be incorporated into the new process where applicable.</p> <p>completion 31/12/19</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Action for management	Responsible owner / Implementation date
7.	<p>Buy-back Reporting</p> <p>During the buy-back process, the Corporate Management Team are not made aware of any buy-back purchases made, nor are they made aware of progress against offers made.</p> <p>By not escalating information to CMT, those charged with strategic oversight of the Council are not provided with sufficient information to enable effective oversight over the buy-backs process.</p>	No	NA	<p>We were informed by the Leasehold Service Charge Officer that Housing Services review a Performance Table document on a monthly basis. We obtained this document and noted that this consisted of a key performance indicator (KPI) scorecard, indicator measured against year target, month actual, RAG rating, direction of travel along with a comments section.</p> <p>Through review of the three most recent scorecards, we noted that detailed within KPI number 8 (Leasehold Management), was information relating to the number of buy-back applications received and buy-backs completed. In December 2018, it was commented that Leasehold Services were no longer accepting buy-back applications, and those received in January 2019 were forwarded onto James Elliman Homes for consideration.</p> <p>No further reporting on the buy-backs process, such as the timeliness of the review of applications, the reasons decisions to accept or reject are made and the timeliness of the completion of properties, is provided to Housing Services. Without additional information to supplement the buy-backs applications received and completed figures, there is no way for those in receipt to evaluate the efficiency of the buy-backs process nor any indication of the performance of this process.</p> <p>There is currently no information shared with CMT with regards to any buy-back offers received, the purchase of properties through the buy-back scheme, nor progress of offers.</p>	Medium	<p>The updated progression spreadsheet will be monitored and reviewed at Housing Services team meetings to analyse performance and identify process areas for which timeliness is an issue.</p> <p>CMT will be informed of both purchases and when subsequent void work has been completed for properties under the buy-backs scheme.</p>	<p>Service Lead Strategic Housing Services</p> <p>An updated buy back process has been drafted. This will be consulted on with all relevant stakeholders and will be incorporated into an appendix in the new Development Strategy</p> <p>31st August 2019</p>

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				If there is no escalation of buy-backs information to CMT, senior figures within the Council are not provided with sufficient information to enable effective oversight of this process. In addition to this, if buy-backs are solely reported internally within the Housing Services team, there is no scope for decisions to be considered and scrutinised by those individuals making strategic decisions within CMT.			

APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

Objectives of the area under review

To ensure that appropriate controls and approval mechanisms are in place for the buy-back of properties

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

This review will provide assurance that robust controls are in place in relation to the buying back of Right To Buy properties. This will be undertaken through reviewing, for a sample of properties:

- Whether a strategy has been produced, approved appropriately and communicated to all staff in relation to the buy-back process.
- Whether procedures have been documented, to cover the different functions involved in the buy-back process including Legal, Neighbourhoods, Leasehold Services Team, Strategic Housing and Property Services.
- The processes in place for receiving and processing a request to buy back a Right To Buy property.
- The decision making process to buy a property back, and how this is approved within the Council's decision making structure.
- How the price to be paid to the seller is determined by the Leasehold Services Team, and whether this is consistent with strategies in place. This will include review of how the cost of any remedial works are factored into the purchase price.
- Whether the payback period for properties is considered as part of any business case process.
- How all departments involved in the process of a buy-back are communicated with, including agreement of the funding to purchase the property, and the agreement of the use of the property once purchased.
- Reporting to CMT on decisions made and progress with completion.

Limitations to the scope of the audit assignment:

- We will not provide assurance over all of the council's housing stock, as the review will be undertaken on a sample basis.
- We will not provide assurance that the price paid was appropriate
- We will not provide assurance about whether the correct decision was made to purchase a property, however will review the decision-making process in place.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

John Griffiths - Service Lead Housing Developments and Contracts

Colin Moone - Service Lead Housing Services

Sushli Thobhani - Service Lead Governance

Trevor Costello - Project Manager Housing Development and Contracts Team

Amanda Talbot - Leasehold & Right to Buy Manager

Shereen Hafeez - Leasehold Service Charge Officer

Farkhanda Ahmed - Leasehold Service Charge Officer

FOR FURTHER INFORMATION CONTACT

Daniel Harris – Head of Internal Audit

Daniel.Harris@rsmuk.com

Tel: +44 (0)1908 687800

Chris Rising – Senior Manager

Chris.Rising@rsmuk.com

Tel: +44 (0)7768 952380

Amir Kapasi – Assistant Manager

Amir.Kapasi@rsmuk.com

Tel: +44 (0)7528 970094

rsmuk.com

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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