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| Dear Heather  **Re: Compliance with the Rent Standard**  Introduction  I am writing to you as Chair of the Hexagon Board to bring to your attention a rent compliance issue and the actions which the Board has taken to ensure that the situation has been rectified and that further assurance has been put in place to ensure that it will not occur again. You will note from this letter that full repayments to Hexagon residents have been made and that the Board have put in place audit arrangements and additional system controls to ensure future compliance.  Supported Housing Rents – direct managed  Earlier this year, the HCA queried with our Finance Director the level of rents in one borough relating to a small number of supported housing bed spaces. In response to that query, our officers undertook a detailed investigation into the rents queried. As this initial trawl identified some rents that exceeded the maximum allowable rent under the rent standard, this then led to a much more detailed officers investigation into ALL of our rents in our directly managed supported housing. This officer’s investigation concluded that we had a total of 32 homes which Hexagon manages direct, with rents that exceeded the maximum rent allowed under the rent standard.  What the investigation established was that there was no particular pattern to the rent errors. For these 32 homes, there were 5 separate and distinct reasons why the rent was incorrect. These are outlined in some detail in **Appendix A,** but the key point is that each of these arose from human error rather than having incorrect procedures in place.  ***Cont’d/……2***  ***Page 2/***  Agency Managed Supported Housing  Following this exercise, in an effort to be comprehensive, the officers extended the investigation even further, this time looking at the rents in ALL of our supported housing schemes. This included homes owned by Hexagon, but where the housing management service is provided by a third party. This resulted in a finding that a further 3 schemes also had rents that were not compliant with the Rent Standard. This totalled 51 bed spaces.  The vast majority of these bed spaces (42) were in one hostel which had been managed by an agency. What we discovered was that a previous managing agent had changed the net rent without informing Hexagon and a new agency, appointed by the Supporting People commissioners, had continued to use that incorrectly set rent.  A further 9 bed spaces were in 2 separate women’s refuges. The context here is that a decision had been taken in 2003 that these women’s refuges were exempt from rent restructuring, given their stated intention to house homeless families, which appeared as an exemption. We believe this was and still is a fairly widespread interpretation across the sector. However, at this stage, as we were turning over every stone in our desire to be comprehensive, we decided to take legal advice on that interpretation.  Having taken that legal advice, we now believe that a decision taken in good faith back in 2003, was in fact taken in error and that the rent charged should have been capped in accordance with Rent Restructuring. This is essentially because of the grant funding that was provided in the building of the refuge.  General Needs – direct managed  Given all of the above findings, a final investigation was undertaken into all of our general needs lettings. This investigation concluded that there were a total of 12 anomalies. Once again, we established no particular pattern to this. Again, **Appendix A** outlines that there were 3 different reasons for the human errors that occurred on these 12 units.    How has the Hexagon Board responded?  I want to emphasise that the Board and Hexagon’s Audit & Risk Committee have been very involved in agreeing the approach to the officers investigation, monitoring the outcomes, and crucially, ensuring that remedial actions are undertaken which will prevent any reoccurrence in the future.  Officers first reported to the Audit & Risk Committee on 16th February 2016 and to the full Board on 29th March 2016. A further report was done for the Audit & Risk Committee on 10th May 2016 and most recently, on 11th July 2016, the Audit & Risk Committee received the final internal audit report on compliance with the Rent Standard from internal auditors (see below for more detail). Since then, officers have been working hard to process rent refunds to all Hexagon tenants who have been overcharged.  ***Cont’d/……3***  ***Page 3/***  The legal advice we obtained also provided us with a clear steer on how the Board might go about remedying the problems identified and we were also advised on the timescale for communicating with the HCA in relation to the findings and resolution of the issues identified.  Use of our Internal Auditors  I also want to emphasise that our Audit & Risk Committee and Board decided quickly to carry out a special Internal Audit on Rents. This was done to double check whether the investigations which had been carried out in-house were thorough and comprehensive so that we had complete assurance. The audit report which went to our Audit & Risk Committee on 11th July (and reported in summary to the full Board on 26th July) concluded that the approach followed by management to identify current rents within the General Needs and Supported Housing stock above policy maximums had indeed been effective. They also observed that management were calculating refunds for all current tenancies where issues had been found to ensure that the monies were repaid.  The auditors made just two recommendations for further actions, both of which were agreed and have now been implemented by management. One related to record keeping for development schemes where target rent calculations were filed centrally and a second related to ensuring that our Agency Monitoring Officer checks the details sent by the agencies on the proposed rent charges, re-let rents, and rents at 31st March.  Crucially, the auditors reporting to the Audit & Risk Committee reported that there had not been a “systemic” failure which affected all of our rents because of an underlying issue with our rent model. Instead, they observed that there had been a number of isolated human errors which had resulted in the non-compliant rents being charged. We would be more than happy to share details of this audit with you, should you require it.  How much money is involved in refunds?  To give you some idea of the scale of the discrepancies, in General Needs, the 12 rent overcharges varied from £3.69 per week (error in re-letting) to £15.29 (error in first letting). The total amount in overpaid rent for all the directly managed units is £13,247. The direct managed Supported Housing refunds total £54,393. Taking both of these together, £20,334 has now been refunded to tenants.  We are in the process of making the rest available to the respective Housing Benefit departments. Initial indications are that a straightforward payment to them may not meet their own requirements, given the complications of the HB subsidy arrangements. I should emphasise that we are absolutely clear that we wish to pay the money back and would only decline doing so on their request.  ***Cont’d/……4*** |

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| ***Page 4/***  In relation to the Supported Housing agency managed schemes, the cost of making refunds is £118,632, the vast majority of which is repayable to Housing Benefit departments. The reason this figure is significantly greater is that some of the refunds go back to the original date of rent restructuring, as described above.  The two agencies where rents have been non-compliant, are also remedying the rents. One managing agent has already served notices to charge new compliant rents and a second agency has confirmed to us that they too are correcting the mistakes and charging the correct rents in the future.  What will be different about setting rents in the future?  You will see from **Appendix A** that we have described the corrective actions that have been taken in response to each of the errors uncovered. In addition, arising from the audit, the Audit and Risk Committee has now assured the Board that a second officer will now check the rents on homes as they are re-let with evidence of the check on the file. They have also agreed a new system for checking agency managed rents before they are changed at the start of the year and during the year on re-let. In addition, they have agreed that our IT department will now be saving an instructional electronic file on all updates to our target rents model, extracts from which are used continuously throughout the year to set rents on re-lets or to select the rent for a Rent Officer’s determination for Fair Rents.  A second Internal Audit on Rent levels  I should also emphasise that the Board has commissioned a second follow up internal audit of our rent setting process for our 2016 General Needs rent charge. This audit began on 22nd June, following the notices that were sent out in May for the annual July review for assured tenants. We await the results of this audit, but we remain confident that we have now comprehensively remedied any problems we have identified in rent setting.  Conclusion  While, the Board is obviously disappointed that errors were made in relation to rent setting, the Board were also pleased that officers quickly informed us. This allowed the Audit and Risk Committee and the Board to undertake a number of actions including receiving legal advice on how to proceed. We also commissioned a special internal audit to ensure the position was rectified as soon as possible and that controls were strengthened to ensure the situation is properly remedied for the future. We then agreed that refunds should be made to all Hexagon tenants where overcharging had occurred.  ***Cont’d/……5***  ***Page 5***  The Board was initially concerned that there may have been some systemic errors in relation to rent setting that affected our entire rent setting model, but our conclusion, supported by our internal audit, is that there were in fact a number of different reasons for the anomalies which are outlined in **Appendix A**. There was not any particular pattern as they happened at different times, due to a range of human errors.  At all times, the Board and the Audit & Risk Committee have been fully informed and they have controlled and driven the process which has arrived at this position.  I appreciate that this letter contains a lot of information, but our intention is to be as open and transparent with the HCA as we can be. With that in mind, should you require any additional information or have any queries, please do not hesitate to let me know and we will do all that we can to satisfy you that the actions taken by the Board have been thorough, comprehensive, and effective.  Yours sincerely  *pp* **Roy Coulter**  **Chair** |