

Kilkenny County Council

Internal Audit Report ■■■ Review of Social Housing Acquisitions

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Section 1 – Introduction

Report Distribution

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1.1 Introduction

As is the case nationally, the demand for social housing in Kilkenny is high with over 2,000 on the housing waiting list. This audit will focus on the purchase of individual houses for social housing in 2018. 30 individual social houses were purchased in 2018 at a cost of €5.35million. The average cost of each house was €178k.

1.2 Objectives

- To provide assurance that Kilkenny County Council is achieving value for money when purchasing social houses.
- To ensure proper planning and appraisal procedures are in place.
- Check if the acquisition policy adheres to the national guidelines issued by the Department.
- Ensure sufficient checks and controls are in place throughout the purchasing lifecycle.
- To review legal and accounting procedures in relation to the registration of the property and the recording of the asset.

1.3 Approach

Internal Audit spoke with Housing Capital who are involved in the purchasing of social houses. All 30 acquisition files were reviewed and procedures and policies examined.

1.4 Scope & Limitations of scope

- The audit reviewed the procedures and processes in place in relation to the purchasing of social houses.
- The audit focussed on house purchases commenced in 2018.
- Houses purchased under Part V were excluded from this audit.
- Reviewed compliance with national and local policies.

1.5 Audit Risk

- All costs relating to the acquisition not recouped from the Department of Housing, Planning, Community and Local Government.
- Value for money not achieved in relation to the purchase of property.
- House purchased in an area where there is insufficient demand for social housing.
- Lack of a written protocol regarding property acquisitions.

1.6 Co-operation of Management and staff

Internal Audit received full co-operation from Council Management and staff throughout the course of this review and would like to thank them for their assistance.

Section 2 – Findings

2.1 Overall, internal audit can give reasonable assurance that adequate controls in place within the process to purchase houses for social housing. The Department of Housing, Planning, Community and Local Government fund the capital costs of purchasing the houses. There are certain controls embedded by the Department in the process for recouping the costs such as:-

- 1) Capital cost ceilings
- 2) Independent valuations

Internal audit notes that all purchases were within the capital cost ceilings.

2.2 There is a requirement to ensure that all acquisitions do not exceed the market value for the properties. An independent valuation should be obtained in advance and used as a basis for bidding on the property. The valuation must be included with each recoupment form to the Department. Internal audit notes that while an independent valuation was received for all purchases, the reason for getting the valuation appears to be for recoupment purposes rather than ensuring the council are paying the fair market price. The procedures manual looks for an independent valuation after contracts have been received and final monies paid. It is important that the Council receives an independent valuers report prior to agreeing to purchase a house to ensure value for money is being achieved.

2.3 Local authorities must ensure value for money is achieved when acquiring social houses. I noted that there was no record of bids being made on the acquisition file. All bids should be recorded on file to show the Council tried to achieve the lowest possible price for the house. The file should show:-

- | | |
|----|-----------------------|
| 1) | The amount of the bid |
| 2) | The date of the bid |
| 3) | The result of the bid |

2.4 10 out of the 30 houses purchased were existing RAS houses. The councils acquisition policy states that the council will consider the purchase of a RAS house subject to the tenant having a “good record of payment”. One of the RAS houses purchased had arrears of over €800 and another had over €2,600 arrears on the account when purchased. Internal Audit does acknowledge the important role of preventing homelessness despite the arrears. At the time of audit, three of the RAS properties purchased were still being listed on a gresso as RAS tenants. Accounts should be adjusted when sale has been closed and rent should be charged.

2.5 There were two auctioneers used for the independent valuations. The council should ensure proper procurement processes are being complied with when engaging with auctioneers.

2.6 In most cases, recoupments of the purchase price of houses were made to the Department reasonably quickly after the sale was closed. The average length of time from the date of final payment and the date recoupment received was 34 days. However, there were delays of 2-3 months in submitting claim forms to the Dept. for the recoupment of 5 properties after the sale had closed. I understand that there can be delays in receiving the monies from the Department after the claim has been submitted. While this element of the recoupment process is out of the Council's control, it is important that recoupment claims are forwarded to the Department as soon as possible after the close of sale. These delays have negative implications on the cash flow of the council.

2.7 At the time of audit, there are unrecouped monies of over €100k relating to works carried out to upgrade the houses prior to letting. Again, this has implications on councils overall cashflow. Claim for recoupment of monies should be issued to the Dept. as soon as works have been completed and final invoice paid.

2.8 Repair and property upgrade costs to the value of €4,639.51 was spent on [REDACTED]. These works were carried out in-house and the council were unable to claim costs from Department as the works were not tendered for.

2.9 No technical report was on file for the purchase of property at [REDACTED].

2.10 In relation to the purchase of [REDACTED] the independent valuation states that "the dwelling is in poor condition and does not reflect the amount of money being requested from the vendors as it requires and enormous spend to improve". Despite these comments, the opinion of the independent valuer is that the market value of the property is €180,000 which is the same amount as the asking price.

2.11 The dept. set a target of 7 acquisitions between Kilkenny County Council and Voluntary Bodies. Kilkenny County Council completed 30 purchases and had a further 38 units at sale agreed at year end. Voluntary Bodies purchased 52 houses and had a further 48 units at sale agreed stage at year end.

Section 3 - Recommendations

3.1 It is important that the council is achieving value for money. An independent valuation should be carried out prior to any offers being made. The independent valuation should influence the initial bid being made by the council. A record of all bids should also be recorded on the housing acquisition file. The record should show:

1. The amount of the bid.
2. The date of bid.
3. Signature of employee making bid.

Management Actions

- *Bids – Agree with recommendation and will commence the recording of bids as outlined*
- *Independent valuations –Our recommendation is that the valuation reports are needed and will be sought earlier at the time of successful bid and before contracts are signed. Getting a valuation report prior to all bids made is unnecessary and costly as our stats demonstrate that only 30% of bids are successful.*

3.2 The valuers should be procured using the council's procurement guidelines. This will improve the transparency and independence of the valuation process.

Management Actions

*Agree with recommendations. To be followed up
Currently fixed fee agreed with local auctioneers €150+vat with one exception*

3.3 All capital costs should be recouped from the Department as soon as possible after the close of sale. The purchase price and legal costs should be recouped once the sale of the property is closed. Any costs incurred in making the house fit for letting should be recouped as soon as the works have been completed.

Management Actions

Agree with recommendations.

This is the current practice and there may be exceptions due to delays with sales closing

3.4 The Dept's target number of social houses to be purchased in 2018 was overachieved by over 1000%. While it is to be commended that such a high number of purchases were completed in 2018, the council must ensure that it is not exerting a negative influence in the local housing market especially in relation to first time buyers.

Management Actions

Noted and agree with recommendations.

Targets are exceeded where there are no restrictions placed by the Dept. The Department has not refused payment of acquisitions to date as they represent good value for money and within the cost guidelines set down by the Department. Acquisitions deliver housing solutions for approved applicants in the greatest housing need. Going forward the policy is to rely less on acquisitions and more on delivery of housing units through our own Construction Programmes which is starting to deliver results.

KCC Acquisitions policy and practice is not to bid against first time buyers to avoid raising house prices.

