Southway Housing Trust

Assurance Review of Rent Setting

October 2024

Final

Executive Summary

OVERALL ASSESSMENT

ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

Weak governance leads to poor decision making - Serious issue is uncovered by regulator via an IDA, or through routine reporting which leads to regulatory downgrade.

SCOPE

The review considered the extent that the Trust can demonstrate that it meets the Rent Standard. The review assessed the arrangements operating against the Rent Standard including the annual rent debit review process, approval of rent changes, rents charged at relet, new properties being added to the rent debit and reporting to committee.

KEY STRATEGIC FINDINGS

Audit testing confirmed that the correct rent increases had been applied to properties for 2024/25 with one exception where an increase of 5.3% had been applied instead of 7.7%

The Rent Setting Procedures Guide has not been updated since March 2021.

The correct affordable rent had been applied to the new properties at the Brickfields development.

Duplicate entries were noted on the Relet Control Sheet.

GOOD PRACTICE IDENTIFIED

Formula rent has been correctly increased in line with the Rent Standard and applied to properties at re-let.

ACTION POINTS

Urgent	Important	Routine	Operational
0	2	0	0

Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Directed	The Rent Setting Procedures Guide was last updated in March 2021. The document defines the procedures for determining the rent values for new lets, relets and the annual rent increases. New let procedures are categorised by the property type as the procedure varies dependant on the property. It has been acknowledged that the procedures require updating as there have been amendments made relating to how the maximum Affordable Rent is calculated and some small change in relation to the calculation of fixed service charges.	The Rent Setting Procedure Guide be updated to reflect the changes made in operational practices.	2	*Agreed. The Rent Setting procedure will be updated to reflect the revised methodology of setting rents including new lets, relets and annual process.*	*30/11/2024*	*Finance Manager – Rents & Service Charge*

PRIORITY GRADINGS

1	URGENT	Fundamental control issue on which action should be taken immediately.
2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
3	ROUTINE	Control issue on which action should be taken.

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Directed	A review was undertaken of all properties contained within the Property List spreadsheet provided by the Trust where the increase in 2024/25 was not the standard 7.7%. This identified one tenancy (reference 9990001187602, apartment 14, 1 Brian Harrison Close). It was established that one of the formulae had been overtyped with a value resulting in the increase of 5.27% (a shortfall of £3.59 per week), which the Finance Manager confirmed was an error. It should be noted that the "check percentage increase" column in the Property List spreadsheet showed 5.27% and therefore this should have been noted and investigated by the Trust.	It be ensured that all non-standard rent increase amounts showing in the Property List spreadsheet are investigated prior to the rent increase process being finalised.	2	*Agreed. The new process will pick this up and ensure data validation checks are undertaken to review variances by exception.* *Also, the data validation schedules will have controls built in to protect cells to avoid overriding them by mistake.*	*30/11/2024*	*Finance Manager – Rents & Service Charge*

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Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
No operational effectiveness matters were identified.				

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Findings

Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	**Governance Framework**	There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	Partially in place	1	-
RM	**Risk Mitigation**	The documented process aligns with the mitigating arrangements set out in the corporate risk register.	In place	-	-
C	**Compliance**	Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	Partially in place	2	-

Other Findings

- The Trust's Rent Setting and Service Charge Policy (Social and Affordable Properties) was last reviewed and approved by the Board on 11th June 2024. This sets out where and when social and affordable rents will be charged, the rental value to be charges at re-let, limits to be applied to the total rent and housing benefit eligible service charge levied, and the circumstances when rent conversions (from social to affordable rent) will be applied.
- The Trust has a Rent Increase Timetable in place which monitors the tasks required when increasing the rents for properties. The spreadsheet is structured in date order utilising a colour coding system to track the progress of tasks. Each task is defined by its category, task/action, start date, the date it was actioned and the responsible officer of its action. Notes and/or further actions are also recorded against each task, for example the link into the service charge review process and production of the increase letters to residents.
- The Trust discovered an error in the way that the rent had been calculated for 47 properties let at the end of the 2023/24 financial year. This was in part brought about by staffing shortages and the knock-on effect of issues caused by the service charge review process being delayed. The issue has been resolved but has resulted in the annual increase being applied late (in June 2024 and the increase must be applied in June for all future years unless the property is relet) with a financial impact of £4.5k per annum. This was reported to the Parent Board within the Chief Executive Report in June 2024. Revised processes have been put in place; however, the procedures have not been updated to reflect the changes made. **(Recommendation 2 refers).**

Other Findings

The annual rent increase process involves a download of all properties and their rental values being taken from the housing management system. A series of calculations are undertaken in a spreadsheet to calculate the following year's charges based on the agreed percentage increase. Comparisons are subsequently undertaken of individual property rent charges to verify that the correct increase has been applied.

In January 2024 the Chief Financial Officer presented a paper to the Parent Board to propose a rent increase to social and affordable rent properties of 7.7% (September 2023 CPI plus 1% - in line with the maximum permitted by Regulator). The report detailed the potential impact upon residents, particularly those who are on partial housing benefit, those under occupying and full payers. Following a comprehensive discussion by Members, the proposed increase was approved.

An exercise was undertaken to establish whether the formula rent calculations held within the Social and Supported Housing Rent spreadsheets provided by the Finance Manager were accurate. This involved verifying the national average and relative county earnings, the bedroom weight and the national average and the relative property values. Additionally, the annual percentage increases to the target rent were also confirmed for 2000 onwards. It was noted that the rent increase value for 2024/25 was recorded as 8.7% (7.7% + 1%) in error. Discussions with management identified that, when determining the correct rental values to be levied on new properties, the National Average Housing Rent - History & Forecast template table is copied over to another spreadsheet prior to undertaking the rental value calculations and that this error had been corrected in the example provided (in relation to Ennerdale Avenue) thereby demonstrating that the correct social rent value had been set up in these new development properties. The template was also updated at the time of the audit.

As the audit testing process involved using calculations on property rents for 2023/24 and 2024/25 shown on spreadsheets provided by the Trust, an exercise was also undertaken to verify a sample of rental values from the spreadsheets to the housing management system. No anomalies were noted.

In line with the Government's Policy Statement on rents for social housing, the 7% ceiling imposed on rent increase for 2023/24 did not affect the calculation of the maximum initial rent when properties are first let or subsequently re-let. In particular, the restriction did not apply to the calculation of formula rent which continued to increase by CPI + 1%. Testing was undertaken on all properties that had been let during the current financial year to establish whether the new tenants were being charged formula rent. This showed that all had been set up correctly.

Appropriate documentation was provided in the form of a market rent valuation to support the affordable rent charged on the new properties at the Brickfields development.

Delivery Risk:

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation		Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	Performance Monitoring	There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	Out of scope	-	-
S	Sustainability	The impact on the organisation's sustainability agenda has been considered.	Out of scope	-	-
R	Resilience	Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	In place	-	-

Other Findings

The Relet Control sheet is utilised to record all properties that have been relet for the year 2024/25. The document contains information such as: property address, rental value, the respective eligible and ineligible service charges and the initials of the individual who has reflected the values in Open Housing. An exercise was conducted to cross reference the KIP Rental Charges (data provided relating to tenancies let since April 2024 via a report generated from the housing management system) to the rental values on the Rental Control Sheet. It was established that an error had been discovered in the system report and therefore this exercise could not be fully completed. However, as a result of conducting this exercise, it was noted that 34 addresses had duplicate records, with a number of duplicates containing differing rental values and/or service charge values. For example, one property address (17 Easthope Close) has two records, both with identical rent values but with differing eligible and ineligible service charges and was completed by two different individuals.

It was confirmed that the correct rental values were set up in the housing management system, however more care should be taken when updating the Relet Control Sheet.

Scope and Limitations of the Review

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

Disclaimer

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

Effectiveness of arrangements

3. The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

In place	The control arrangements in place mitigate the risk from arising.
Partially in place	The control arrangements in place only partially mitigate the risk from arising.
Not in place	The control arrangements in place do not effectively mitigate the risk from arising.

Assurance Assessment

4. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

5. We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

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

Stage	Issued	Response Received
Audit Planning Memorandum:	4th April 2024	11th April 2024
Draft Report:	19th September 2024	30th September 2024
Final Report:	1st October 2024	