



Rosehill Housing Co-operative Limited

Internal Audit 2024-25

Rent Setting and Affordability
October 2024

Overall Conclusion

Strong

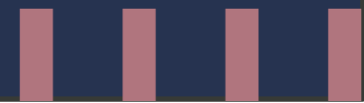
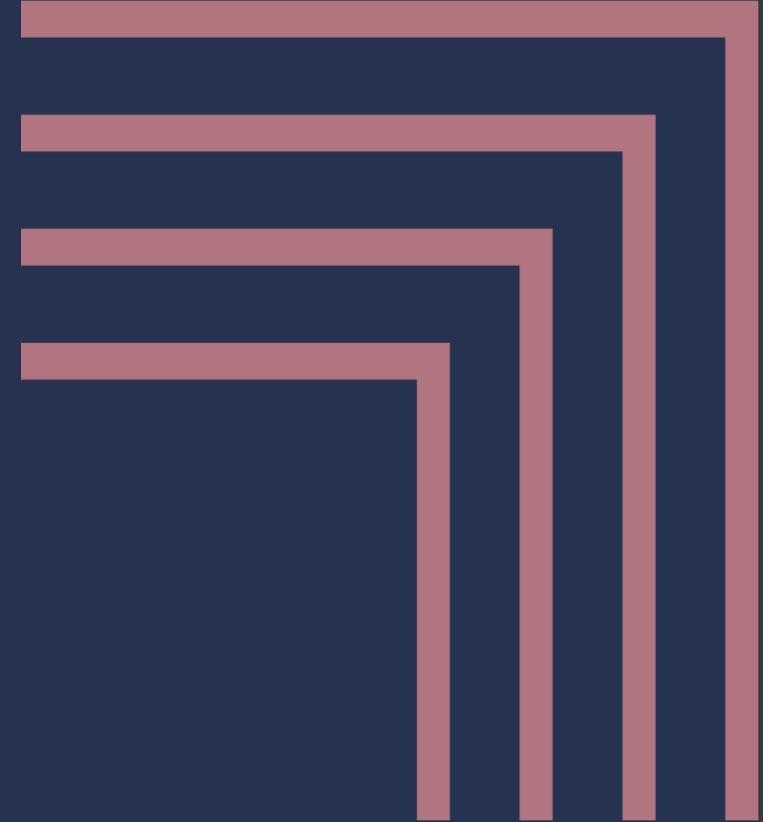


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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for Rosehill Housing Co-operative Limited’s individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

1 Executive summary

Overview

Purpose of review

The purpose of this assignment was to assess the rent setting process at the Co-operative, ensuring tenant affordability was considered. We considered the rent review and authorisation process. We also reviewed the communication process with tenants, ensuring they were provided with sufficient notice of any rent increase.

This review formed part of our 2024/2025 Annual Internal Audit Plan.

Scope of review

Our objectives for this review were to ensure:

- | The Co-operative has a robust annual rent setting process in place.
- | The Co-operative consider tenant affordability during the annual rent review process.
- | The rent review process is subject to authorisation by the Management Committee prior to its implementation.
- | Tenants receive sufficient notice of any rent increase and are offered an opportunity to provide feedback.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There was no limitation of scope.

Background

Rent Setting and Review Policy

The Co-operative has a Rent Setting and Review Policy that effectively sets out the process the Association adopts to reviewing their rents on an annual basis. The interim review was completed in August 2022, with the next review scheduled for 2025.

The aim of the Policy is to outline the Co-operatives approach to setting and reviewing rents for their properties. It is noted that the Co-operative owns and manages over 1,000 properties.

The key objectives of the Policy cover the following areas:

- | Affordability;
- | Comparability;
- | Viability;
- | Transparency; and
- | Value for Money.

The policy also outlines the rent-setting model, which determines the rent charged for individual properties by considering specific characteristics such as size, type, and facilities provided.

Annual Rent Review

The Co-operative conducts an annual rent review, which serves as a financial health check to ensure sufficient income is generated to cover costs and commitments. This review is balanced, where possible, against the need for affordability and comparability.

Key processes in deciding whether to increase rents include:

- | The annual budget-setting process.
- | Consideration of Business Plan objectives and activities; and
- | Value for Money – Benchmarking cost and performance data.

1 Executive summary

Rent Consultation Analysis

The Co-operative complete robust analysis of their proposed rental increase, this includes an evaluation of rent affordability based on moderate-income levels. The review is conducted annually by the Co-operative, using a standard affordability measure, which considers rent affordable if it constitutes less than 25% of a household's moderate income.

The proposal for 2024/25 included analysis of 3 proposed options, these being 5%, 6.7% and 8.9%.

The following assumptions were considered during the completion of the financial analysis:

- | Projected bank balances assuming no increase in April 2024, with inflation applied thereafter.
- | Projected bank balances with RPI increase of 8.9%, 6.7% and 5% with inflation applied thereafter.
- | RPI increase of 8.9%, followed by inflation.
- | CPI increase of 6.7%, followed by inflation.
- | 5% increase in April 2024, followed by inflation.
- | Projected bank balances including development costs.
- | Projected bank balances excluding development costs.

At the meeting on 14 November 2023, the Management Committee decided that the proposed rent increase of 6.7% would be put forward for tenant consultation, which began in December 2023.

Benchmarking

The Co-operative completes annual benchmarking of rent levels against Barrhead, Glen Oaks, Sanctuary, and Wheatley Homes Glasgow to provide a local comparison and also against the Scottish Average, using information based on the 2022/2023 ARC.

The Co-operative did not complete benchmarking for the 2024/25 rent increase. Please see **Section 3: Detailed Recommendations** for further information.

1 Executive summary

Tenant Consultation

The Co-operative ensures that tenants are consulted in line with the Scottish Social Housing Charter, particularly focusing on the following outcomes:

- | Equalities
- | Communication
- | Participation

In accordance with the Charter, social landlords must consult tenants and other customers when setting rents and service charges.

Based on feedback from the Tenants' Scrutiny Group last year, the Co-operative had staff representatives present at the weekly Breakfast Club. Additional methods included phone calls to approximately 10% of tenants (randomly selected) during the week beginning 8th January 2024, as well as three drop-in sessions attended by the Housing Services Manager or Director, along with one Committee Member. However, the Co-operative did not distribute a survey to all tenants for the 2024/25 rent increase. Please see **Section 3: Detailed Recommendations** for further information

From the results, we found that the approved consultation document was circulated in early December 2023, but no tenants attended the three scheduled drop-in sessions.

The majority of feedback came from staff attending the Breakfast Club at the local hall and through direct phone calls to around 100 members, with a smaller number of responses received via email. The Committee acknowledged the need for more targeted and focused efforts towards members who pay full or partial rent.

The Committee noted that 83% of respondents had no objections to the proposed rent increase. Based on the feedback, the Committee decided to implement a 6.7% annual rent increase, effective from 1st April 2024.

1 Executive summary

Work Undertaken

In line with our objectives, we undertook the following work:

Objective 1: The Co-operative has a robust annual rent setting process in place.

- | We reviewed the Co-operatives Rent Setting and Review Policy to ensure that it is robust and in line with good practice.

Objective 2: The Co-operative consider tenant affordability during the annual rent review process.

- | We reviewed the Annual Rent Review for 2024-25 report to the Management Committee from 14 November 2023 to confirm that the affordability of the rent levels was considered during the rent-setting process. We also reviewed the report to confirm that the appropriate benchmarking analysis was completed during the process.

Objective 3: The rent review process is subject to authorisation by the Management Committee prior to its implementation.

- | We reviewed the Annual Rent Review for the 2024-25 report to the Management Committee to confirm that the proposed rent increase was approved by the Committee before being put out for tenant consultation.
- | We reviewed the Management Committee Minutes from 24 January 2024 to confirm that the rent increase was approved by the Committee prior to its implementation.

Objective 4: Tenants receive sufficient notice of any rent increase and are offered an opportunity to provide feedback.

- | We conducted sample testing on 15 tenants that received a rent increase to ensure that the changes in rent from 2023/24 to 2024/25 were accurately reflected in each tenant's account in the system, and that each tenant was informed of their rent increase at least 30 days before it was implemented.
- | We reviewed the Annual Rent Review 2024/2025 'Have Your Say' document provided to tenants to ensure that the Co-operative offered tenants an opportunity to provide feedback.
- | We reviewed the 'Proposed Rent Increase 2024/25 – Outcome of Tenant Consultation' report presented at the Management Committee on January 24, 2024, to confirm that tenant feedback was considered as part of the proposed rent increase.

1 Executive summary

- | We reviewed the tenant consultation process and confirmed that the rent increase is appropriately communicated to tenants through emails, phone consultations and breakfast club sessions.

1 Executive summary

Conclusion

Overall conclusion

Overall Conclusion: Strong

Following our review, we can provide strong assurance of the controls over the rent setting process at the Co-operative ensuring tenant affordability was considered. We can also provide strong assurance that tenants were provided with sufficient notice of any rent increase. We have raised 2 low graded recommendations for improvement and several good practice points. Please see **Section 3: Detailed recommendations** for further information.

Summary of recommendations

Grading of recommendations

	High	Medium	Low	Total
Rent Setting and Affordability	0	0	2	2

As can be seen from the above table there were no recommendations made which we have given a grading of high.

1 Executive summary

Areas of good practice

The following is a list of areas where the Co-operative is operating effectively and following good practice.	
1.	We conducted sample testing of 15 tenants and confirmed that letters were sent to tenants on 26 February 2024, meeting the 30-day notice in line with the Scottish Housing Regulator guidance. Additionally, we confirmed that the 2024/25 rent increase was accurately reflected in the system for each tenant.
2.	The Co-operative provides tenants with a document titled "Annual Rent Review 2024/25 – Have your Say," which outlines the methods that tenants can share their opinions. Additionally, we reviewed the "Proposed Rent Increase 2024/25 – Outcome of Tenant Consultation" report presented to the Management Committee meeting on 24 January 2024 and reviewed the feedback from the consultations.
3.	In line with the Rent Setting and Review Policy, we confirm that the Management Committee reviews and approves rent increases. We reviewed the Annual Rent Review for 2024/25, presented to the Management Committee on 14 November 2024. The review included benchmarking, affordability, value for money, and potential rent increase options. Furthermore, we confirmed that Committee approved a rent increase of 6.7% to be applied, effective from 1st April 2024.
4.	We reviewed the Annual Rent Review 2024-2025 and confirmed that the Co-operative compared the proposed rent increases of 8.9%, 6.7%, and 5%, and assessed the affordability for specific groups of people using the standard calculation of affordability.

1 Executive summary

The following is a list of areas where the Co-operative is operating effectively and following good practice.

- | | |
|----|--|
| 5. | The Co-operative have a Rent Setting and Review Policy which was last reviewed in August 2022 and is due to be reviewed in 2025. The Policy covers the approach to ensuring that rents are affordable, comparable, transparent, and offer value for money to their tenants, whilst ensuring the financial viability of the Co-operative. |
|----|--|

2 Benchmarking

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Rent Setting and Affordability

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	0	0	0
Number of recommendations at Rosehill Housing Co-operative Limited	0	0	2	2

From the table above it can be seen that the Co-operative has a higher number of recommendations compared to those associations it has been benchmarked against.

3 Detailed recommendations

Rent Consultation			
Ref.	Finding and Risk	Grade	Recommendation
1.	<p>It is good practice for the Co-operative to provide tenants with options for the proposed rent increase.</p> <p>During our review, we found that at the Management Committee meeting on 14 November 2023, it was agreed that the proposed rent increase of 6.7% would be presented for tenant consultation. Following discussions with the Association, it was determined that this approach would be the most suitable for the current financial year, as the proposed increase aligned with inflation and the Co-operative had no planned projects or programs for providing additional services.</p> <p>Additionally, the Co-operative conducted a phone consultation with approximately 10% of tenants; however, a survey was not issued to all tenants. After discussions with the Co-operative, it was agreed that a survey would be distributed if any options were presented during the consultation process.</p> <p>There is a risk that offering tenants only one rent increase option and not providing a survey limits their ability to participate in the decision-making process, which could lead to dissatisfaction.</p>	Low	<p>We recommend that the Co-operative strengthen the consultation process by considering whether the provision of options is viable. This assessment should be completed at the beginning of the process. Thereafter, the Co-operative should ensure that decisions are appropriately documented and justifiable.</p> <p>Additionally, we recommend that the Co-operative distribute a survey to all tenants during the annual rent increase review.</p>

3 Detailed recommendations

Management response	Responsibility and implementation date
<p>An initial discussion will be held with the Management Team in early November re: potential to build-in increase options for 2025/26 for tenant consultation. This will further be discussed by Committee at its annual business planning event later in November, with a final decision reached at its November meeting.</p> <p>Then for future annual rent reviews, we will build-in the potential for rent increases options to put out for tenant consultation in the annual rent review processes.</p> <p>If the outcome is that meaningful rent increase options can be put out for consultation, a survey will be issued to all tenants.</p>	<p><i>Responsible Officer:</i> Director</p> <p><i>Implementation Date:</i> by end of November 2024 Dec 24 – Jan 24 (consultation period)</p>

3 Detailed recommendations

Benchmarking			
Ref.	Finding and Risk	Grade	Recommendation
2.	<p>Benchmarking allows the Co-operative to identify best practices in rent setting and gain insight into their rent levels compared to other associations.</p> <p>During our review we found that the Co-operative compared the rent levels against Barrhead, Glen Oaks, Sanctuary, and Wheatley Homes Glasgow to provide a local comparison and also against the Scottish Average using the information based on the 2022/23 ARC. However, benchmarking was not completed at the time of the 2024/25 rent increase due to the ARC results not being published.</p> <p>There is a risk that, without benchmarking, the Co-operative may establish rent levels that are either too high or too low in comparison to similar Co-operatives.</p>	Low	We recommend that the Co-operative endeavour to collect current rental increase data from their local area and use this information as a benchmark during the annual review of rent.
Management response			Responsibility and implementation date
Will contact Barrhead and Glen Oaks for their current average weekly rents and if possible potential rent increases for 2025/26. Will also attempt to get current average weekly rents from Wheatley Homes Glasgow and Sanctuary.			<i>Responsible Officer:</i> Director <i>Implementation Date:</i> by end of November

4 Audit arrangements

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Performance, Assurance & Risk Sub-Committee meeting.

Audit stage	Date
Fieldwork start	20 September 2024
Closing meeting	25 September 2024*
Draft report issued	14 October 2024
Receipt of management responses	15 October 2024
Final report issued	15 October 2024
Performance, Assurance & Risk Sub-Committee	7 November 2024
Number of audit days	2

* Additional meeting completed on the 14 October 2024 to agree findings.

5 Key personnel

We detail below our staff who undertook the review together with the Co-operative staff we spoke to during our review.

Wbg			
Partner	Graham Gillespie	Partner	gg@wbg.co.uk
Senior Manager	Siobhan Archibald	Internal Audit Manager	sma@wbg.co.uk
Auditor	Hannah Khan	Internal Auditor	hk@wbg.co.uk

Rosehill Housing Co-operative Limited			
Key Contacts:	Geri Mogan	Director	geri.mogan@rosehillhousing.co.uk
	Sharon Quinn	Housing Services Manager	sharon.quinn@rosehillhousing.co.uk
Wbg appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.			

A Grading structure

For each area of review, we assign a level of assurance in accordance with the following classification:

Assurance Classification	
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A Grading structure

For each recommendation, we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Performance, Assurance & Risk Sub-Committee and addressed by Senior Management of the Co-operative as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the Co-operative as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

Purpose of review

The purpose of this assignment is to assess the rent setting process at the Co-operative ensuring tenant affordability is considered. We will consider the rent review and authorisation process. We will also review the communication process with tenants ensuring they are provided with sufficient notice of any rent increase.

This forms part of our 2024/2025 Annual Internal Audit Plan

Scope of review

Our objectives for this review are to ensure:

- | The Co-operatives has a robust annual rent setting process in place.
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Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There is no limitation of scope.

Audit approach



Our approach to the review will be:

- | A review the annual rent review process in place at the Co-operative.
- | A review of the methods used by the Co-operative to consider tenant affordability during the annual rent review process.
- | A review of the authorisation process of the annual rent review process.
- | A review the communication methods used by the Co-operative to inform tenants of any rent increase, ensuring tenants are provided with sufficient notice and offered the opportunity to provide feedback.
- | A review of the Co-operatives Tenant Satisfaction Survey results to gauge if tenants are satisfied with the level rent, they are paying.
- | Sample testing to ensure that properties from Co-operative are following the Co-operative's process.

Potential key risks

The potential key risks associated with the area under review are:

- | The Co-operatives does not have a robust annual rent setting process in place.
- | The Co-operatives do not consider tenant affordability during the annual rent review process.
- | The rent review process is not subject to authorisation by the Management Committee prior to its implementation.
- | Tenants do not receive sufficient notice of any rent increase and are not offered an opportunity to provide feedback.