



**Internal Audit Report**

**Communities, Housing and Infrastructure**

**Council House Rent Setting**

**Issued to:**

Pete Leonard, Director of Communities, Housing and Infrastructure  
Angela Scott, Acting Director of Corporate Governance  
Donald Urquhart, Head of Communities and Housing  
Graeme Stuart, Housing Strategy & Performance Manager  
Steven Whyte, Head of Finance  
Anne MacDonald, Audit Scotland

## **EXECUTIVE SUMMARY**

As at 31 March 2015, the Council managed 22,328 properties in the Housing Revenue Account which are required to generate around £81 million per annum in rental charges.

In order to ensure that the Council's approach to setting its Council House Rents was consistent, fair, efficient and transparent, whilst ensuring sufficient income to manage the Service, the Council undertook a rent restructuring process in the period 2011 to 2012. This resulted in a new Rent Setting Policy being implemented on 1 April 2013.

The new rents were to be phased in over a five year period at which point all houses would be fully converged on the new rent system. Rent increases and decreases in that period would also be capped at £3, before the application of an annual inflationary increase.

The objective of this audit was to consider whether the approved Rent Setting Policy is operating satisfactorily. This was found to be the case with the various rent accounts tested having been accurately calculated in accordance with the approved policy.

To ensure that the rent system has been accurately updated for the new financial year, the Service reviews one in every two hundred accounts manually. This check is done on screen and is not evidenced. In order to improve efficiency and assurance the Service has agreed to explore the possibility of obtaining an extract from the system for comparison to the Service's own calculations which are used to uprate certain elements in the rent charge. This would allow for the identification of any exceptions for investigation and is due to be complete by March 2016.

Additional charges for heating provision or stand-alone garages, as approved by Committee, will be applied to rent accounts where appropriate. The charge values are input to the rent system manually and are not dependent on any other field for calculation. Whilst there was no uprating for the heating charge in 2015/16, this is a labour intensive process which the Service is looking to automate for any future increases. The heating charge for three of the sampled properties did not match the heating type field. Whilst the 'Heating Type' field does not drive the 'Heating Element' charge, and therefore doesn't impact on the rent charged, which was correct, the Service acknowledges the importance of maintaining accurate information, and is considering how this information can be corrected. This issue will be complete by December 2015.

A further recommendation relating to bringing procedural documentation up-to-date will be completed by December 2015 whilst one relating to confirming the accuracy of rents in the Haudagain Roundabout area where the property is effectively rented to the Housing Revenue Account has been completed.

# **1. INTRODUCTION**

- 1.1 The Council manages 22,328 (at 31 March 2015) properties in the Housing Revenue Account which are required to generate around £81 million per annum in rental charges.
- 1.2 In order to ensure that the Council's approach to setting its Council House Rents was consistent, fair, efficient and transparent, whilst ensuring sufficient income to manage the Service, the Council undertook a rent restructuring process in the period 2011 to 2012. This resulted in a new Rent Setting Policy being implemented on 1 April 2013.
- 1.3 The new Rent Setting Policy determines rent values by having a base rent for all properties with additions based on:
- property groups – house, four in a block, and flats
  - number of bedrooms
  - garages that are within the curtilage of the property.
- The resultant rent would be the “model” rent.
- 1.4 The new rents were to be phased in over a five year period at which point all houses would be fully converged on the new rent system. Rent increases and decreases in that period would also be capped at £3, before the application of an annual inflationary increase.
- 1.5 The objective of the audit was to consider whether the approved Rent Setting Policy is operating satisfactorily.
- 1.6 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Donald Urquhart, Head of Communities and Housing, and Graeme Stuart, Housing Strategy & Performance Manager.

## **2. FINDINGS AND RECOMMENDATIONS**

### **2.1 Legislation**

- 2.1.1 The provision of rented accommodation is guided by the Housing (Scotland) Act 2001. It is for a landlord to determine the methodology for setting rents. However, where changes affecting all tenants are proposed, a landlord must consult with those tenants that would be affected. Tenants must be notified of any change to their rent 28 days in advance of the change taking effect.
- 2.1.2 Prior to 1 April 2013, when a new Rent Setting Policy was implemented, the Council had set rent using the Gross Annual Value of its properties, which is set by the Regional Assessor using a number of factors. This resulted in 820 different rent levels being set ranging from £18 per week to £234 per week. This was considered overly complex and unfair and, as a result, the Council undertook a review of the Rent Setting Policy.
- 2.1.3 The new Rent Setting Policy was implemented following a consultation process in which questionnaires were issued to all tenants in November 2011 followed by focus groups being held with a number of tenants in February 2012. The results of this were reported to the Housing and Environment Committee in May 2012, which approved further formal consultation, the outcome of which was reported to the Committee in August 2012. The Council, therefore, complied with the requirement to consult with its tenants in changing the methodology for setting rents.
- 2.1.4 A sample of 30 tenancies was reviewed and it was confirmed that letters to tenants had been created and issued at least 28 days prior to the change in rent becoming effective.
- 2.1.5 To ensure letters are sent to all tenants regarding the annual rent increase, the Systems Team reconciles the number of letters created to the number of properties for each letting zone. Evidence of successful upload to the printing software is also retained.

### **2.2 Rent Element Up-rating**

- 2.2.1 It is Council policy to increase annual rent by inflation plus 1%. The inflation rate to be applied to is the RPIX (Retail Price Index (RPI) excluding mortgage interest payments) in the preceding September. The rate applied for 2015/16 was the September 2014 rate of 2.3% plus 1%, giving an annual inflationary increase of 3.3%. This was approved by Council on 17 December 2014.
- 2.2.2 The rent element calculation is undertaken by the Housing Strategy & Performance Manager, and is provided to the System Team within Housing. The revised elements are input to the test environment to ensure the system calculates gross rents correctly before being input to the live system. Internal Audit testing confirmed that inflationary increases had been applied accurately
- 2.2.3 The Systems Team have a procedural document for the rent up-rating process. While the processes and system screens used have not changed, the document refers to the previous rent setting policy. Where procedural documents are not kept up-to-date, there is a risk that incorrect procedures may be applied.

**Recommendation**

The Service should bring the rent uprating procedural document up-to-date.

**Service Response / Action**

Agreed. The procedures will be updated in advance of the 2016 rent uprating.

**Implementation Date**

December 2015

**Responsible Officer**

Systems Manager

**Grading**

Important within audited area.

2.2.4 Access to amend the rent setting elements are restricted to four members of staff within the Housing Systems Team, and to two members of staff within ICT. None of the staff involved in uprating the charges on the system have direct involvement in rent collection, therefore it is considered that segregation of duties in place between rent setting and rent collection are adequate. The Northgate System has an audit trail of user activity, and any changes to rent elements will have the date, time and user identification recorded on the system.

2.2.5 Currently there are no controls in place to identify any conflicts of interest for staff involved in the setting of rent but the Council is in the process of procuring a Northgate System module that will provide conflict of interest identification functionality.

## **2.3 Rent Charges**

2.3.1 Following confirmation of the rent element uprating, the necessary adjustments resulting from capped increases / decreases are independently calculated by three members of staff, with the results being compared for accuracy. A file is then submitted to the Systems Team for uploading to Northgate by ICT. Evidence of checking and upload was confirmed.

2.3.2 A sample of thirty tenancies that commenced prior to 1 April 2013 were reviewed and it was confirmed that the correct rent had been applied in the period 2013/14 to 2015/16, after taking account of capped increases and decreases and application of the approved inflationary increase.

2.3.3 The Policy requires that any tenancies commencing after its implementation have the model rent applied. A sample of twenty tenancies starting in 2014/15 were reviewed and it was confirmed that the 2014/15 and 2015/16 rent charges had been correctly calculated and applied.

2.3.4 An additional five properties let to external agencies were reviewed to ensure that the model rent was charged in accordance with Policy. All five were charged at model rent levels.

## **2.4 New Build Charge**

2.4.1 New build properties had a premium of 25% added to their rent under the GAV rent setting process to help service the additional borrowing costs incurred. It was agreed by Committee that, when the new Rent Setting Policy was introduced, the rents for these properties would be frozen and only when the model rent for the property plus 25% converged with the frozen rent would the rent be increased. The 25% premium will be applied for a period of 15 years from the date the property was first let, at which point the rent will revert to the model rent.

- 2.4.2 The Northgate system holds the model rent charge and the additional new build element has to be added annually. This is independently calculated and confirmed by two members of staff. All elements are passed to the Systems Team for manual input to Northgate.
- 2.4.3 A sample of twenty new build properties was selected, and it was confirmed that the rent charges for 2013/14 to 2015/16 have been accurately calculated and applied to the correct account.
- 2.4.4 The Service has advised that changes to the grant funding of new properties by the Scottish Government may necessitate a review of the charge and associated premium for new build properties. It is anticipated that this will be undertaken before the allocation of the planned new builds in early 2017.

## 2.5 Quality Assurance

- 2.5.1 To ensure the rent system has been accurately updated with the uprated rent elements, rent restriction elements and new build charges, the Service review one in every two hundred accounts. The checking is done on screen and is not evidenced. The Service advised that to evidence this check would create additional work for staff, and have agreed to explore the possibility of obtaining an extract from the system for comparison to the Service calculation, this will allow for the identification of exceptions for investigation. Following the review an email confirming no errors is sent to the system's team allowing for the upload to the live Northgate System to proceed. Evidence of this was confirmed.

### **Recommendation**

The Service should explore the possibility of validating the information uploaded to the rent system, and investigating any variances or exceptions identified.

### **Service Response / Action**

Agreed

### **Implementation Date**

March 2016

### **Responsible Officer**

Housing Strategy &  
Performance Manager

### **Grading**

Important within audited  
area.

## 2.6 Haudagain Roundabout

- 2.6.1 The Council has 323 HRA properties which are affected by the Haudagain Roundabout development, which will result in them being subject to compulsory purchase order and subsequent demolition. The Housing and Environment Committee in May 2013 decided that rents relating to these properties would not be subject to the policy previously approved. Rents that were subject to capped decreases would have the model rent applied, and those that were being phased up to the model rent would have rent fixed at the current level, with no future rent increases being applied to those properties.
- 2.6.2 Five properties affected by the Haudagain Roundabout development were selected, and rent records were reviewed for 2013/14 to 2015/16 to ensure that the rent had been set in accordance with the Committee decision. Rents for all five properties had the model rent applied in 2013/14, which was frozen at that level and applied in 2014/15.
- 2.6.3 However, two of the properties in the sample had the rent increased to the 2015/16 model rent. As a result of these errors, a further five affected properties were reviewed and these were found to have had their rent set appropriately. The matter has been

raised with the Service, who have advised they are unsure why the rent had not been restricted for the properties. However, the two properties are not let to external tenants, therefore tenants are not being overcharged.

**Recommendation**

The Service should investigate the matter, and ensure all properties affected by the Haudagain development are set in accordance with Committee decisions.

**Service Response / Action**

Review completed. There are currently seven properties let for office/community use with the rental paid by HRA to the HRA. As they are not tenanted by a household there is no need to restrict their rental. Application of the model rent is appropriate and has no financial implication.

**Implementation Date**

Implemented.

**Responsible Officer**

Housing Strategy &  
Performance Manager

**Grading**

Significant within audited  
area.

## 2.7 Miscellaneous Charges

- 2.7.1 Additional charges for heating provision or stand-alone garages, as approved by Committee, will be applied to rent accounts where appropriate. The charge values are input to Northgate manually and are not dependent on any other field for calculation. Whilst there was no uprating for the heating charge in 2015/16, this is a labour intensive process which the Service is looking to automate for any future increases. Three properties were noted where the heating charge did not match the heating type field. Whilst the 'Heating Type' field does not drive the 'Heating Element' charge, and therefore doesn't impact on the rent charged, the Service acknowledges the importance of maintaining accurate information, and are considering how this information can be corrected.

**Recommendation**

The Service should consider reviewing the heating type fields to ensure that they match the heating charge being levied.

**Service Response / Action**

Agreed

**Implementation Date**

December 2015

**Responsible Officer**

Housing Strategy &  
Performance Manager

**Grading**

Important within audited  
area.

**AUDITOR:** D Hughes  
M Beattie  
N Ritchie

## Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
<b>Major at a Corporate Level</b>	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
<b>Major at a Service Level</b>	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.