

# Internal Audit Report



## Preparing for Social Housing Regulation Changes 2023/24

**Issue date:** 2<sup>nd</sup> April 2024

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# Preparing for Social Housing Regulation Changes 2023/24

## Executive summary

### 1. Introduction and overall opinion

The Social Housing (Regulation) Act 2023 introduces new regulatory arrangements for Social Housing Landlords, which landlords will need to be able to demonstrate compliance with by April 2024. It significantly strengthens the role of the Regulator for Social Housing (RSH) as the Government body responsible for overseeing landlords in the social housing sector. Melton Borough Council commissioned this audit as part of its 23/24 audit programme and the audit commenced in February 2024. This audit focussed on the Council's preparedness for the regulatory change and inspection regime.

In March 2024, the Council was notified that it had been selected for inspection in the first round of regulatory inspections from April 2024.

The Council has taken proactive steps in preparing for the new regulations by appointing a regulatory assurance lead to support the preparation process and comprehending the implications of the upcoming changes. To address potential regulatory risks, light-touch service reviews have been conducted in areas deemed high risk and a diagnostic health check against the existing Consumer Regulations was carried out to identify any areas of risk or concern. The final consumer standards for 2023/24 were recently published on 29<sup>th</sup> February 2024 and it is important the Council self-assess against these standards to demonstrate to the Regulator the Council's commitment and proactive approach to addressing any identified issues and achieving compliance as well as showcasing transparency.

Communication has been a strong focus throughout the preparation process, with the Council maintaining effective engagement with officers, tenants, senior management and Members as well as collaborating with colleagues from other Local Authorities in Leicestershire. Additionally, a Landlord Assurance Board has been established indicating a structured and organised approach to overseeing compliance and regulatory matters and new statutory roles have been assigned, although appointing deputies to these roles should be considered to ensure operational resilience.

The Council has demonstrated commitment to tenant satisfaction by effectively collecting survey data via Housemark, in order to provide information on the Regulator's Tenant Satisfaction Measures (TSMs), by June 2024.

The Council's recently approved Corporate Strategy (2024-2036) is supported by a four-year corporate delivery plan that outlines specific objectives, actions and timelines in relation to providing high quality homes and landlord services. However, it is noted, that whilst it is in development, a finalised HRA (Housing) Service Plan is currently absent. A well-defined plan is important as it provides a structured framework for managing and delivering social housing services effectively from an operational perspective. It is also recommended to establish an inspection project team so that each staff member understands their specific contribution to the inspection process ensuring effective preparation, co-ordination and execution of the inspection process.

The audit was carried out in accordance with the agreed Audit Planning Record (APR), which outlined the scope, terms and limitations to the audit. The auditor's assurance opinion is summarised below:

#### Internal audit assurance opinion

Assurance	Level	RAG status
Control environment	Good	Green
Compliance	Good	Green
Organisational impact	Medium	Amber

## Category of recommendations

Risk	High	Medium	Low
Risk 1: The Council has not prepared adequately for the new regulations being implemented, resulting in negative inspection outcomes.	-	4	-
<b>Total recommendations</b>	<b>0</b>	<b>4</b>	<b>0</b>

## 2. Summary of findings

### Risk 1: The Council has not prepared adequately for the new regulations being implemented, resulting in negative inspection outcomes.

#### Initial Assessment

A new post of Regulatory Assurance Lead (Housing) was created and approved in August 2022 for a period of twelve months to provide specialist support in preparing for the regulatory changes. This is funded from the HRA Development and Regeneration Reserve and the contract has since been extended to May 2024. The Regulatory Assurance Lead, appointed on a part-time basis, carried out an initial diagnostic in March 2023 that documented the areas to be assessed as part of the project to prepare the Council for the implementation of the Regulator for Social Housing new regime. It outlined the specific requirements of the regulatory process and a wider housing service by way of a health check.

Initially the Regulatory Assurance Lead held discussions with managers and officers and reviewed available performance data. The outcome of these discussions guided the identification of areas to examine first, based on what was considered the highest risk from a regulatory perspective. Initial areas to review were agreed with senior management as part of an ongoing dialogue process, leading to a primary focus on compliance. The approach remained flexible, prioritising high risk areas as they arose but a comprehensive review of every service was not feasible in the allocated time.

#### Risk Management

When reporting to Senior Leadership Team (SLT), the Council considered the initial limitations and risks associated with the new regulations and provided mitigation strategies. The risk of not being prepared for the regulatory changes has been recognised as a risk at both the directorate and strategic levels. The risk is documented in both the Housing Revenue Account (HRA) and the strategic risk register. These registers undergo regular review and monitoring in accordance with the Council's performance and risk management framework.

#### Delegations

On 28<sup>th</sup> July 2022, Council provided the Director for Housing and Communities (Deputy Chief Executive) with delegated authority in consultation with the Director for Corporate Services and Portfolio Holder for Housing and Landlord Services to access the HRA Development and Regeneration Reserve to progress projects and activities in support of the HRA up to a limit of £100k per project and £500k in any one year subject to the financial viability of the HRA Business Plan not being undermined.

Decision making delegations regarding the new regulatory regime have been established in line with the Social Housing (Regulation) Act 2023. The Council has designated the Director for Housing and Communities as the nominated person with responsibility for compliance with landlord health and safety on behalf of the Council and designated the Assistant Director for Housing Management as the nominated person with responsibility for ensuring that the consumer standards, as set out by the Social Housing Regulator, are met.

## Official-Internal

The legislation requires that the registered provider publish the name and contact details of the health and safety lead. A request to complete this had been made, but due to work creating a housing specific webpage this had been delayed and the details had not been added at the time of the audit. The Council may also choose to nominate a person to carry out the functions of the health and safety lead if the lead is unable to do so due to absence or illness and it is recommended that the Council consider this.

### **(Recommendation 1)**

#### **Strategies and Plans**

The Council's new Corporate Strategy 2024-2036, approved by Council on 8<sup>th</sup> February 2024, consists of the Council's vision for 2036 along with its framework and eight strategic vision statements. Supporting this strategy is a four-year corporate delivery plan. Within theme two of this plan, particular emphasis is placed on two key areas: "Housing Quality and Development" and "Tenancy Support and Engagement". These sections outline specific objectives, actions and timelines for implementation by the Council. Notably this includes proactive measures to ensure the Council is well-prepared to comply with the new housing regulations.

The Council, on 28<sup>th</sup> July 2022, approved the HRA Business Plan 2022-2052. This plan outlines the Council's expectations and plans for managing Council homes over the next 30 years emphasising the financial sustainability of the housing services. Updates have been made to the plan to incorporate the new regulatory regime and specifically addresses planned changes and any implications.

The HRA Service Plan is a work in progress. A scoping document was been developed for 2023/24, outlining the key areas to be included in the plan which is accompanied by a monthly task list. The scoping document confirms that preparing for the new regulations is a service priority, however a finalised service plan for 2023/24 or 2024/25 is not yet in place **(Recommendation 2)**.

The HRA Asset Management Plan outlining how the Council intends to manage and maintain its housing stock funded through the HRA directly informs the capital programme, and it was agreed that a 'fifth' year would be added every year through an annual refresh of the plan, to ensure it remained relevant and that progress could be monitored. The first planned annual refresh of the HRA Asset Management Plan, now covering the period 2024-2029 was endorsed by Cabinet in January 2024.

#### **Landlord Assurance Board**

A Landlord Assurance Board, approved by Cabinet on 17<sup>th</sup> January 2024, has been established to ensure collective awareness and visibility relating to regulatory assurance, financial resilience, risk management, performance and compliance on all matters relating to being an effective landlord. Formal terms of reference have been agreed outlining the purpose, scope, membership and frequency and format of the Board meetings. Meetings will take place on a quarterly basis, and the first meeting has been scheduled for 11<sup>th</sup> April 2024.

#### **Resources**

Steps have been taken by the Council to ensure sufficient resources have been allocated for implementing the regulation changes and preparing for the new regime and any additional costs have been considered and built into the budget.

The Council appointed a Regulatory Assurance Lead for specialised support, and the Council are also TPAS (Tenant Participation Advisory Service) members, allowing access to training, learning and best practice guidance. Furthermore, the Council subscribed to external consultants Housemark, a data and insight company for the UK housing sector and has signed up to its benchmarking service and officers are now receiving data reports that can be used to analyse the Council's performance.

### Official-Internal

The government is seeking input on its plans to establish a new regulatory standard for competence and conduct of social housing staff. This standard mandates senior managers and executives to possess or be pursuing a relevant qualification. The consultation concludes on 2<sup>nd</sup> April 2024. In response to these proposed changes, the Council conducted an audit to assess the qualifications obtained by officers and those currently in progress. This information will identify housing staff who must complete a recognised qualification once the final guidance is released. The qualification impact is to be funded through existing training budget provision, which will be reviewed for 2025/26 once final guidance has been issued.

The Regulator is updating its fee principles and assessing charges for registered providers in light of the Social Housing (Regulation) Act 2023. This aims to align with new powers and ensure sufficient resources for proactive consumer regulation. Pending statutory approval and stakeholder consultation, revised fees and new levels will apply from 1<sup>st</sup> July 2024. The estimated proposed fees for a large local authority registered provider are £7-8 per social housing unit and provision of £15k has been included in the Council's 2024/25 HRA Budget.

### Consumer Standards Health Check

Publication of the new consumer regulatory requirements were delayed, and as part of the Council's preparatory work, the Council carried out a health check against the existing Consumer Regulations, to identify any areas of risk or concern. The latest reported figures to Cabinet on 17<sup>th</sup> January 2024 show that of the 93 individual requirements, the housing service is assessed as being compliant with 82 (88%) of them with eleven (12%) requiring further work and improvement. Key actions arising from the health check diagnostic have been identified and were reported to Cabinet on 17<sup>th</sup> January 2024 as well as other steps required to ensure the Council is prepared.

The final consumer standards for 2023/24 were published during the audit on 29<sup>th</sup> February 2024 and the Council is currently working through these. Melton Borough Council has also been selected for inspection in the first round of regulatory inspections from April 2024 and therefore it is important that this analysis is carried out as soon as possible to identify any areas for improvement and these are documented, and an action plan is agreed. **(Recommendation 3)**

### Tenant Engagement

The Council will need to consider how it effectively demonstrates transparency and accountability with its residents. The Act introduces new requirements and policy measures to increase the transparency of social landlords to their tenants. For example, registered providers are required to collect and provide information on the Regulator's Tenant Satisfaction Measures (TSMs), by June 2024, providing residents with the opportunity to scrutinise the Council's performance.

The Council has commissioned Housemark to conduct its Tenant Satisfaction Survey in 2023/24, enabling the submission of results to the Regulator by June 2024. With the survey now completed, the Housing Leadership Team are considering the outcome of the survey and subsequent actions. It is reported that Scrutiny Committee will receive a detailed update on the Tenants Satisfaction Measures as part of a housing regulation update in April 2024 and a separate and more detailed report on Tenant Satisfaction is to be provided to Cabinet ahead of the TSM data being submitted to the Regulator.

The Council has published a Tenant and Leaseholder Engagement Policy and in alignment with this a tenant and leaseholder engagement framework, approved in January 2022, has been established. The framework outlines the Council's aims, ambitions and commitments for developing and improving meaningful tenant engagement over a five-year period.

Several communication channels are used by the Council to engage with Tenants and keep them informed about the regulatory changes. The Homes for Melton tenant newsletter and annual report have provided key information to tenants and the resident panel 'Your Choice' has met throughout the year to discuss key topics and the new regulatory regime.

### Official-Internal

The tenants' section of the Council's website was recently updated and provides information and details of the services available to tenants as well as links to key strategies, plans and policies.

The service currently does not regularly use social media as a communication channel for tenants however officers have confirmed that this is an area that will be developed in the future.

### Stakeholder communication

Throughout the preparation process the service has proactively involved both internal and external stakeholders, ensuring they are informed and updated on the Council's progress.

The housing team participated in two staff away days in March and September 2023, featuring sessions on regulation readiness led by the Regulatory Assurance Lead and service team meetings and monthly housing leadership team meeting have provided a platform for discussing and reviewing the Council's preparedness for the new regulations.

Regular updates have been reported to Senior Leadership Team (SLT) throughout the year by the Regulatory Assurance Lead, providing updates on the work undertaken and upcoming priorities. In December 2023, SLT were briefed on the outcome of the Council's assessment against the existing consumer standards and provided with the draft summary of the Annual Cost and Benchmarking report for 2022/23 data from Housemark and initial findings from the TSM survey.

Members have been kept informed via the Members bulletin, portfolio holder briefings, a scrutiny committee update in September 2024, and a quarterly Members update and Cabinet report both in January 2024.

The Council has collaborated with colleagues from neighbouring Leicestershire Councils and engaged with the external Housing Quality Network (HQN) as part of their preparations. A meeting with other Local Authorities in Leicestershire occurred on 19<sup>th</sup> February 2024 focussing on discussions about the social housing regulations. Representatives from the Council participated in the Leicestershire Chief Housing Officers Group where discussions have been held on the new regulatory regime. Additionally, a Chief Executive Officer (CEX) briefing on the new Housing Regulations was organised by North West Leicestershire, covering aspects such as regulatory preparedness, staffing, recruitment and delivery pressures.

### Inspections

The new regulation regime sees the reintroduction of the concept of a Housing Inspection, where officers from the Regulator will visit landlords to assess the service they provide against the requirements of the new regulatory regime. There are currently no plans for the Council to carry out a mock inspection and the Council has now been informed that they have been selected on the first round of inspections from April 2024.

Whilst the Council has staff with the necessary skills and expertise to navigate a housing inspection effectively, it currently lacks a formal inspection project team that would be responsible for planning, executing and overseeing the inspection process. Such a team would ensure that all necessary preparations are made, collaborate with relevant stakeholders, guide inspectors through the relevant areas of processes and address any issues or findings that arise during an inspection. This structured approach ensures that each staff member understands their specific contribution to the inspection process leading to better co-ordination, improved accountability and enhanced efficiency in meeting inspection expectations.

### **(Recommendation 4)**

### **3. Action plan**

The action plan overleaf provides recommendations to address the findings identified by the audit. If accepted and implemented, this should positively improve the control environment and aid the Council in effectively managing its risks.

### **4. Limitations to the scope of the audit**

This is an assurance piece of work and an audit opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Assignment Planning Record (APR). Compliance with the social housing regulation changes was out of scope and assurance is not given on this. This review focused on the Council's arrangements to support preparedness only.

Internal Audit has been granted access to all documentation and systems that the Auditor considered necessary to perform the audit and, as such, there has been no further restriction on scope.

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.

### **5. Distribution of the audit report**

The final audit report will be circulated to those listed on the front page of the report, as agreed in the APR. Any wider circulation should be agreed with the Chief Internal Auditor. This report is classified as Official - Internal under the Council's classification scheme.

## Action plan

No.	Issue	Recommendation	Management comments	Priority	Officer responsible	Due date
1.	<p><b>Regulatory Roles</b></p> <p>The name and contact details of the Health and Safety Lead have not been published, as required by the Social Housing Regulation Act 2023. A request to complete this had been made, but due to work creating a housing specific webpage this had been delayed and the details had not been added at the time of the audit.</p> <p>Additionally, deputies for the two statutory roles (Health and Safety Lead and Housing Consumer Standards) have not been appointed.</p> <p>Whilst it is not a mandatory requirement to appoint a Deputy to these roles, it would be a proactive measure to ensure operational stability and reduce risk.</p>	<p>Ensure the name and contact details of the health and safety lead are published on the Council's website.</p> <p>Additionally, consider appointing deputies for the two statutory roles of health and safety lead and housing consumer standards.</p>	<p>Agreed</p> <p>The role of the Health and Safety Deputy has been designated to the Housing Asset Manager and the Consumers Standards Deputy to the Tenancy Services Manager.</p> <p>Names and contact details of the Leads and Deputies have now been published on the Compliments, Feedback and Complaints page of the Council's Website.</p> <p>To ensure effective tracking of any such concerns raised, this will be managed via the complaints inbox and logged formally. See: <a href="#">Give a compliment, leave feedback or make a complaint – Melton Borough Council</a>.</p>	Medium	Director for Housing and Communities (Deputy Chief Executive)	Complete
2.	<p><b>HRA (Housing) Service Plan</b></p> <p>The Housing service does not have a finalised Service Plan. This could</p>	Develop a service plan for the housing service that outlines the	<p>Agreed</p> <p>A service plan framework has been circulated to the</p>	Medium	Assistant Director for	End of June 2024



Official-Internal

	<p>result in inefficient resource allocation and poor service quality.</p> <p>A comprehensive service plan plays an important role in supporting regulatory compliance and effective governance. It provides a structured framework for the Council's activities, ensuring that the service aligns with legal and regulatory requirements.</p>	<p>objectives, priorities and actions for the upcoming year.</p>	<p>Housing Leadership Team, and a draft plan will be shared with the housing team at the next staff away day on the 25<sup>th</sup> April 2024. A formal approval process will be followed.</p>		<p>Housing Management</p>	
3.	<p><b>Consumer Standards</b> Due to the delay in the publication of the final consumer standards, the Council has not yet conducted a self-assessment against the new requirements and therefore specific actions for improvement have not yet been identified and documented to address any areas of non-compliance.</p> <p>An action plan would demonstrate to the Regulator, the Council's commitment and proactive approach to addressing identified issues and achieving compliance as well as showcasing transparency.</p>	<p>Following a self-assessment of the final consumer standards, an action plan should be documented and agreed to demonstrate a clear and structured approach to resolving any identified concerns and improving compliance.</p>	<p>Agreed The final agreed consumer standards are an amendment to the existing standards. The diagnostic work previously undertaken will be reviewed and updated where required.</p> <p>Areas for further development or improvement will be reflected in the Housing (HRA) Service Plan.</p>	Medium	<p>Regulatory Assurance Lead</p>	<p>End April 2024</p>
4.	<p><b>Inspection Project Team</b> A project team that would co-ordinate and manage the entire inspection process has not been</p>	<p>In light of the upcoming inspection, it is recommended the Council forms an inspection project team that will ensure</p>	<p>Agreed Housing colleagues have been briefed on the upcoming housing</p>	Medium	<p>Director for Housing and Communities</p>	<p>End of March 2024</p>

Official-Internal

<p>formally established. This would ensure that all necessary preparations are made, relevant stakeholders are collaborated with, inspectors are given the necessary information, and any issues or findings that arise during an inspection are addressed.</p> <p>Without a formalised project team there may be a lack of co-ordination and clarity regarding roles and responsibilities during an inspection.</p>	<p>effective preparation, co-ordination and execution of the inspection process.</p> <p>Clearly define and agree roles and responsibilities for each team member, outlining specific tasks related to the document preparation, site visit, stakeholder communication and issue resolution.</p>	<p>inspection and specific roles and responsibilities for the inspection process will be formally agreed and communicated.</p> <p>As the inspection timeline has now been confirmed, the timeline for this action reflects that this is an immediate requirement.</p>		<p>(Deputy Chief Executive)</p>	
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## Glossary

### The Auditor's opinion

The Auditor's opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The sections below explain what the opinions mean.

#### Compliance assurances

##### Substantial

- RAG status: Green
- Control environment assurance: There is a sound system of internal control to support the delivery of the objectives.
- Compliance assurance: The control environment is operating as intended with no exceptions noted which pose risk to the delivery of the objectives.

##### Good

- RAG status: Green
- Control environment assurance: There is generally a sound system of internal control, with some gaps which pose a low risk to the delivery of the objectives.
- Compliance assurance: The control environment is generally operating as intended with some exceptions which pose a low risk to the delivery of the objectives.

##### Moderate

- RAG status: Amber
- Control environment assurance: There are gaps in the internal control framework which pose a medium risk to the delivery of the objectives.
- Compliance assurance: Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.

##### Limited

- RAG status: Red
- Control environment assurance: There are gaps in the internal control framework which pose a high risk to the delivery of the objectives.
- Compliance assurance: Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.

##### No

- RAG status: Red
- Control environment assurance: Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.
- Compliance assurance: Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

## Organisational impact

### High

- RAG status: Red
- Definition: The weaknesses identified during the review have left the Council open to a high level of risk. If the risk materialises it would have a high impact upon the organisation as a whole.

### Medium

- RAG status: Amber
- Definition: The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a medium impact upon the organisation as a whole.

### Low

- RAG status: Green
- Definition: The weaknesses identified during the review have left the Council open to low risk. This may have a low impact on the organisation as a whole.

## Category of recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

### High priority

- RAG status: Red
- Impact and timescale: Action is imperative to ensure that the objectives for the area under review are met.

### Medium priority

- RAG status: Amber
- Impact and timescale: Requires actions to avoid exposure to significant risks in achieving objectives for the area.

### Low priority

- RAG status: Green
- Impact and timescale: Action recommended to enhance control or improve operational efficiency.