

Loreburn Housing Association

## Rent Setting Policy



**Creating Great Places to Live**

<b>Policy</b>	Rent Setting Policy									
<b>Version Reference</b>	1									
<b>Approved by</b>	MC	<input checked="" type="checkbox"/>	EMT	<input type="checkbox"/>	MT	<input type="checkbox"/>				
<b>Date of Approval</b>	October 2018									
<b>Review Period</b>	Annual <b>or</b> as legislation or substantive changes occur									
<b>Review Due</b>	October 2019									
<b>Policy Champion</b>	Head of Housing Services									
<b>Who this policy affects</b>	Staff	<input checked="" type="checkbox"/>	Customers	<input checked="" type="checkbox"/>	Contractors	<input type="checkbox"/>	Members of the Public	<input checked="" type="checkbox"/>		
<b>Where this policy affects</b>	General needs	<input checked="" type="checkbox"/>	Sheltered	<input checked="" type="checkbox"/>	Supported	<input checked="" type="checkbox"/>	Offices/staff base	<input checked="" type="checkbox"/>		

## 1. Purpose of Policy

- 1.1 This policy details the aims, principles and framework of our rent setting process. We are committed to providing quality homes and services at an affordable rent as well as ensuring our customers are informed and engaged in our decision-making processes.

## 2. Legislative Background and Guidance

- 2.1 In preparing this policy **Loreburn HA** have taken account of:

### **Legislation**

Under the terms of the Housing (Scotland) Act 2001 the association is responsible for setting rent levels for properties within its ownership and for consulting with the residents involved.

### **Social Housing Charter**

The Scottish Government, through the Social Housing Charter, sets the outcomes it expects social landlords to achieve for its residents. In terms of how rent and service charges are applied the relevant Social Housing Charter indicators include:

#### *Outcome 13*

Tenants, owners and other customers receive services that provide continually improving value for the rent and other charges they pay.

#### *Outcome 14*

Social landlords set rents and service charges in consultation with their tenants and other customers so that a balance is struck between the level of services, and how far current and prospective tenants and other customers can afford them.

#### *Outcome 15*

Tenants get clear information on how rent and other money is spent, including any details of individual items of expenditure above thresholds agreed between landlords and tenants.

### **Good Practice**

The SFHA Rent Setting Guidance and Affordability Tool 2017 has been taken into account in development of this policy.

### **Business Planning**

This policy supports the strategic requirements of the organisation's Business and Development Plans, Standing Orders and the organisation's strategies.

### 3. Aim of this Policy

- 3.1 The aim of this policy is to ensure affordable and comparable rents that are considered value for money by our customers whilst maintaining the financial viability of the organisation.

### 4. Objectives of this Policy

- 4.1 The objectives of our rent setting policy are:
- **Affordability-** Rents are affordable to households on low / moderate incomes
  - **Viability** – sufficient income is generated to meet all of the association’s financial requirements and any associated borrowings
  - **Transparency and Fairness** – there is a fair system of setting and apportioning rents for different types of property for tenants
  - **Comparability and value for money** – rents are broadly consistent with comparable rents charged by other social landlords in the area providing similar types and standards of property, and services.

### 5. Principles of this Policy

- 5.1 To achieve the objectives above we will:
- Apply a fair and consistent rent structure
  - Charge similar rents for similar properties, in similar locations, with similar services as far as possible;
  - Ensure our rents are comparable in so far as is possible with those of other landlords and property types / standards/ services in the area
  - Make our customers aware of how we set our rents and why these may vary
  - Involve our customers in the decision-making process when changes to rent setting and rent levels are being proposed
  - Maintain an open and transparent dialogue with our customers when decisions have made in particular if the decision goes against the wishes of the majority of our customers.

### 6. Scope of this Policy

- 6.1 This policy relates to rents set for Scottish Secure Tenancies under the Housing (Scotland) Act 2001. It will also apply to rents set for properties which may be leased to other organisations for the purposes of providing specialised accommodation with support.
- 6.2 Rents should be sufficient to cover the costs of managing and maintaining all types of property under our control.
- 6.3 In addition to this, provisions are made for future major repairs and renovations and private loans on developments.
- 6.4 Costs to be covered by rental income can include:

- **Housing management costs** - costs associated with providing a high standard of service to all tenants regarding all aspects of their tenancy, including all supporting administrative services.
- **Voids and bad debts** - The amount of rental income lost when properties are empty or when rent arrears cannot be recovered
- **Maintenance costs** - The costs of day-to-day (reactive) repairs and cyclical maintenance including grounds maintenance and cyclical painting.
- **Planned Maintenance and Improvements:** The costs of improving or replacing property components such as windows, bathroom or kitchen units at the end of their useful life, and any major repairs required during the life of a property. The costs include the amounts required to bring our properties up to any standards, such as those for energy efficiency, set by the Scottish Government.
- **Loan charges** - The cost of any private loans taken out to fund our activities, in particular the building of new homes and the planned improvements to existing properties.
- **Insurance and overheads** - The costs of property and office insurance, public liability and employer's liability insurance and business overheads
- **Staffing costs and pension provisions** – The cost of all staff including temporary staff employed by the organisation as well as employer pension contributions.

## 7. Affordability and Comparability

- 7.1 We are committed to ensuring our rents are affordable to customers on moderate incomes
- 7.2 We use the SFHA measure of affordability to check if rents are affordable to tenants and prospective tenants.
- 7.3 We are aware of the 'poverty trap' that exists in the benefit and taxation system and we do not wish to be in a position where only those in receipt of full housing benefit can afford to rent our properties.
- 7.4 We endorse the SFHA's 'moderate incomes' approach to measuring affordability as recommended in their Guidance Booklet entitled 'SFHA Guide to Rent Setting and Affordability Tool', published in June 2017.
- 7.5 The affordability tool uses earnings and income data in Scotland to generate 'moderate incomes' thresholds based on different household types. These are then compared to rents to establish 'residual income' after rent is paid. 'Residual income' is then compared to annual data on the Minimum Income Standard (MIS) - this represents a modest but adequate standard of living. This calculation gives an indication of whether or not tenants' income after paying rent is sufficient for an adequate standard of living and, therefore, an indication of whether the rent is affordable or not for those on low incomes.
- 7.6 We are committed to ensuring rents are set at appropriate levels. On this basis, the affordability tool supplied by the SFHA will be used to review proposed rents as part of any rent setting process and will be used as an affordability test rather than a rent setting mechanism.

- 7.7 We will ensure that rents and the annual rent increase on average, does not unreasonably exceed levels set by other housing associations working in the same area, where the current rent, the type and specification of the property, the location and the service is comparable.
- 7.8 Feedback from customers is invaluable. We will analyse information gathered from surveys on reasons for refusal of tenancy offers, comments made by new tenants at the new tenant home visit and the reasons for leaving cited by former tenants in exit surveys to understand the impact of rents on the decision-making process.

## 8. Rent Setting Process

- 8.1 A rent setting process is an annual process a housing association goes through to decide what rents will be charged to tenants for the next financial year. Generally, the rent setting process results in a 'rent increase' although the process could lead to a decision to freeze or reduce rents.
- 8.2 Rent setting flows from consideration of the housing association's draft budget and its longer term financial planning arrangements. Rent setting is one of the most important decisions made each year and could lead, for example, to the budget having to be reconsidered (with implications for service levels, staffing, etc.), if the rent arrived at is considered to be 'unaffordable'.
- 8.3 We follow a rent review process annually which is summarised in the diagram below:

Step 1 →	Step 2 →	Step 3 →	Step 4 →	Step 5
Identify the range of rent proposals for governing body consideration	Management Committee approve specific rent proposals on which to consult customers	Customer Consultation	Consultation information reported to Management Committee and budget finalised with approved rent levels	Tenants Notified

- 8.4 This process is described in more detail in the Step by Step Guide to our Rent Setting Process at Appendix 1.

## 9. Rent Structure

- 9.1 Rent structure refers to the system used to determine the rents charged for different properties within a social landlord's housing stock.
- 9.2 Rent structures fall into two broad categories, the first is the most common:
- 'Comparability' rent structures based on property characteristics
  - 'Market-based' rent structures which generally use some form of property value

- 9.3 At Loreburn we are reviewing our rent structure so it is logical, transparent, and fair and to achieve that we aim to move towards a comparability model.

For new build properties we will apply the Loreburn rent setting policy and compare against the Scottish Government's Projected Rent Assumptions.

- 9.4 In some circumstances i.e. when developing extra care housing, we may set rents out-with the rent setting structure contained within this policy. This may also apply to shared accommodation developed for a specific purpose and for properties which are to be leased to other statutory or voluntary organisations for the purposes of providing specialised accommodation with support, e.g. short break accommodation, accommodation for those escaping domestic abuse. We will consider the costs of the following factors in addition to mainstream housing costs, when determining the appropriate rent level to be charged:




- Management, including any enhanced management services provided by Loreburn or any other organisation who may contract with us to provide such services
- Maintaining or replacing any special equipment or features provided within the accommodation
- Any specific costs associated with the registration of the property or compliance with the requirements of other external regulatory bodies
- Providing, maintaining and renewing communal areas and facilities and any staff accommodation
- Anticipated void levels where responsibility for rent loss through voids rests with Loreburn
- Providing, maintaining and renewing any furniture, appliances and fittings for which Loreburn are responsible
- The availability of revenue funding for the project and/or the resident

Further, it is important to ensure that any future new build project is viable. In doing so we will consider the Net Present Value (NPV) of future rental income streams. A new development will not normally be undertaken if the predicted NPV is negative unless there are good socio-economic reasons for the project and there are sufficient cash flows to sustain it from other sources. Where rents are structured in this way we will seek approval from the Council and Scottish Government.

- 9.5 Our new build policy is to build to Passiv Haus standards, to give our customer attainable warmth and energy. We will also move towards whole cost in usage for our homes, which takes into account the low energy costs, and increased costs in building.

## 10. Approach to Affordability Testing

- 10.1 Our overall aim is to make rents affordable to those on a moderate income in our locality so the use of the SFHA Affordability Tool enables us to compare rents to moderate incomes within the Dumfries and Galloway Region.

-  Rents below 25% are highlighted in green in the tool and are deemed to be affordable.
-  Rents between 25% and 30% are highlighted in amber in the tool, as on the margins of affordable.
-  Rent above 30% are highlighted in red as showing high ratios of rent compared with moderate income.

The outcome from comparison data from utilisation of the SFHA Rent Affordability Tool in 2018 indicate that for 3 bedroom accommodation the Loreburn H A weekly rent (£96,99) are assessed in the green category with between 16.5% and 18.9% of the moderate income spend on rent. One and two bedroom properties comparison are less favourable. Two beds for a small family with two children are assessed as green with 16.8% of the families income spent on rent however for a single parent with two children it is an amber assessment with 27.2% of the weekly income spent on rent. One bed rents for a single people including pensioners are classed as amber. The rent costs equate to 28.7% of the single persons moderate income and 26.1% for the pensioner.

Affordability testing highlights that single persons living in 2 person households are within the red category with the highest rent being 1.4% higher than the amber affordability rating.

This information, including local rent comparisons, is shared with the Management Committee to help inform decision making.

All future rent setting will be subject to the affordability tool. Where the affordability is classed as red this will be taken to Management Committee for approval prior to letting a new build contract, submission to the Scottish Government and the annual rent consultation with customers.

Management Committee reserve the right to approve a rent level that has a red rating. In such cases justification will be given i.e. a higher rent level may be acceptable where it is balanced by lower running costs.

## 11. Value for Money

We will maximise the impact of each pound spent to improve the homes of our customers and the services they receive.

This does not mean we will always do the cheapest or the easiest thing, but rather that we understand what is driving our financial performance, including costs and making sure that we are getting the required quantity and quality at the most effective price.



## 12. Equality and Diversity

12.1 At Loreburn, we are committed to equality of opportunity and will ensure that policy and procedures will not unfairly discriminate against people on grounds of sex or marital status, racial grounds, disability, age sexual orientation, language or social origin, or of other personal attributes, including beliefs or opinions, such as religious beliefs or political opinions.

12.2 We can provide:

- Translation service for those for who English is not their first language.
- Large text or audio tapes for people who are visually impaired.
- Assistance for people who are profoundly deaf.
- Assistance for people who have challenges around literacy and / or numeracy

## 13. Policy review

13.1 The policy champion is the Director of Operations

13.2 This policy will be reviewed **annually** or more frequently as required due to legislative or regulatory change. The review will be completed by the Policy Champion and circulated to the Executive Management Team for approval.

## 14. Responsibilities Chart

14.1 The chart below illustrates the responsibilities of all staff in relation to this policy.

Responsibilities	Board/ CEO	EMT	Housing Manager	F&P Manager	Policy Champion
To set the policy and direction with regards to rent setting	✓				
Ensure Loreburn H A staff have a robust understanding rent setting and the implications around VfM and corporate viability		✓			
Take lead on annual rent setting review			✓		
Carry out Affordability Testing				✓	
Ensure effective and clear communication with key stakeholders including customers			✓		✓
Reporting to Management Committee			✓	✓	
Ensure policy is reviewed as necessary					✓

## Appendix 1 – Step by Step Guide to Our Rent Setting Process

Step 1	
<b>Identify the range of rent proposals for Management Committee consideration</b>	Rent proposals are generally considered alongside preparation of the draft annual budget which occurs around late October/November each year. . More than one rent proposal should be put to the Management Committee to consider (for example, no rent increase or a rent increase of 2% or 2.5% etc).
<b>Key Outcome Required</b>	The Management Committee have a range of rent proposals which they can consider in the context of affordability to the tenant and viability to the landlord.

Step 2	
<b>Management Committee approve specific rent proposals on which to consult tenants</b>	<p>The analysis supporting any rent proposals should include important VFM considerations such as:</p> <ul style="list-style-type: none"> <li>▪ a review of the affordability of the proposed rents to tenants including the change from current rents in relative and absolute terms (e.g. a 1% increase equivalent to £2 per week). It is preferable to undertake this exercise at UPRN level as this provides maximum forecasting accuracy and enables any outlier rents/impacts to be identified early on;</li> <li>▪ the comparability of the rents proposed to other social landlords providing similar properties and services in similar locations and other relevant comparators eg the Scottish or regional averages;</li> <li>▪ the additionality of each proposal to deliver against key organisational outcomes e.g. additional investment in services or properties; and</li> <li>▪ the viability of the proposals to the landlords short, medium and long term financial performance</li> </ul>
<b>Key Outcome Required</b>	The Management Committee approve a limited number of key rent proposals on which to consult customers.

Step 3	
<b>Customer Consultation</b>	Tenant consultation is a key step in any rent setting exercise and it must take place on any proposed increase. The Housing (Scotland) Act 2001 section 25 states that tenants must be given <b>four weeks' notice</b> of any rent or service charge increase. However, before that notification the landlord must '(a) consult those of its tenants who would be affected by the proposal, and (b) have regard to the views expressed by those consulted'. There is no legislative requirement to consult tenants if rents are to be frozen or reduced.
<b>Key outcome required</b>	Tenants have the opportunity to participate in the rent setting process and provide meaningful feedback to the landlord on future potential rents.

Step 4	
<b>Finalise budget &amp; approve rents</b>	Feedback from the consultation exercise should be analysed and reported to the Management Committee alongside the final draft annual budget to enable them to make informed decisions on (a) finalising the annual budget and (b) approving rents for the forthcoming year. The approval of rents for the forthcoming year is one of the key decisions made and it is important to ensure that it is both evidence based and can demonstrate value for money to tenants and other stakeholders.
<b>Key outcome required</b>	Annual budget set and rents approved in timescale allowing formal notification of tenants in statutory timescales.

Step 5	
<b>Notify customers</b>	Rents for individual properties are then prepared and letters provided to all tenants affected <b>at least four weeks in advance</b> of any rent or service charge increase. Calculation of rents at individual property level should not be left until Management Committee approval but should be examined well in advance and preferably as part of step 2. Any preparation here then is simply an update/refinement and not a 'from scratch' exercise.
<b>Key outcome required</b>	Statutory timescales complied with and tenants notified of any rent increase at least 4 weeks in advance