

*at home with...*



# Rent Setting Policy

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**Contents**

- 1. Policy statement..... 3
- 2. Client group..... 3
- 3. Affordability ..... 3
- 4. Viability..... 4
- 5. Comparability ..... 4
- 6. Rent-setting mechanism..... 4
- 7. Rent review ..... 4
- 8. Variations to the rent policy ..... 5
- 9. Legal and good practice standards ..... 5
- 10 Risk ..... 6
- 11. Other Relevant Policies and Procedures..... 6
- 12. Roles and responsibilities..... 7
- 13. Complaints ..... 7
- 14. Policy review ..... 7
- 15. Appendix 1.....8

## **1. Policy statement**

- 1.1 The aim of the Fife Housing Association's rent policy is to achieve rent levels affordable to our existing and prospective tenants whilst ensuring the financial viability of the Association in the short, medium and long-term.
- 1.2 Fife Housing Association ensures that the same rent is charged for equivalent properties.

## **2. Client group**

- 2.1 Fife Housing Association strives to provide housing for a wide range of needs.
- 2.2 Fife Housing Association's rules state that that we provide housing for "the relief of those in need by reason of age, ill-health, disability financial hardship or other disadvantage". This will be taken into account in any review of the Association's rent policy, rent structure or rent levels.

## **3. Affordability**

### **Measuring affordability**

- 3.1 Fife Housing Association endorses the Scottish Federation of Housing Association's (SFHA) 'moderate incomes' approach to measuring affordability as recommended in the Guidance Booklet entitled 'SFHA Guide to Rent Setting and Affordability Tool'. This was published by the SFHA in June 2017 in order to relate Registered Social Landlords' rent levels to affordability criteria that are relevant to their own tenants.
- 3.2 The affordability tool uses earnings and income data in Scotland to generate "moderate incomes" 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.
- 3.3 Fife Housing Association's position has remained consistent over the years and is determined to ensure that 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.

### **Affordability pass / failure rates**

- 3.4 Part of the guidance on developing affordable rents highlights the need to monitor failure rates and these are reviewed annually and reported to the Board.

An affordable rent is deemed to be a rent which is less than 25% of a tenants "moderate income", a less affordable rent is a rent at 25-30% of a tenant's moderate income and a

red at 30%+ of moderate income is unaffordable and would therefore 'fail' the affordability test.

#### **4. Viability**

- 4.1 Rental income is required to be sufficient to cover the Association's costs and in particular costs in relation to management, maintenance, service costs, loan repayments and future cyclical and major repairs obligations. As a result, any review of rent levels will ensure that all of the Association's costs are adequately resourced both in the short and long-term. Should rental income not cover all of the management costs then savings will need to be agreed.

#### **5. Comparability**

- 5.1 In establishing its rent structure the Association will benchmark against the rent levels set by other social housing providers who let similar accommodation on equal tenancy terms in Fife and those of our G8 partners, who are a group of like-minded RSL's in Scotland with whom we share good practice.

#### **6. Rent-setting mechanism**

- 6.1 The Association's rents are set by the Board on an annual basis.
- 6.2 The rent-setting mechanism was introduced from April 2018 to ensure that tenants paid the same for the same property type, bedroom number and heating/power systems.
- 6.3 The rent-setting mechanism used aims to ensure that a fair and consistent rent structure is in place.
- 6.4 An example, from 2018, of the rent-setting mechanism in operation is attached at Appendix one, the amounts are affected by the relevant rent increases applied on an annual basis.

#### **7. Rent review**

- 7.1 Rents are reviewed annually with new rents being communicated to tenants by the end of February each year for introduction from the 1 April.
- 7.2 This review will consider the rental income required to maintain the Association's financial viability whilst recognising the desire to keep rents at affordable levels to those in low paid employment.
- 7.3 Although there is no particular link to either RPI or CPI rates, both these measures are of particular relevance when reviewing the rents as are any emerging trends in these rates, interest rates and their potential effect and relevance on key expenditure issues such as maintenance costs, loan repayments and colleague costs.

7.4 Should RPI or CPI be a negative figure the Association will consider, as a minimum, freezing rents for the following year. Only in very exceptional circumstances will the Association reduce its rents e.g. if a legal or regulatory requirement.

## 8. Variations to the rent policy

8.1 In the following situations there may be a requirement for variations to the rent policy to be applied:

- **Shared Ownership** - shared ownership occupancy payments will be calculated in line with the Scottish Government's guidance to reflect the sharing owners' responsibility for repairs and the percentage of the property that they own;
- **Social Housing Grant (SHG) Approval Stage for New Build Developments** - actual rents charged may vary from the policy due to the original rent set at Social Housing Grant (SHG) approval stage but will be brought into line as soon as practicable;
- **High cost developments** - properties in high cost developments may have an additional rental charge allocated to compensate for any shortfall in Scottish Government funding;
- **Supported accommodation** - supported accommodation projects, where the nature and type of accommodation is not covered specifically by this rent setting mechanism;
- **'Mortgage to Rent' properties** - additional points may be allocated to cover any shortfall in the Scottish Government's funding. It is likely that the rent used by the Scottish Government for the calculation of the grant amount will be the same rent used by the Association when allocating the property; and
- **Open-market residential property acquisitions** – will not be acquired unless the harmonised rent, after accounting for any Scottish Government housing grant, makes this a viable option.

## 9. Legal and good practice standards

### Legislation

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

### Social Housing Charter

9.2 The Scottish Government, through the Social Housing Charter, sets the outcomes it expects social landlords to achieve for its residents.

9.3 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 landlord and tenants.

### **Good practice**

9.4 The SFHA and Housemark ‘New Rent Affordability Tool 2018’ has been taken into account in developing this policy. The Tool calculates five measures to test rent affordability:

- % of income
- % of market rent comparison
- % of LHA rate
- Income after rent; and
- Income after rent above Minimum Income Standard (MIS)

### **Business planning**

9.5 This policy supports the strategic requirements of the organisation’s Business and Development Plans, Standing Orders and Financial Rules (SOFR), Asset Management and Engagement Strategies.

## **10. Risk**

10.1 There is a high customer service, reputational and regulatory risk if we fail to implement the rent policy and charges appropriately. We will manage this risk by ensuring that we adhere to legislative and regulatory requirements and have open consultation processes for customers.

## **11. Other Relevant Policies and Procedures**

11.1 This Policy needs to be read alongside other relevant strategies:

- Income Maximisation Strategy;
- Service Charge Policy;
- Engagement Strategy;
- Value for Money Policy; and
- Risk Management Policy.

## **12. Roles and responsibilities**

- 12.1 The Director of Finance, Governance and Assets has overall responsibility and is accountable to the Business Leadership Team and the Board for the financial information pertaining to all aspects of the rent increase.
- 12.2 The Director of Housing is responsible for all aspects of the tenant consultation and response to tenants in relation to the rent increase proposals.
- 12.3 The Business Leadership Team is responsible for ensuring that this policy is consulted on with involved tenants and Board members and for its review, implementation and proper application, in accordance with the agreed timetable.

## **13. Complaints**

- 13.1 If any resident or service user has a complaint or appeal against the proposed rent level, they should submit this in line with our Complaints Policy to the Engagement Team within four weeks of receiving their rent increase letter.

## **14. Policy review**

- 14.1 This rent policy will be reviewed every three years by the Director of Finance, Governance and Assets.









Appendix 1: Example from 2018 (not current levels)

**Rent Mechanism : Calculation steps**

Use this column to work out your harmonised rent

 Basic monthly rent	<b>£340</b>	<b>£340</b>
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Then add or subtract...

<b>1. Property size:</b>		
 Bedsit	<b>Minus £100</b>	
<b>1</b> 1 bedroom	<b>Minus £50</b>	
<b>2</b> 2 bedrooms	<b>Nil effect</b>	
<b>3</b> 3 bedrooms	<b>Plus £50</b>	
<b>4</b> 4 bedrooms	<b>Plus £100</b>	
<b>5</b> 5 bedrooms	<b>Plus £150</b>	
<b>2. Property type:</b>		
 Flat	<b>Nil effect</b>	
 Bungalow	<b>Plus £5</b>	
 House	<b>Plus £10</b>	
<b>3. Heating and power type:</b>		
 Solid fuel	<b>Minus £20</b>	
 Electric	<b>Minus £10</b>	
 Gas	<b>Nil effect</b>	
 PassivHAUS or solar	<b>Plus £10</b>	
<b>The harmonised rent for my home is:</b>		<b>£</b>