



Cloch Housing Association

Rent Setting Policy

Policy Name	Rent Setting
Policy Category	Housing Management
Policy Number	034
Date Adopted	26/01/2006
Last Review	21/01/2020
This Review	16 th May 2023
Next Review	Jan 2026
Equalities Impact Assessment Required	No
Link to other policies	
Consultation	Internal
Need for Procedure	Yes - Formula

1.0 Introduction & Aims

- 1.1 The Association's Rent Setting Policy is a statement of objectives which the Association is seeking to achieve covering areas such as affordability, quality of service and the costs attributable to the actual rent charge.
- 1.2 The purpose of this policy is to set out the intentions of Cloch Housing Association Ltd in relation to the setting of rents for the Association's properties. The Association will use the Rent Setting Policy and rent structure to establish a rent which can be applied to individual dwellings.
- 1.3 In considering its Rent Setting Policy the Association refers to a framework which:
- is applicable to all housing stock owned by the Association
 - takes account of the range of differing factors throughout the stock
 - is flexible
 - will take account of the following areas of expenditure:
 - loan repayments
 - management costs
 - maintenance costs
 - provision for future major repairs and renewals
 - voids and bad debts
 - contingencies/risk management
 - will provide sufficient income to enable the Association to continue providing its tenants with high quality management services
 - will strive to provide rent levels comparable with similar local housing providers
 - Meets the requirements of all regulatory guidance and performance standards.
 - Takes account of the current definition of affordability.
 - Is considered fair and has a rent structure which is accountable and clear to all those affected by it.
- 1.4 The Association has a reducing number of residents who have the preserved rights for rents to be set by an Independent Rent Officer on a three-yearly basis. Our approach to Fair Rents will be to apply the broad principles of this policy as set out in Section 7 of this policy, subject to approval by the Rent Registration Officer.
- 1.5 The Association's method of rent setting will seek to ensure that rent levels are consistent across our housing stock, taking account of property features and attributes - we aim to charge similar rents for similar sizes and types of property throughout our housing stock. Account will also be taken of rental levels of other relevant social landlords as part of an annual comparability exercise. A comparability study of rent charges of local and peer social housing providers will be provided for the Board as part of the rent review process.

2 Responsibility

2.1 Key areas of responsibility in relation to the implementation of the Association's Rent Setting Policy are detailed below:

- *The Board* - has responsibility for ensuring that this policy complies with regulatory and legislative requirements and meets the Association's Business Plan and budget objectives.
- *CEO* – has responsibility for ensuring that this policy is applied to ensure compliance with regulatory and legislative requirements and meets the Association's Business Plan and budget objectives.
- *Director of Finance* – has responsibility for ensuring that appropriate financial support and advice is provided to the Board, Leadership Team and other relevant members of staff.
- *Head of Housing Services* – has responsibility for ensuring that appropriate housing services related support and timely advice is provided to the Board, Leadership Team and other relevant members of staff on rent and service charge setting and review issues, including the resident consultation processes.

3.0 Background and Regulations

3.1 In setting rents, Cloch HA must comply with the Housing (Scotland) Act 2001, Part 2, Section 25 regarding rent increases: -

'Where the Landlord under a Scottish Secure Tenancy proposes to increase the rents ...payable by all...its tenants, it must, before giving notice under subsection (1) – (a) consult those of its tenants who would be affected by the proposal, and (b) have regard to the views expressed by those consulted.'

Cloch intends to consult its tenants regarding rents on an annual basis by way of consultation events, MyCloch digital tenant portal, direct telephone communication, tenant groups, tenant questionnaires, direct mail and newsletters.

3.2 The main purpose of this policy is to allow Cloch to set an annual rent increase based on the Scottish Housing Regulator's standard, that is, a rent increase which will allow the Association: -

- to meet all current and future management and maintenance costs,
- to service its existing loan and meet loan covenant agreements, and
- to be affordable to its tenants.

3.3 Rent increases must ensure that Cloch will continue to be able to meet all its current and future business commitments – including those under the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (ESSH).

3.4 The Association will also take account of The Scottish Housing Regulator's Scottish Social Housing Charter Standards 13, 14 and 15 which impact on rent and service charges which state that:

Standard 13 – “Social landlords manage all aspects of their businesses so that:

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

Standards 14 & 15 - “Social landlords set rents and service charges in consultation with their tenants and other customers so that:

- a balance is struck between level of services provided, the cost of the services and how far current and prospective tenants and service users can afford them
- tenants get clear information on how rents and other money is spent, including details of individual items of expenditure above thresholds agreed between landlords and tenants.”

4.0 Rent and Service Charges Review

4.1 The rent and service charge payable will be reviewed annually to take effect from the 1st April each year. The Board may agree to altering this date due to external factors eg. Government intervention. The Association undertakes to provide tenants with a full written statement of any rent and service charge payable on request and to provide a minimum of 28 day's written notice in writing of any changes as is required by the Housing (Scotland) Act 2001.

5.0 Tenant Consultation

5.1 In line with the requirements of the Housing (Scotland) Act 2001, Tenants will be consulted on any proposed increase. A report on this consultation will be included in the rent increase report presented to the Board prior to them making a final decision on the increase.

5.2 The consultation shall be carried out in the manner requested by tenants as informed by the triennial Tenant Satisfaction Survey.

6.0 Risk Assessment/Management section

6.1 Income from rents comprises over 90% of the Association's annual revenue income. The main risks associated with failing to devise a rental policy in accordance with best practice, financial viability and legal requirements are as highlighted in 6.2-6.7.

6.2 **Rents should be set at a level that ensures short and long term viability for the Association.** If this were not the case, the Association would be unable to meet its short and long term financial commitments to maintain its housing stock per the requirements of The Scottish Housing Regulator and be unable to meet its loan covenant and repayment requirements with its Lenders.

6.3 To control this risk the Association will: -

- Ensure that the rent setting policy forms an integral part of the internal management planning and the Association's business plan.
- Each year review its annual and thirty-year cash flow projections to ensure that the Association can cover all its expenditure needs – including:
 - Repairs and Maintenance – Day to Day, Planned and Major component replacements,
 - rental losses due to voids or bad debts,
 - salary and administrative overheads,
 - loan interest and repayment costs,
 - insurance fees and so on.

This will be done as part of the budget setting process agreed by our Board. Meeting these costs will form the basis of the rent increase proposal for that year.

6.4 At least every five years Cloch will carry out a stock condition survey on its properties and update life cycle costings accordingly. This information will feed into the thirty-year cash flow and influence future rent levels.

6.5 **Rents should be affordable to most of our tenants.** High rents would lead to increased rent arrears, a fall in the demand for and desirability of our stock and increased void levels - all leading to cash flow and viability problems. To control this risk, the Association will: -

- Measure the affordability of its rents on an annual basis as part of the Association's rent setting process. Cloch will assess its rents against the Affordability criteria contained within the Scottish Federation of Housing Associations Rent Affordability Tool .
- As at November 2022, around 60% of our tenants were in receipt of Housing Benefit or Universal Credit. However, Cloch does not believe that its tenants are dependent on housing benefit because Cloch' rents are too high. Statistics taken from The Scottish Index of Multiple Deprivation for Inverclyde show that there are significant and persistent levels of inequality and poverty in this area due to unemployment, low income and poor health.
- Ensure that value for money consideration applies in our service delivery and procurement processes.

6.6 Through tenant surveys, Cloch will gain information on current income levels in Inverclyde and general satisfaction with value for money of rent levels.

6.7 Cloch will also benchmark its rents with other comparable social housing providers. If Cloch' rents were not broadly in line with other local housing providers, providing the same quality of product the Association may lose its customer base leading to higher void levels. To contain this risk, Cloch will: -

- Measure the comparability of its rents and rent increases on an annual basis during the rent setting process to rents of other housing associations in the Inverclyde area and similar organisations in the West of Scotland.
- Obtain average rent set per category and size of properties directly from housing associations in Inverclyde and from the Scottish Social Housing Charter Annual Return on the Charter (ARC) Annual from The Scottish Housing Regulator. Cloch will also compare its annual rent increase to other similar associations.

7.0 Rent Setting Mechanism

7.1 The Association's rents are set by the Board. Annual variations in rents also require to be formally approved by the Board.

7.2 The Association undertook a review of its rent setting process during 2019 when a new structure/formula was developed following consultation with tenants. The Rent Restructure was initially to be implemented over a -year period from 2020-2023. This was extended during the rent increase consultation to support tenants in the cost of living crisis and the rent restructure was frozen in 2023. Year 4 will now be financial year 2024/25. Following this review, the Association has adopted a formula system for determining rents. This establishes a core rent for its smallest home and then varies this rent by application of a number of factors which weight the rent up or down to reflect variations in size, type, age and a number of attributes. .

7.3 To the core rent figures established in line with these criteria, additions/deductions are made thus enabling a range of rent levels to be established which equitably reflects the differing characteristics of the housing stock. These can be seen in the Rent Setting Formula set out in (**Appendix 1**). This formula distributes the differentials between smaller and larger properties more evenly and makes provision for the varied amenity levels within different stock types.

7.4 Points will be awarded against each attribute and the total number of points for all attributes will be used to calculate the annual rent for a property.

7.5 The attributes used in the calculation include:

- Size – room sizes for each bedroom and living area
- Property type
- Property age band
- Extra w/c/shower room
- Own driveway/parking space
- recessed (not separate) kitchen/living room

7.6 The core rent figure relates to management and maintenance allowances and added surcharges related to property size to reflect the potentially higher management and maintenance costs for larger properties. The core rent figure ensures management and maintenance costs are covered for all properties and provides some form of justification to tenants.

7.7 Registered Rents are applied for using the rent setting policy. The number of secure registered rents will fall as the number of 2001 Act Scottish Secure Tenancies increase and the number of old 1987 Act secure tenancies declines.

8.0 Rents for new build properties

8.1 For any new build project or the purchase of new build houses, it is important to ensure that a project is viable. We will assess this by looking at the net present value of future rental income streams. In addition, all proposed rents must meet the Scottish Governments' affordability benchmark before grant funding will be approved.

8.2 For every new build project a thirty-year cash flow projection will be carried out showing projected new rental income streams. The following points will be assessed: -

- Annual income from rents and predicted rent increases
- Ability to cover day to day repairs, management costs and improvement costs
- Ability to cover loan repayments and interest
- Impact of inflation and interest rate changes
- Annual cash flows generated on project
- Net Present Value of project

8.3 A project will not normally be undertaken if the predicted net present value is negative unless there are good socio-economic reasons for the project and there are sufficient cash flows to sustain it from other sources.

- 8.4 Where new build projects have been undertaken an assessment of the overall impact on the business plan will be carried out and the associated risks reviewed. In this case an incremental cash flow will be prepared considering the difference from the original plans.
- 8.5 The Association should also demonstrate that any new build project will not compromise its overall viability. Cloch has a thirty-year business plan with associated cash flow in place and this clearly demonstrates that the Association is a viable organisation. This cash flow is updated via the budget process every year and changes to key assumptions identified.
- 8.6 Taking cognisance of all aspects above, the Association may need to initially set rents that do not match our current rent setting formula however, processes will be established to ensure all new build rents are changed to gradually match the current formula. This will be considered on a project by project basis.

9.0 Exemptions from the Rent Structure

- 9.1 **Supported Housing** -The rents for supported housing do not fall within this rent policy. The core rent for supported housing is based on mainstream rents and to this allowances and the regular maintenance cost of specialist equipment is added. Provision for the future replacement of furniture, alarms and laundry etc. is added via services charges. These rents will generally also be outside the affordability and comparability criteria. The key criteria used will be:
- Providing accommodation and services tailored to an individual's needs and achieving best value in delivering this in consultation with the prospective tenant and their representatives
 - Achieving financial viability for the Association in the provision of this accommodation.
- 9.2 **Innovation and Investment Funded New Build** – An assessment of the proposed rents compared to the amount of private finance/own resources required will be carried out. Cost related points are added to compensate for any shortfall in Scottish Government funding. Rents arrived at may therefore vary from the policy.
- 9.3 **Future Stock Transfer Properties** – Any properties that may transfer to the Association from another RSL will be set at the rent charged at the transfer. Properties transferred to Cloch from stock transfers prior to 2020 have been reset as part of the Association's rent restructure which is due to complete in 2024/5.
- 9.4 **Mortgage to Rent Properties** – Additional points may be allocated to cover any shortfall in the Scottish Governments funding.

- 9.5 **Shared Ownership** – Shared ownership rents will be calculated in line with the Scottish Governments guidance to reflect the sharing owner’s responsibility for repairs and the % share that they own (refer to Section 11). The rent setting formula will be the basis of the occupancy charge calculation however.
- 9.6 **Service Charges** - The costs of services will be calculated and a fixed charge added to individual rents to cover costs and inflationary increases. Service charges can increase above rent levels and should be set to ensure whole cost recovery plus a management fee as a minimum. Only those tenants, owners and sharing owners receiving services will be charged. Typical services provided include common cleaning, furniture provision, household heating and electricity and include elements where a sinking fund is required to provide replacement items such as washer dryers, track and hoists, cookers, and furniture. These elements are separately identified and charged and accounted for by way of a service equalisation account. Please refer to separate Service Charge Policy.

10.0 Shared Ownership

- 10.1 The Association currently has 14 Sharing Owners.
- 10.2 The Association will set a specified occupancy charge for each shared ownership property based on the following:
- i) The Annual Base Rent levels for apartment size and type will be in line with rented accommodation.
 - ii) Costs associated with the Management & Maintenance of the property will be deducted
 - iii) The resulting rent will portion into tranches of 25%, 50% or 75% ownership by the sharing owner.
 - iv) Added to this will be the following fees:

Management Fee

Based on the cost centre report for staff administration

Buildings Insurance

The Association have a block policy which provides buildings insurance to each Sharing Owner.

Service Charge

The Association will provide the following services in relation to the sharing owner:

Gas Servicing

A review of the Specified Occupancy Charge will be completed annually, please refer to separate Shared Ownership Policy.

11 Complaints and Appeals

11.1 Tenants do not have the right of appeal regarding rent and service charge levels. However, the Association aims to:

- Consult with tenants regarding any rent and service charge policy review
- Provide full clear, written information regarding rent and service charge levels and the reasons for the increases

11.2 Comments regarding any aspect of the above should be made in the first instance to the Head of Housing Services

11.3 The Association has a separate Complaints Handling Procedure whereby a complaint regarding our policy or service can be made, eg:

- The outcome of the Policy, i.e. rent and service charge levels
- The poor conduct of a Staff member.
- .
- Any other expression of dissatisfaction with the Associations services

Every tenant or sharing owner has final recourse to the Scottish Public Services Ombudsman. Please refer to the separate Complaints Handling Procedure.

12.0 Monitoring and Review

12.1 The Association will report on its rents on an annual basis as part of its rent setting and budget process to the Board.

12.2 Cloch will also consult on rents with its tenants each year and will advertise and invite comments on its rent increase via its newsletter, My Cloch digital portal, surveys and meetings as appropriate. This will include consultation on whether rents are affordable.

12.3 In particular, the Association will report on viability, affordability and comparability of its rents as part of this same process.

13.0 Equalities Commitment

13.1 Cloch Housing Association Ltd is committed to tackling discrimination on the grounds of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity; race, religion or belief, sex, or sexual orientation

13.2 Cloch seeks to embrace diversity, promote equal opportunities for all and eliminate any unlawful discrimination in all areas of our work.

14.0 Policy Availability

14.1 This policy is available to the public on the Association's website. Copies are also available on request and free of charge from the Association. This policy can also be provided in large print, braille, audio or other non-written format and in a variety of languages, on request.

15.0 Review

15.1 The Rent Setting Policy and the formula is reviewed every 3 years; the core rents within the formula will be updated annually in January/February each year in line with the agreed rental increase and be applicable from 1st April each year.

Appendices

(I) Rent Setting Formula