



# RENT SETTING POLICY

<b>Written by:</b>	<b>Director of Operations</b>	<b>Version:</b>	<b>7</b>
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## 1. Introduction

- 1.1 The Association's mission is to provide good quality affordable homes and services for the benefits of the people and community of Orkney. Determining and setting rent levels are of central importance in achieving this as well as ensuring the long-term viability of the Association and the affordability of our rents.
- 1.2 This policy details the principles and framework on which the rent, occupancy and service charge setting will be based and how residents will be consulted on these charges.

## 2. Context

### 2.1 Legislation

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

### 2.2 Social Housing Charter

The Social Housing Charter sets the outcomes it expects landlords to achieve for their residents. In terms of how rent and service charges are applied the charter states that:

#### **Outcome 14 and 15: Rents and Service Charges**

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 provided, the costs of the services, and how far current prospective tenants and other customers can afford them.
- 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.

### 2.3 Standards of Governance and Financial Management

Within the Scottish Housing Regulator's Regulatory Framework, it has outlined its Regulatory Standards of Governance and Financial Management with which all landlords must comply.

The key standards that relate to this policy are set out below:

- **Standard 1** – The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users.
- **Standard 2** – The RSL is open about and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders. And its primary focus is the sustainable achievement of these priorities.
- **Standard 3** – The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay.
- **Standard 4** – The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose.

## 2.4 SFHA Guidance

The current SFHA guidance sets out the two main types of rent structure used to determine rents charged for different properties.

- Comparability rent structures based on property characteristics and;
- Those which are market based generally using some form of property value.

To help ensure fairness, the Association uses a comparability-based rent structure. This allows for differentiation based on property characteristics such as size and location. Furthermore, in line with the guidance we will also adopt a points-based system for calculating the individual property which allows us to account for each property's attributes.

## 3. Policy Aims

3.1 The Policy aims to meet all legislative and regulatory requirements by ensuring that the following aims are achieved:

- **Affordability** – rents set are affordable to households on low incomes
- **Viability** – Sufficient income is generated to meet all financial requirements including the costs of managing and maintaining homes along with any associated borrowings.
- **Fairness: Rent Setting System** – There is a system of setting and apportioning rents for different types of property
- **Comparability** – Rents are broadly consistent with comparable rents charged by similar social landlords; and
- **Fair and accountable service charges** – Service charge costs are priced to residents and recovered in a fair and accountable manner.

### 3.2 Affordability

The Association will seek to ensure that rent and service charge levels are affordable for our residents, whether they are in receipt of welfare benefits or in low paid employment.

3.3 Welfare Reform changes of the past decade have seen the removal of Housing Benefit for many working age benefit claimants and subsequently have challenged

historic approaches gauging affordability. The Scottish Federation of Housing Associations (SFHA) has developed a Guide to Rent Setting to provide Landlords with an approach which encourages constructive consideration by staff, governing bodies and tenants about the affordability expectations of residents.

- 3.4 To assist with these considerations, the Guide provides an Affordability Tool which allows RSLs to test different rent scenarios across a range of property sizes and household types.
- 3.5 The tool assumes that residents on a moderate income should not usually pay more than 25% of their income on rent. Where the assessment indicates that a moderate income would be paying 25-30% of their income on rent, this is on the margins of affordability. A “moderate income” is one that is just above the eligibility threshold for receipt of Housing Benefit.
- 3.6 Contained within the SFHA Rent Setting Guide is a suggested ratio calculated by The Joseph Rowntree Foundation (JRF) of 28%. This on that basis that this is the proportion that the average social tenant spends on rent. This is a normative approach to rent affordability, which takes the average or typical amount spent as reasonable. There is however a risk over time that average rents creep up as higher affordability ratios become the norm with social rents converging on market rents.
- 3.7 In comparison Shelter suggest, [on their website](#), a ratio of up to 35% of income. They do however acknowledge that income and household composition need to be taken into account.
- 3.8 When setting rents and the annual rent increase, the Association will pay due attention to the SFHA Guide to Rent Setting and Affordability Tool, which will be used to test the affordability of our rents and any proposed rent increase. This assessment will be presented to Management Committee prior to their approval of the annual rent increase.
- 3.9 **Viability**  
Rental income is of vital importance to the viability of the Association. The annual review of rent and service charges is linked to the Associations budget setting process and long-term financial projections. This ensures that a detailed assessment is carried out and presented to Management Committee on an annual basis.
- 3.10 The Association is committed to continuing with a sustainable new build development programme. This is with full consideration of the need to ensure that existing properties are affordable for residents. In working to achieve this detailed analysis of all relevant strategic, financial and operational issues will be carried out prior to making a decision on whether to proceed or not.
- 3.11 **Fairness – The Rent Setting System**

The Association’s approach to rent charges involves a fair system for setting and apportioning rents.

### **Social Rented Stock**

A points-based framework is provided to allow a fair and transparent process to calculate and set rents for existing and new build properties. The framework is set out in Appendix 1.

From this, a points total is calculated for each property and the rent calculated by applying a monetary multiplier to the points total. The value of this monetary multiplier, also known as the rent point value (RPV), will be set each year by Management Committee as part of the annual rent review process.

### **Fair Rents**

The Association has only one Scottish Secure Tenant entitled to a "Fair Rent" which is reviewed every 3 years and registered by the Rent Officer Service which ultimately determines the level of rent registered as fair rent.

### **Shared Ownership**

The occupancy and service charges for shared ownership will be set in accordance with the principles of this policy. Deductions will be applied for repair responsibilities in line with nationally set allowance guidelines and sector good practice.

### **Leased Properties**

The RPV of a leased property can be varied to be up to 20% additionally where desired.

Where the Association leases a newly completed property, a discretionary variance may be applied, up to the Annual RSL Social Rent Benchmark assumptions set by the Scottish Government, plus an allowable margin of 5% as detailed above. Typically, this would apply to Leased Residential Properties.

For non-residential properties rents will be carried forward at the current level and increased annually in line with the agreed RPV increase. Where a leasing organisation takes responsibility for voids a 3% discount may be applied to the total annual rent figure.

#### **3.12 Comparability**

The method of rent setting as outlined in this policy will ensure the Association's rent levels are consistent across our housing stock, taking account of property features and attributes. Additionally, we will also take account of rental levels of other relevant social landlords operating within our area as part of the annual rent review process.

#### **3.13 Service Charges**

The service charges applied by the Association are additional to the basic rent charge. They are property specific and are calculated on the basis that the Association covers the full cost of providing the services and that these costs are fair and reasonable. Charges are reviewed on an annual basis to ensure that the income generated is sufficient to cover the future costs of the services.

Any service charges for which an individual tenant or sharing owner is liable will be detailed in the respective tenancy or occupancy agreement.

Residents with a factoring charge will be provided with an annual statement that provides details of service charge income and expenditure for the relevant year.

#### **4. Annual Review of Rent & Service Charge Levels**

- 4.1 The Association will review rents and other charges annually, with any increases being implemented from the 1 April each year. Final decision as to the level of any increase in rents or charges must be made by Management Committee.
- 4.2 Prior to agreeing any increase in rent levels, the Association's Management Committee will have regard to any representations received from tenants as a result of a consultation exercise on proposed rent increases conducted under the terms of section 25(a) of the Housing (Scotland) Act 2001.
- 4.3 When calculating rent increases in the annual budget setting process, the Association will use the inflationary measures detailed in its current Business Plan.
- 4.4 All residents will receive at least 28 days written notice of any increase in their rent and other service charges. Residents of new build properties or re-let houses with a tenancy start date falling within the 28-day notice period will be charged the existing financial years rent for the period until the increase becomes effective. They will be notified of their current and future rent during the sign-up process.

#### **5. Consultation on Rent & Service Charge Setting**

- 5.1 The Housing (Scotland) Act 2001 and Social Housing Charter places a responsibility on social landlords to consult with tenants on their Rent Policy and their rent setting proposals. In order to comply, the Association will carry out a substantive consultation process when considering an increase in rent charges. This will include providing details to tenants and residents of how the rent and service charge increase has been calculated, what the income generated will be used for and how the increase compares with similar landlords.
- 5.2 The consultation measures undertaken by the Association will be discussed with tenants and incorporated within relevant tenant participation strategies but as a minimum will include the following:
  - Discussions with any established resident groups on rent setting issues.
  - Questionnaire based consultation on rent setting proposals.
  - Provision of clear and easy to understand information to all residents on the rent setting process with invitation to comment on these and attend organised residents' meetings.
- 5.3 The Association will ensure that services provided represent value for money and shall incorporate obtaining views on service performance as part of the annual consultation process. These views will be used to supplement other feedback, such as contract management information, received throughout the year. Those receiving a particular service will be consulted where there are any proposals to vary the scope or specification of that service.

## **6. Equal Opportunities**

- 6.1 This policy has no direct equal opportunities implications. The Association will, however, as a matter of good practice, monitor the affordability of rents with information available on income levels between different groups, such as gender groups, ethnicity, and disability groups. This will support the aim that rents set by the Association are affordable and will ensure that income levels do not represent any barrier to access housing stock. The Association will also comply with all relevant equal opportunities requirements in the development, implementation, and review of this policy.

## **7. Monitoring & Review**

- 7.1 This Policy will be reviewed every 5 years or as required following a substantive legislative or regulatory change.

## Property Characteristics and Rent Points

		Rent Points
<b>Property Type:</b>	Detached	208
	Semi-detached and Terraced	196
	Flat/maisonette - own entrance	186
	Flat/maisonette - common entrance	182
	Bedsit	170
<b>Location:</b>	Kirkwall	28
	Stromness	12
	Rural Mainland	8
	Island	0
<b>House Size:</b>	Each double bedroom	20
	Each single bedroom	16
	Additional Dining Facility/2nd Sitting Room	16
	Dining Room	8
	Conservatory - large (>7m <sup>2</sup> )	16
	Conservatory - small (< 7m <sup>2</sup> )	8
	Separate Kitchen	2
	Utility Room	2
	2 <sup>nd</sup> WC/ Bath/Shower Room	2
<b>External Features:</b>	Garage	12
	Garden - sole use	4
	Garden - shared	2
	Parking within boundary	2
<b>Internal Features:</b>	Cooking appliances provided	3
	Energy generation feature	2