

KNOWES HOUSING ASSOCIATION LTD	
Policy Name	Rent Policy
Policy Category	Finance Management
Policy Number	FP14
Last Review	December 2012
This review date	December 2015
Authorised by	
Date	
Next Review Date	December 2018

1. Policy Aims & Objectives

- 1.1 The purpose of this policy is to set out the intentions of Knowes Housing Association Ltd in relation to the setting of rents for the Association's properties.
- 1.2 Knowes' rent policy will fully reflect the principle activity of the association, that is, to: ***'provide good quality affordable housing which meets the needs of the community we serve, ensures resident control of current and future housing and contributes to the continued improvement of the local community and environment.'***
- 1.3 Knowes must take into account the standards and outcomes set by The Scottish Social Housing Charter with regard to rents so that *"a balance is struck between the level of services provided, the cost of the services, and how far current and prospective tenants and other customers can afford them"*.
- 1.4 This policy will be agreed by the Finance Sub Committee after consultation with the Association's tenants and will be implemented by the Association's officers until the next review date.

2. Legal Framework

- 2.1 In setting rents, Knowes must comply with the Housing (Scotland) Act 2001, Part 2, Section 25 in particular with regard to rent increases:- **'Where the Landlord under a Scottish Secure Tenancy proposes to increase the rentspayable 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.'** Knowes intends to consult its tenants regarding rents on an annual basis by way of tenant questionnaires and newsletters.

- 2.2 Knowes was contractually bound by way of its transfer contract with The Scottish Government (The former Scottish Homes) to restrict all rent increases on its transfer properties to no more than RPI plus 1% per annum. (This contractual restriction never applied to Knowes' new build properties.) However the former Communities Scotland (now The Scottish Housing Regulator) agreed with Scottish Ministers to remove this restriction of rent increases when the contract exceeds ten years old. Hence Knowes is no longer bound by restrictions on its rent increases.
- 2.3 The principle objective of this policy is to allow Knowes HA to set an annual rent increase and overall rental structure 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 also to be affordable to its tenants.
- 2.4 Future rent increase may take cognisance of inflation but will first and foremost ensure that Knowes will continue to be able to meet all of its current and future commitments – including those under the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (ESSH).
- 2.5 Rent increases will be set by the Management Committee in February each year after consultation with Knowes' tenants.

3. **Risk Assessment/Management section**

- 3.1 Income from rents comprises over 90% of Knowes' 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 below.
- 3.2 **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 its contract with The Scottish Government and also be unable to meet its loan covenant and repayment requirements with its Lender. In order to control this risk the Association will:-
- 3.2.1 Ensure that the rent setting policy forms an integral part of the internal management planning and the Association's business plan.
- 3.2.2 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 management committee. Meeting these costs will form the basis of the rent increase proposal for that year.

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

3.3 **Rents should be affordable to the majority 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. In order to control this risk the Association will:-

- Take cognisance of the affordability of its rents on an annual basis as part of the Association's rent setting process. Knowes will give due attention to the Affordability criteria as laid down by the Scottish Federation of Housing Associations.
- Through tenant surveys, Knowes will gain information on current income levels in Fairley and also general satisfaction with value for money of rent levels.

3.4 Knowes will also benchmark its rents with other comparable social housing providers. If Knowes' rents were not broadly in line with other local housing providers, Knowes would lose its customer base leading to higher void levels. In order to contain this risk, Knowes will:-

- Measure the comparability of its rents on an annual basis during the rent setting process to rents of other housing associations in West Dunbartonshire and similar social landlords in the West of Scotland.
- Obtain average rent set per category and size of properties directly from housing associations in West Dunbartonshire and also from the benchmarking information provided by The Scottish Housing Regulator. Knowes will also compare its annual rent increase to other similar associations.

4. Proposed Rent Structure

4.1 As at 30th November 2015, Knowes had 909 properties either purchased under its LSVT contract from the former Scottish Homes in 1998 or purchased directly from private owners since 1998. These are all Scottish Secure tenancies under the Housing (Scotland) Act 2001. Knowes has no shared ownership accommodation, sheltered housing or bedsits. Knowes currently has 115 new build properties.

4.2 It is proposed that all of Knowes rehabilitation stock be dealt with under this rental policy by applying one rental structure. This will include any properties purchased through the mortgage to rent scheme or directly from owners in the area.

- 4.3** This policy will also cover Knowes' new build properties – that is properties built by Knowes with development funding since the transfer in 1998 and also any new properties Knowes will buy in the future directly from a builder. The rent structure and points system will be slightly different from transferred and other rehabilitation stock as outlined in Section 5 below and Appendix 2.
- 4.4** The former Scottish Homes operated a system of rental points which allocated a value of points to each house according to its particular characteristics, for example:-
- ◆ the age, size, construction type and general standard of each house
 - ◆ the nature of any garage accommodation
 - ◆ the nature and extent of the heating system
 - ◆ the nature and extent of local amenities (such as shops and schools)
 - ◆ Rental points were based on the old Gross Annual Value (GAV) which takes these characteristics into consideration.
- 4.5** Overall these rents have been shown to be comparable with other relevant housing associations, to be broadly affordable to Knowes' tenants and to ensure the overall financial viability of Knowes per its annual budgeting process and long term forecasts. However the former Scottish Homes' practice of increasing rents by an additional amount after each modernisation phase has led to disparities in the rental structure where property blocks which were modernised earliest have now higher rents than later modernised blocks. There are also rent differences between properties with different heating systems.
- 4.6** Knowes' is currently working towards harmonising all its rents, setting its rental structure on points based on size and type of property as the main features. In line with Knowes' contractual obligations and the business risks affecting Knowes, highlighted in parts 2 and 3 above, this harmonisation process will take a number of years to complete.
- 4.7** The rent structure is similar to that adopted for new build properties and sets rents on a point basis based on number of rooms, house type and location. See appendix 1. Any time a house becomes void or we buy back a property then we will apply this new points structure.

5. Rents for new build properties

- 5.1** For any new build project or the purchase of new build houses, it is important to ensure that a project is viable. We can assess this by looking at the net present value of future rental income streams.
- 5.2** For every completely 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 right to buy sales
- Impact of inflation and interest rate changes
- Annual cash flows generated on project
- Net Present Value of project

5.3 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.

5.4 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 taking into account the difference from the original plans.

5.5 Knowes H.A. should also demonstrate that any new build project will not compromise its overall viability. Knowes H.A. has a thirty-year business plan with associated cash flow in place and this clearly demonstrates that Knowes is a viable organisation. This cash flow is updated via the budget process every year and changes to key assumptions identified.

5.6 When setting the rent on new build properties a number of other considerations need to be accounted for. These are as follows:

- Location/Amenities
- House type
- Private garden

5.7 Appendix 2 summarises the rent structure in place for new build properties

6. Appeal Procedure

6.1 Knowes operates a complaints procedure which it makes accessible to all its residents. Feedback is asked for on rent levels through customer satisfaction surveys, focus groups and newsletters. Any complaints regarding rents will be passed to the appropriate authority within the Association.

6.2 The final recourse of a complaint is to the Scottish Public Services Ombudsman.

7. Policy Reporting

7.1 Knowes will report on its rents on an annual basis as part of its rent setting and budget process to the management committee.

- 7.2** Knowes will also consult on rents with its tenants in December/January of each year and will advertise and invite comments on its rent increase via its newsletter, surveys and meetings as appropriate.
- 7.3** In particular, Knowes will report on viability, affordability and comparability of its rents as part of this same process.

8. EQUALITIES COMMITMENT

- 8.1 Knowes Housing Association as an organisation seeks to embrace diversity promotes equal opportunities for all and eliminates any unlawful discrimination in all areas of our work.**

Appendix 1 – Points structure for Knowes’ harmonised properties

Explanatory note for Appendix 1

The tables below relate to properties which were originally transferred from Scottish Homes in 1998 and have become empty in the normal course of a tenant leaving their tenancy or to properties purchased through mortgage to rent or auction or other means of buy back.

A four apartment tenement flat is taken to be the average size property and is awarded 100 base points. Points are then added or deducted from a property based on the number of rooms, facilities and type of property – see below.

A point is given a monetary value which increases each year with the rent increase. The number of points is multiplied by the monetary value to give the annual rent for that property size and type.

Apartment size	1	2	3	4	5	6	7
No of base points	70	80	90	100	110	120	130

<u>Facility</u>	<u>Add/Deduct points</u>	<u>No of points to be added/deducted</u>
Single bedroom	deduct	3
Semi detached property	add	10
End terrace house	Add	8
Mid terrace house	Add	7
Four in block	Add	6
Main door tenement	Add	3
Additional toilet	Add	3
Dining room/area	Add	3
Market value greater than £100,000	Add	5
Additional amenities	add	5

1 point = £25 per annum (2003/04) prices.

This is increased by the agreed rent increase on the 1st April annually

2015/16

£38.71

Appendix 2 – Rent Structure for new build properties

Explanatory Note for Appendix 2

New build properties have a slightly different rent structure from our harmonised rehabilitated stock in Appendix 1. A four apartment is awarded base points of 100 and points are then added or deducted depending on property size, facilities and amenities in the area. The points are then multiplied by the monetary value per point to give the annual rent which is increased each year by the rent increase as per Appendix 1. The monetary points awarded to the new build stock are higher than the older stock transferred from Scottish Homes or purchased from owners in the area. The reason for this is that our new build properties are built to a higher specification than older stock and are more energy efficient.

AVERAGE ANNUAL RENTS (PRICES 2015/16)

	2 APT	3 APT	4 APT	5 APT
POINTS: AVERAGE*	80	90	100	110
AVERAGE ANNUAL RENT	£3,611.98	£4,037.94	£4,674.31	£5,098.99
AVERAGE ANNUAL MONETARY AMOUNT PER POINT			£45.15	
AMENITIES GREATER THAN AVERAGE	+5 POINTS	+5 POINTS	+5 POINTS	+5 POINTS
AMENITIES LESS THAN AVERAGE	-5 POINTS	-5 POINTS	-5 POINTS	-5 POINTS
GARDEN	+5 POINTS	+5 POINTS	+5 POINTS	+5 POINTS
EXTRA BATHROOM			+5 POINTS	+5 POINTS

**AVERAGE = FOUR APARTMENT TERRACE/FOUR-IN-A-BLOCK PROPERTY IN FAIFLEY*