

FORTH HOUSING ASSOCIATION LIMITED

RENT SETTING POLICY

Code: FIN05

Approved: October 2017

Next review: By October 2020

Cross reference: HM14 Rent Arrears Policy

Guidance: Social Housing Charter

SFHA Rent Setting Guidance
and Affordability Tool 2017

FORTH HOUSING ASSOCIATION LIMITED

RENT SETTING POLICY

1.0 Introduction

1.1 Guidance indicates that when formulating a Rent Policy, Associations should:

- as a condition of HAG maximise rental income;
- recover the costs of providing management and maintenance services as well as other identified costs such as mortgage repayments;
- take account first and foremost of the profile of those in housing need for whom it plans to provide, and their ability to pay.

1.2 This Rent Policy will therefore seek to work within this guidance and will consider the following:

- how much rental income does Forth require?
- how should this be apportioned between properties?
- how should rental income be collected?

2.0 Basic Assumptions

2.1 The policy is formulated using the following basic assumptions:

- all properties will be within the Stirling Council area with no major locational variations;
- all properties will be constructed or rehabilitated to a similar physical standard, e.g. full central heating, double glazing, etc.;
- Forth's 'Tenant Group' is unlikely to differ greatly from the current Stirling population.

3.0 Rent Pooling

3.1 Forth identifies a number of direct benefits associated with rent pooling across its stock. This will allow it to adopt a unified rent system for all tenants who will be living within a defined geographical area. This will allow rents to reflect property size, type, location, amenity, etc. irrespective of the financing of the individual projects.

4.0 Determining rental income

- 4.1 When determining the overall rental income required, Forth must cover its costs and ensure that rents are affordable by its Tenants.
- 4.2 Where income is received from other sources, e.g. Acquisition and Development allowances, Agency fees, etc., they will be offset against appropriate expenditure and will therefore reduce dependency on rental income.

5.0 Covering Costs

- 5.1 The basic costs which must be covered by rental income are as follows:

management;
maintenance;
insurances;
voids and bad debts;
major repairs/planned maintenance;
loan repayments;
free reserves.

5.2 Management Costs

These mainly involve staff costs for the provision of Housing Management services such as waiting list, administration, allocations, tenancy management, rent collection, tenant consultation, etc. They also cover general office and administration costs.

5.3 Maintenance Costs

These involve the cost of the following:

- day-to-day repairs such as electrical, joinery and plumbing repairs;
- cyclical maintenance such as external paint work, etc. carried out on a planned basis;
- staff time and overheads required to organise and supervise these works.

5.3 Insurances

These involve the cost of the following:

- property and office insurance;
- public and employers liability insurances.

5.4 Voids And Bad Debts

These costs cover the following:

- rents lost when houses are empty awaiting letting;
- rents lost due to the write-off of arrears.

5.5 Major Repairs/Planned Maintenance Provision

This involves making provision for long term replacement of kitchen units, windows, roofs, etc. over the lifespan of the building.

Forth has undertaken a detailed “whole life” costing exercise to enable such expenditure to be predicted accurately and the results are being included in the budget-setting and rent-setting exercises.

The actual funding of such a provision shall be dependant on a number of factors, for example the type of mortgage involved and investment of existing funds.

5.6 Loan Repayments

These cover the cost of loan repayment charges due to Building Societies or Banks. They will vary from time to time due to the level of interest rates. The amount to be covered by the rent will therefore take into consideration interest rate trends over the previous year and forward projections.

The nature of the finance obtained will also affect the amount of loan repayment as will the size of loan fixed at the start of the project. This will be determined by the Scottish Government, based on an assessment of Forth’s submission of expected costs, affordability, etc.

5.7 Free reserves

These represent a small “cushion” of undesignated money which is available to cover unforeseen circumstances, ensure cash flow availability etc.

6.0 Client Group/Market Place

6.1 Forth’s area of operation is the south and eastern part of Stirling Council area and it aims to provide suitable accommodation for those in housing need and to retain and develop the sense of “community” within these areas. This will be achieved by providing a mixture of mainstream and special needs housing for single people, couples and families.

6.2 Historically the Stirling and Clackmannan areas have been identified as a single “housing market”. Forth will therefore consider this area to be its market place.

7.0 Affordability

7.1 Forth wishes to set rents which are affordable to those in employment and on low wages, particularly those involved in part-time work.

7.2 Forth is aware of the 'poverty trap' which exists in the benefit and taxation system and does not wish to be in a position where only those in receipt of full housing benefit can afford to rent its houses.

7.3 However, the whole question of defining 'affordability' is a difficult one and neither the Government nor academics have been able to do so.

7.4 SFHA Affordability Tool

The SFHA has updated the approach to testing affordability by developing an affordability tool, which enables Forth to test different rent scenarios during the rent setting process.

This tool is based on local authority moderate income levels for a range of household types. This data will be updated regularly based on Annual Survey of Hours and Earnings for a number of common household types.

The modern income approach is based on the assumption that landlords are not able to set rents affordable to everyone, regardless of how low their income is.

8.0 Comparability

8.1 Guidance states that a Rent Policy should 'compare proposed rent levels' with those charged by other relevant social landlords (and, where applicable, with fair rents) for the type, location or amenity of housing concerned.

8.2 It is therefore necessary to compare proposed rents with the housing costs of other individuals living within our market place. At present, this will largely involve comparisons with Stirling Council rents and the rents of other RSL's operating within the area.

9.0 Rent setting mechanism

9.1 The rents for individual properties will be set using a points system which will allocate a points total for each property depending on its size, amenities and location.

9.2 Determination of property points

Points total for each property will be calculated depending on its size and facilities and this will then be varied according to its location and amenities.

Starting Points	100 per property	
Additional Points	detached property	+10
	Semi detached/end terrace	+5
	Cottage flat	+0
	Tenement flat	-5
	Double bedroom	+10
	Single bedroom	+7
	Combined kitchen/l'room	-15
	Dry electric heating	-6
	Extra WC	+2
	Over bath shower	+3
	Extra shower room	+4
	Extra shower room/WC	+4
	Below SHQS	0 to -10 depending on failure rate
	Flat with own garden	+2
	Garage	+5
	In curtilage parking	+1
	Carport	+2
	Communal TV reception system	+1
	Sunroom/conservatory	+5
	PV Solar panels up to 2kw	+1
	over 2kw-4kw	+2
	Common close cleaning	+3
	Common stair electricity	+2
	Communal landscaping	+1, 3 or 5 (depending on extent of areas)
	Enhanced Landscape Maintenance	+1 to 10 (depending on extent of areas)
	Clos-o-mat	+5
	White goods	+5
	Factoring	+1 or 5 (depending on charges levied)

Starting points, allocated for all properties, assume a terraced house with the following facilities:

Living room	1 bathroom/WC
kitchen	full central heating
full double glazing	

9.3 Determination of a Points Multiplier

In order to convert a points total into an actual rent, it is necessary to apply a financial value to each point. This is done on an annual basis by determining a 'Points Multiplier'. The points multiplier is calculated by dividing the overall rental income required by Forth by the grand total of the property base points as follows:

$$\frac{\text{overall rental income required}}{\text{grand total of property points}} = \text{Points Multiplier (PM)}$$

9.4 Determination Of Property Rents

Having identified the annual Points Multiplier (PM) the actual rent for each property is calculated by multiplying its property points by the PM.

For example, if the PM for a particular year was set at £26.25, the rent due for a 4 person house with a property points total of 124 would be as follows:

Property Points	x Points Multiplier	= Rent due
124	x 26.25	= £3255/year

This annual points multiplier will dictate all new rents set during the following year and will be used in all submissions, etc. involving proposed new developments, increased for inflation where appropriate. Any new or proposed rents set at a differing level will require the agreement of the Association's Management Committee.

In the event that rental charges for completed properties increase beyond those rents set at the development stages (in accordance with guidance), rents at completion will continue to be charged at the projected levels initially assumed until the next review date, at which point such rents shall be brought into line with the general stock.

10 Shared Ownership

- 10.1 Shared Ownership occupation charges will be set in line with Scottish Government guidance (see HOUSING INVESTMENT GUIDANCE NOTE HSGN 2012/02).
- 10.2 Notification of charges will follow the prescribed format outlined in ANNEX A.
- 10.3 During the phasing in of charges set in line with the above guidance annual increases will be restricted to a maximum of 15%.

11 Rent collection

- 11.1 The collection of rents is a priority task and detailed procedures can be found in Forth's separate policy on Rent Arrears.

12 Rent Periods

- 12.1 Rent will be charged on a monthly basis but payment methods will be discussed with each tenant and payment patterns may be tailored to suit individual circumstances, e.g. fortnightly, weekly, etc.

13 Payment Methods

- 13.1 The following payment methods will be available and following discussion, tenants will adopt the most suitable for their circumstances:
- standing order;
 - direct debit
 - All pay;
 - housing benefit direct;
 - cheque/postal order;

14 Housing Benefit/Universal Credit

- 14.1 Advice regarding housing benefit/universal credit entitlement will be supplied to tenants who will be encouraged to mandate any payments direct to Forth.
- 14.2 However, Forth will only insist on direct mandating where this is warranted by the existence of substantial rent arrears (in excess of 8 weeks rent).

15 Cash Payments

- 15.1 For security reasons, cash payments of rent will only be accepted in exceptional circumstances at the Forth office.

16 Annual reviews

- 16.1 The property rents will be reviewed on an annual basis and any increases will take effect from the 1st of April.
- 16.2 In line with the requirements of the Housing (Scotland) Act 2001, Forth will consult with individual tenants and registered tenants groups regarding any proposed increase in rent. Any responses received as part of the consultation will be incorporated, as appropriate, in any Management Committee report reviewing the rent charge.
- 16.3 All tenants will be given at least four weeks written notice of any increase in their rent.

17 Monitoring and review

- 17.1 The Tenant Services Manager will monitor the implementation of this policy.
- 17.2 The Management Committee will review this policy at least every 3 years and staff are responsible for ensuring that it meets legal and good practice requirements.

ANNEX A

CALCULATION OF THE OCCUPANCY PAYMENT

1. The Occupancy Payment payable by the Sharing Owner comprises:-
 - a Basic Payment calculated in accordance with the association's approved rental policy, multiplied by the Association's share ;
 - a Management fee/Insurance Charge; and
 - a Service Charge in respect of the maintenance and other services provided by the Association

and is made up as follows:-

BASIC PAYMENT x ASSOCIATION'S SHARE (£ x share)	=£
MANAGEMENT FEE	+£
INSURANCE CHARGE	+£
SERVICE/FACTORING CHARGE	+£
TOTAL OCCUPANCY PAYMENT	=£

2. The Occupancy Payment is subject to annual review on [enter date] each year.
3. The Association will give the Sharing Owner not less than four weeks notice of any proposed change in the Occupancy Payment in the form shown in Appendix 1 attached.
4. Where a Service Charge is payable, the Association will issue a statement (see Appendix 2 attached) of projected costs for the coming year, duly certified by its authorised officer, to the Sharing Owner along with the Occupancy Payment review notice.
5. If the sharing owner wishes to contest the Occupancy Payment chargeable, he may serve a notice on the Association of intention to appeal no more than four weeks after the date of service of the Occupancy Payment review notice.
6. If the Association and the Sharing Owner cannot agree on the Occupancy Payment chargeable within four weeks of the date of service of the Sharing Owner's notice of intention to appeal, either party may apply to an independent valuer to fix the Occupancy Payment. An independent valuer should be a Chartered Surveyor nominated by the Scottish Branch of the Royal Institution of Chartered Surveyors. The decision of the independent valuer will be final and binding. The expenses of the appeal will be allocated between the parties by the independent valuer as he considers fair as part of his determination of the appeal. The decision of the independent valuer will be final and binding.
7. If the Sharing Owner does not serve written notice of their intention to appeal within the time limit he will be deemed to have agreed the Occupancy Payment shown in the Occupancy Payment Review notice.

8. If the Sharing Owner serves a notice of intention to appeal within the time limit, he shall nevertheless be liable for payment of the Occupancy Payment shown in the Occupancy Payment review notice from the relevant date until another Occupancy Payment has been agreed between the Association and the Sharing Owner, or until the appeal is decided, as the case may be.

ANNEX B – Schedule 1

OCCUPANCY PAYMENT REVIEW NOTICE

This is an important notice. If you take no action, we will assume you have agreed to pay the Occupancy Payment outlined below.

Date:

To: (name and address of sharing owner)

From: (name and address of Association)

Re: (address of property)

We are writing to tell you that with effect from [enter date], the Occupancy Payment payable will be [enter amount]. The increase/decrease in your Occupancy Payment is due to [insert explanation]. Your new Occupancy Payment is made up as follows:-

BASIC PAYMENT x ASSOCIATION'S SHARE (£ x share)	=£
This covers: <i>insert details of costs</i>	
MANAGEMENT FEE	+£
INSURANCE CHARGE (if applicable)	+£
<i>Insert Buildings insurer details and amount charged per property</i>	
SERVICE (OR FACTORING) CHARGE (if applicable)	<u>+£</u>
This covers: <i>see Appendix 2 attached</i>	
 TOTAL OCCUPANCY PAYMENT	 =£xper(insert time period)

APPEAL

If you wish to appeal the Occupancy Payment chargeable you have **four weeks** from the date of service of this notice to write to us to tell us you that you intend to appeal. Written notice must either be delivered by hand or sent by recorded post to our address above.

If agreement cannot be reached between us on the Occupancy Payment chargeable within four weeks of the date of service of your notice of intention to appeal then either you or we may apply to an independent valuer to fix the Occupancy Payment. An independent valuer being a Chartered Surveyor nominated by the Scottish Branch of the Royal Institution of Chartered Surveyors. The decision of the independent valuer will be final and binding. The expenses of the appeal will be allocated between the parties by the independent valuer as he considers fair as part of his determination of the appeal. The decision of the independent valuer will be final and binding.

The Occupancy Payment shown in this notice will be payable unless and until you and we agree another Occupancy Payment or until another Occupancy Payment is fixed by an independent valuer.

NOTES

If you do not serve written notice of your intention to appeal within the time limit set out above, you will be liable for payment of the Occupancy Payment as shown in this notice.

The date of service of any notice will be deemed to be the date of delivery if the notice is delivered by hand, or two working days after the date of posting if the notice is sent by recorded delivery post.

_____ Signature
On behalf of [enter name of Housing Association]