



Rent Policy

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INVESTOR IN PEOPLE

Providing homes, supporting communities

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1.0 Hjaltland Values

Our Vision

Providing homes, supporting communities

Our Values

Teamwork

Working together as one team, to the benefit of our customers. To demonstrate and extend trust in each other.

Open, Honest & Inclusive

We offer a people focused service that is centred in fairness and integrity. We believe in being open, honest and respectful in everything we do.

Ownership

We expect our staff to take responsibility for their actions and give them the freedom to do their job in a positive working environment.

Quality

We value quality in everything we do from the standard of our product to the level of service we provide. We take pride in making a difference in communities and providing continuous improvement.

Innovation

We seek to ensure we have sustainable housing, fit for future generations, maintained and developed to the highest possible standard.

2.0 Introduction

This policy and procedures document sets out the principles which Hjaltland adopts in relation to rent setting for all tenure types, and the ways in which these principles are put into practice.

The Association has the aim of setting rents that are affordable and will use information from various sources to assess the level of affordability for the tenants.

The Association has an objective of raising sufficient rental income to meet the following:

Providing homes, supporting communities



Annual Costs;

- management of the housing stock (including voids and bad debt)
- maintenance of the housing stock (including day to day repairs and planned maintenance)
- loan charges and repayments, and

Long term Costs;

- provision for future major repairs, renewal and improvement
- provision for contingencies.

Target Increase

- To ensure the above objective is achieved the Association will set an annual Overall Target Increase on existing rents of Inflation (CPI) only.
- The Inflation index is based upon the Retail Price Index for October prior to the date of review.
- Increases above or below target may occur where a property has had an improvement in facilities, as a consequence of an upgrade, or there has been an error in the rent calculation from previous years.

The Association has an objective of ensuring that similar accommodation by size and type, taking account of locality, has the same rent.

The Association has an objective of setting rents that are straight forward to assess and update; and are adaptable across tenures. Rents should be known for new projects at an early stage in the development process.

The Association will consult with tenants of each tenure type on any proposed changes to the rent. After consultation the amended rents will be submitted for approval by the Management Committee.

The Association will review the policy regularly and tenant associations will be consulted. Copies of the policy will be made available to tenants, interested parties such as Shetland Islands Council, and the general public.

3.0 Client Groups

The Association seeks to house the following client groups, which include in management:

- Those who are homeless persons and persons threatened with homelessness and

- Those living under unsatisfactory housing conditions, and
- Those in social housing who are considered to be under-occupying their existing property

Please refer to the Association's Allocation Policy for further information on how housing need is assessed, and applications prioritised.

4.0 Rent Setting Methodology

The Association's rent setting process takes into account the following:

SIZE OF HOUSING STOCK

which includes in management at 31st March 2023,

| | |
|------------------------------|-----|
| Secure tenancies (Fair Rent) | 4 |
| Secure tenancies | 837 |
| Shared-ownership agreements | 40 |

and under development with completion by:

| | 31 st March 2024 | Future years |
|-----------------------------|--------------------------------|-----------------|
| Secure tenancies | 4 | 0 |
| Shared-ownership agreements | 0 | 0 |
| Shared Equity Sales | 0 | 0 |

HOUSE TYPE AND SIZE

| No. of occupants Apts/Type | 1P | | 2P | 3P | 4P | 5P | 6P | >6p | Total |
|----------------------------------|-----------|-----------|------------|------------|------------|-----------|-----------|----------|------------|
| | 1 Apt. | 2 Apt. | | | | | | | |
| House | 12 | 4 | 40 | 165 | 143 | 88 | 65 | 3 | 520 |
| Flat | 3 | 61 | 243 | 46 | 8 | 0 | 0 | 0 | 361 |
| Total | 15 | 65 | 283 | 211 | 151 | 88 | 65 | 3 | 881 |

LOCATION & AMENITIES

| Location | Homes |
|---|-------|
| Area 1 (Lerwick, Scalloway, Gulberwick & Tingwall) | 666 |
| Area 2 (Excl above, Sandwick to Brae; Weisdale to Bressay) | 85 |
| Area 3 (Rest of Mainland Shetland) | 95 |
| Remote (Islands except Burra, Trondra & Bressay) | 35 |

The Association operates a locality based rent policy whereby a property that is closer to Lerwick will pay more than one that is further away. The variation between Area 1 and Remote is 30%.

The basis of this variation is calculated using the Minimum Income Standard, carried out by HIE and Loughborough University, which shows that the budgets that a household need to achieve a minimum acceptable living standard in remote rural Scotland are typically 10-40 per cent higher than elsewhere in the UK. It further shows that a household in remote island locations will have additional costs compared to those closer to the main amenities of a small town (Lerwick).

Amenities

- Garden (sole use)
- Facilities carrying fixed points (garages)

The Rent setting structure is based upon the following elements:

The application of an agreed base rent per rental point the total rental points allocated to each house.

A formula which allocates rental points to each house taking account of: -

Factors

1. The number of occupants in a house, and
2. Variable Adjustment Factors which amend the number of points according to the location, and amenities of the house.

Minimum and Maximum Rent Increases for Stock in Management

A maximum level of rent increase is set globally and applied to all individual houses in management. This is done to ensure that no tenant suffers excessively high rent increases, and to ensure that rents for similar houses in an estate remain broadly comparable.

Maximum and minimum levels are considered by the Committee of Management in November when reviewing the Association's Budget for the forthcoming year. In setting these levels of increase the Committee of Management takes account of:

- The target increase – inflation (CPI) in the previous October
- Its objective of raising sufficient rental income to meet the following:
 - Annual costs;
 - Long term costs;
- The continuing affordability of the rents is reviewed and considered annually.

When finalising its review of rents in February the Committee of Management takes account of tenant responses to consultation on proposed rents.

5.0 Application of the Rent Setting Formula to Tenure Types and Re-Lets

The tenure types directly affected by the rent setting formula are Scottish Secure Tenancies (referred to as Secure Tenancies) and Shared-Ownership.

In addition, Scottish Secure ("Fair Rent") Tenancies [referred to as Fair Rent Tenancies] are indirectly affected. The Association will use the formula as a key element in setting rents for supported accommodation group homes.

- Secure Tenancies for houses in management will have rents set according to the formula outlined. The applicable rent will be set on 1 April each year. For properties completed during the year, the applicable rent will be the rent assessed according to the formula.
- Shared-Ownership properties will have Basic Rents set according to the rent setting formula and its application to Secure Tenancies. The Basic rent is then modified to take account of the different responsibilities which apply to Sharing-Owners and set out in the Occupancy Agreements.

The basic Secure rent for the property is discounted according to Scottish Government guidance by the amount of Management & Maintenance Allowance (either actual or estimated) for the year. This Secure rent is then modified by the appropriate rent tranche to produce the Basic Rent. A Management Charge (£428.55 per annum in 2023/24), inclusive of the annual property insurance premium (either actual or estimated), together with any service charges is added to the Basic Rent to produce the total annual Specified Rent charged.

- Supported Accommodation may take a variety of forms regarding the terms under which residents occupy a property. These include:
 - Tenants with Secure tenancies
 - Tenants with Short Scottish Secure tenancies
 - Tenants with Occupancy Agreements
 - Properties leased to third party organisations,

Where the Association is in a direct landlord/tenant relationship the rent setting methodology is the same as for a Secure Tenancy described above. Where the Association has entered into a Lease arrangement with a third party the Applicable Secure Rent will operate as the starting figure for the rent setting. The rent will then be modified, according to the terms of the lease, and how the apportionment of management; maintenance; insurance and void responsibilities is agreed.

Secure "Fair Rent" Tenancies rents are set by the Rent Registration Officer. Please refer to the Fair Rent Policy for information on rent setting for these properties.

6.0 Service Charge Setting

The Annual Service Charge is determined according to the following formula: -

$$\frac{(\text{Estimated cost or contracted price } +/- \text{ under/over recovery } + \text{ Association Administration Charge})}{\text{No. of Properties provided with the Service.}}$$

Where specific service charges are prohibitive in the opinion of the Management Committee, the Management Committee will cap or otherwise review that service.

Contract pricing is determined in accordance with the Association's regulations on purchasing and tendering. The Association's administration charge is set to cover the overheads incurred in managing the provision of services.

When finalising its review of rents in February the Committee of Management takes account of tenant responses to consultation on proposed rents.

7.0 Equality Impact Assessment

The Association is committed to promoting positive measures that eliminate all forms of unlawful or unfair discrimination on the grounds of age, disability, gender reassignment, marriage & civil partnership, pregnancy & maternity, race, religion or belief, sex, sexual orientation. Our aim as landlord, service provider and employer is to recognise the needs of all individuals, and ensure these commitments are evident throughout every aspect of our business and our activities.

The Association assesses and reviews all new and revised policies and procedures, we do not see this policy as having any direct impact upon the protected characteristics contained within the Equality Act.

8.0 Monitoring and Review

The Association will review its rent setting policy and practice 3 yearly with staff making amendment to the policy in terms of updating the affordability section and information on the rental points annually.

The Association carried out a major review of its rent policy in 2014/15 and made amendments to the variable adjustment factors which were approved and incorporated into the rent policy.

During the year the Management Committee will:

- receive reports on rental income noting problems and/or anomalies encountered.
- incorporate practice and rents into the projected annual Association budget, taking account of positive or negative effects.
- adjust policy and practice to ensure the rents set continue to meet the agreed objectives.

Prior to any proposed significant changes to the policy, tenants and formal tenant groups will be invited to comment.

Rent Policy - Factors

1. Possible Occupancy

| | | |
|-----------------------------|--------|-----|
| 1 apt 1-person | Points | 130 |
| 2+ apt 1-person | | 139 |
| 2-person | | 153 |
| 3-person | | 162 |
| 4-person | | 171 |
| 5-person | | 180 |
| 6-person | | 184 |
| 7-person | | 193 |
| 8-person (5-bed) | | 207 |
| Cluster Flat 5 apt 4-person | | 446 |
| 6 apt 6-person | | 553 |

Adjustment Factors

2. Type of Accommodation

| | |
|-------|-----|
| House | 0% |
| Flat | -4% |

3. Location

| | |
|--------|--------|
| Area 1 | 30.00% |
| Area 2 | 20.00% |
| Area 3 | 10.00% |
| Remote | 0.00% |

4. SHQS Energy¹ Compliance

| | |
|-----|-------|
| Yes | 7.00% |
| No | 0.00% |

5. Garden

5.00%

6. Facilities carrying Fixed points

| | | |
|--------|--------|----|
| Garage | Points | 25 |
|--------|--------|----|

7. Rental Increase on existing properties (2023/24)

(Subject to rounding)

| | |
|---------------------|-------|
| Maximum | 6.20% |
| Target (CPI + 1.4%) | 6.00% |
| Minimum | 5.90% |

Calculation of Rental Points

| | |
|-----------------------------|------------|
| Secure Rent | £4,738,914 |
| / Rental Points during year | 182,505 |
| Average Rent per Point | £25.95 |

¹ – Do properties achieve a minimum rating of NHER 5 or SAP 60 (SAP2001) to comply with SHQS Element 35 requirements

Comparison of Income and Rent Affordability

1. Background

Since 2014, the introduction of a series of changes to support with housing costs (Housing Benefit and increasingly Universal Credit) and the termination of SCORE, has meant it is much harder to tell whether and to what extent housing is affordable at the individual or national level. Changes to social security - commonly referred to as 'welfare reform' - have eroded the potential for tenants to receive 100% rent support, due to such measures as the 'bedroom tax', benefit caps and restrictions to the Local Housing Allowance (LHA) level. Although most of these changes apply to people of working age, the LHA restrictions now also apply to people of pensionable age.

It is no longer possible to rely on the presumption of support to pay 100% of rent charges where someone is eligible. With approximately 30% of Hjaltland's income received from Housing Benefit, this has a huge impact on an association's rental income and the affordability of rent levels.

It is therefore all the more important that the Association have a new 'moderate incomes' approach to rent setting based on affordability and sustainability, and that the approach takes into account value for money. There are many solutions and no one-size-fits-all approach, as there is no national rent policy in Scotland.

The Association introduced a rent affordability policy in 2017 and determined that the Association will benchmark the proposed rents against the threshold of 25% of the Median income for Shetland. The median income is used as it is deemed to be more typical of the incomes available than the mean.

2. Measuring Affordability

Data from the Office of National Statistics (ONS) is used to determine the Median income in Shetland (£670/week) to which a weighting factor is applied depending on household composition.

| <u>Household type</u> | <u>Weighting factor</u> |
|---------------------------------------|--------------------------------|
| Single adult (1 adult) | 1 |
| Small adult (2 adults/ couple) | 1.5 |
| Small family (2 adults + 1 child) | 1.5 |
| Small family (2 adults + 2 children) | 2.1 |
| Large family (2 adults + >3 children) | 2.4 |

| Household size | Weighting | Median Income (Before tax) | Median Income (After tax) |
|---------------------------------|-----------|----------------------------|---------------------------|
| Single adult (1p) | 1 | £893 | £670 |
| Couple (2p) | 1.5 | £1,340 | £913 |
| Small family 2 bed (3p - 2A+C) | 1.5 | £1,340 | £913 |
| Small family 3 bed (4p - 2A+2C) | 2.1 | £1,876 | £1,213 |
| Large family 3 bed (6p - 2A+4C) | 2.4 | £2,144 | £1,317 |

When considering affordability, it was decided to assess each property against the optimum household composition, i.e. a 2 bed 3 person house was considered as a couple with 1 child as opposed to a single parent with 1 child. It was deemed impossible to model every eventuality of household make up and the assessment should focus on the composition of the household that the property was designed to house.

| Household Size | House Size | | | | | |
|---|------------|-------------|---------------|-----------------------|------------|-----------------|
| | 1 Bedroom | | 2 Bedrooms | | 3 Bedrooms | |
| | 1 pers | 2 pers (2A) | 3 pers (2A+C) | 4 pers (2A+C) (2A+2C) | | 6 pers (2A+ 4C) |
| Rent per week (Area 1) excluding Service Charges | £92.40 | £101.70 | £114.90 | £121.30 | £121.30 | £130.50 |
| Rent per week (Area 2) excluding Service Charges | £85.40 | £94.00 | £106.80 | £112.80 | £112.80 | £121.30 |
| Rent per week (Area 3) excluding Service Charges | £78.50 | £86.40 | £98.70 | £104.20 | £104.20 | £112.10 |
| Rent per week (Remote) excluding Service Charges | £71.60 | £78.70 | £90.60 | £95.70 | £95.70 | £103.00 |
| Rent per week (Average) excluding Service Charges | £87.81 | £96.58 | £109.15 | £115.27 | £115.27 | £124.04 |
| Tenants: Weekly income (Median) - 2023 (ONS) | £670 | £913 | £913 | £1,213 | £1,213 | £1,317 |
| % weekly income on rent (Area 1) | 14% | 11% | 13% | 10% | 10% | 10% |
| % weekly income on rent (Area 2) | 13% | 10% | 12% | 9% | 9% | 9% |
| % weekly income on rent (Area 3) | 12% | 9% | 11% | 9% | 9% | 9% |
| % weekly income on rent (Remote) | 11% | 9% | 10% | 8% | 8% | 8% |
| % weekly income on Average rent | 13% | 11% | 12% | 10% | 10% | 9% |