

CLYDEBANK HOUSING ASSOCIATION LTD.

TO: Management Committee (26 November 2019)

DATE: 22/11/19

FROM: Head of Housing Services / Head of Finance & Corporate Services

SUBJECT: Rent Policy/Increase consultation 2020 – 2021 – **Decision required**

Purpose of report

The purpose of this report is to demonstrate to the Management Committee how the proposed rent increase consultation figures for 2020/21 have been derived. Permission is also sought to use the information to consult with tenants, tenants groups and other customers.

Potential impact on tenants and service users/Tenant Consultation requirements

If approved, this report will feed into the rent policy, which may result in the rent and occupancy charges increasing from 28 March 2020. Any increase is necessary to continue to manage and maintain homes at current or higher service levels.

Value for Money

CHA considers Value for Money in all aspect of its business including: -

- Managing our resources to provide quality services and homes to meet the needs of customers and the local community.
- Delivering the right service at the right time at the right cost.
- Planning for and delivering year on year improvements on our services based on customer priorities.
- Getting the most out of our assets and staff by operating efficiently and effectively.
- Charging only the rents required to continue to manage and maintain homes

Risk

- CHA must ensure that the rents it charges are sufficient to cover the management, maintenance and service costs provision for its housing stock.
- CHA must ensure that the rents it charges are affordable to tenants in order to maximise the ability to pay, protect income streams (financial viability) and keep in line with SHR expectations and guidance
- CHA must ensure that its rents are comparable with similar landlords to ensure continued demand for housing

Legal/constitutional Implications

Relevant legislation – Housing (Scotland) Acts

There are no adverse legal implications as a result of this report and/or any decision required.

Relevant CHA Objectives:

- To provide quality, affordable housing that meets the changing needs of our customers and to ensure fair access to housing within our area.
- To manage the houses provided, in a professional and cost effective manner, for the benefit of our local community and the environment.
- To provide a first class maintenance service which offers value for money and ensures the comfort and safety of our residents while achieving high levels of satisfaction
- To ensure local decision making and community control, we will encourage our tenants and other customers to influence our policy and participate in decisions, which may affect them.
- To ensure that our resources are adequate to deliver our objectives by investing in our people, demonstrating value for money and through robust procurement practices.
- To promote social inclusion by applying principles of equality and diversity to everything we do.

Relevant SHR Regulatory Standards of Governance and Financial Management

- The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users.
- 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 objectives.
- The RSL manages its resources to ensure its financial well-being while maintaining rents at a level that tenants can afford to pay.
- The governing body bases its decision on good quality information and advice and identifies and mitigates risks to the organisation's purpose.
- The RSL conducts its affairs with honesty and integrity.
- The governing body and senior officers have the skills and knowledge they need to be effective.

Any breach or non-compliance with legislation/regulatory requirements in relation to this Policy constitutes a Notifiable Event and the Regulator will be informed via the SHR Portal.

Equalities

No protected group is adversely affected by the proposals, recommendations or updates within this report. Our commitment to equal opportunities and fairness applies irrespective of factors such as race, sex, disability, age, gender reassignment, marriage & civil partnership, pregnancy & maternity, religion or belief and sexual orientation.

Rent Policy

The rent policy will be presented in full to the Management Committee at the meeting on 28 January 2020. However we are required by the Housing (Scotland) Act 2001 to consult with tenants on any proposed rent increase in advance of this meeting. The timing means we have to make a decision on what any rent increase should be for next year. This will be the amount we put to tenants and tenants & residents groups for consultation in both the December 2019 newsletter and via individual consultation.

Key Criteria

When setting rents for properties, guidance states that an RSL must take account of **affordability** of its rents to tenants, as well as the **viability** of the RSL and **comparability** of the rents to those charged by other landlords for similar properties. This is the criteria that will be used to calculate a rent increase across the stock.

The rent policy should demonstrate that a full and realistic assessment of the relevant costs has been carried out and the resulting rents are the minimum necessary to meet these costs and ensure the continued viability of the organisation and adequate investment in the stock.

The relevant estimated costs are detailed in Tables 5A and 5B. Final costs are not available until January 2020 and will be presented to committee at that time. The Association takes the management of these costs very seriously. Costs are minimised as much as possible whilst at the same time ensuring that the level of service is not adversely affected. This is confirmed in our annual performance results submitted to the Scottish Housing Regulator.

1. Affordability

Every RSL must show that its rents are affordable to its tenants who are in **full time employment**. Any affordability gaps should be identified and a strategy put in place to deal with them. The SFHA measures affordability in the following way:

“For a rent to be affordable, households with one person (head of household or partner) working 16 hours or more should only exceptionally be dependent on housing benefit in order to pay it.”

We have again measured affordability using the SFHA’s rent affordability tool.

In doing so we input our current average rents (2019/20) covering various family compositions and property sizes and used a measure whereby no more than 30% of the household’s income should be spent on rent. This was applied for working households only, as an assumption is made that housing benefit or the housing element of universal credit will apply in other circumstances. This is in line with accepted affordability criteria. To raise the bar, we also included band B council tax outgoings for all scenarios. Although not required and making the test tougher to pass, this offers a more realistic picture of affordability as council tax is a significant financial outgoing.

The 11 family compositions and property sizes looked at were:

- 2 apartment single person
- 2 apartment couple
- 2 apartment single pensioner
- 2 apartment at Graham Avenue single person (our highest 2 apartment rent)
- 3 apartment single person (this covers the Radnor Park MSF's)
- 3 apartment couple
- 3 apartment single parent with one child
- 3 apartment single pensioner (this again covers the Radnor Park MSF's)
- 4 apartment single person with 2 children
- 4 apartment large family with 3 children
- 5 apartment large family with 3 children

All of the above house sizes and family composition mixes passed the affordability test. The closest to a fail was our 2 apartment at Graham Avenue which scored 29.00% of income having to be spent on rent.

We then applied a 3% increase on each average rent to simulate a potential rent and service charge increase equivalent to 3%. Pleasingly, again all mixes passed the test, with the 2 apartment at Graham Avenue closest to failing, this time at 29.90%

It should therefore be viewed that our rents can be considered to be affordable under this measure. Full details of the above test results will be published in the rent policy itself in January 2020.

To supplement the above, an independent affordability study will be instructed in early 2020. This is prudent given the Scottish Housing Regulators current expectation that RSL's are actively monitoring the affordability of their rents and endeavouring to keep rent increases as low as possible

Tenants Satisfaction Survey

As part of our ongoing survey, we ask tenants two rent related questions:

1. Are you aware what your rent money is spent on?
2. Do you feel your rent offers you value for money?

Although a basic measure, it could be argued that tenants own points of view offer more of an insight into how affordable their rent are to them than similar financial exercises.

Our most recent figures are to 31 March 2019 and show that 78% of those surveyed were aware of what their rent money was spent on (down slightly from the 80% in 2017), whilst 89% felt that the rent they paid offered good value for money (down very slightly from 90% in 2017).

Although slightly decreased, these are still encouraging figures and in tandem with our affordability data demonstrate that our rents can be considered as affordable.

2. Comparability

The rent policy should demonstrate that its rents are broadly consistent with rents charged by similar landlords in similar circumstances. Where marked differences are observed, the RSL should attempt to establish if there are any logical justifications for these to continue to exist. The table below shows the results of the most recent comparability study carried out on current rent levels.

Comparable rents between West Dunbartonshire RSL's and the Council

Average rents 2018/19 (service charges included).										
	Dunbritton	Cordale	Bellsmyre	Trafalgar	Faifley	DPHA	Knowes	Clydebank	WDC	Scottish Ave
1apt annual	-	-	-	-	-	-	-	-	-	-
monthly	-	-	-	-	-	-	-	-	-	-
2apt annual	£3,900.00	£3,755.44	£3,438.24	£3,404.96	£3,888.04	£3,961.88	£3,577.60	£3,393.00	£3,905.20	£3,957.20
monthly	£325.00	£312.95	£286.52	£283.75	£324.00	£330.16	£298.13	£282.75	£325.43	£329.77
3apt annual	£4,193.28	£3,867.76	£4,105.92	£3,607.76	£4,246.84	£4,040.92	£3,845.40	£3,576.04	£4,023.24	£4,040.40
monthly	£349.44	£322.31	£342.16	£300.65	£353.90	£336.74	£320.45	£298.00	£335.27	£336.70
4apt annual	£4,507.88	£4,099.68	£4,613.44	£4,021.68	£4,484.48	£4,532.84	£4,277.00	£4,366.44	£4,274.92	£4,390.88
monthly	£375.66	£341.64	£384.45	£335.14	£373.71	£377.74	£356.42	£363.87	£356.24	£365.91
5apt+ annual	£4,845.88	£4,465.76	£5,627.96	£4,387.24	£4,587.96	£5,345.08	£5,084.04	£5,264.48	£4,582.24	£4,861.48
monthly	£403.82	£372.15	£469.00	£365.60	£382.33	£445.42	£423.67	£438.71	£381.85	£405.12
Overall Annual average	£4,269.20	£3,920.80	£4,206.28	£3,760.12	£4,291.04	£4,051.84	£4,017.00	£3,648.32	£3,074.72	£4,112.16
Overall Monthly average	£355.77	£326.73	£350.52	£313.34	£357.59	£337.65	£334.75	£304.03	£339.56	£342.68

As can be seen, our rents for both 2 apartment and 3 apartment properties remain the lowest in the area. 2 and 3 apartment properties make up 85% of our housing stock, meaning a vast majority of our tenants enjoy the lowest rents in the district. Our 4 apartment and 5 apartment rents are higher than some organisations; however this is directly attributable to the fact that our properties are generally houses or four in a block properties with garden areas as opposed to the flats found in other organisations stock.

Our overall average rents are the lowest in the district.

It is recommended that our rents are accepted as being comparable with other RSL's in the area and affordable in comparison.

3. Viability

Table 5A

The rent review is based on the actual costs of managing and maintaining ALL of the housing stock. All costs are based on results to 30 September 2019, estimated costs to the year-end and from the 2019/24 Financial Plans and the fully costed stock condition surveys/LCC plans.

For information purposes, the current RPI and CPI levels (inflation) are 2.1% and 1.5% as at October 2019.

COSTS	NOTES (See Pg 8)	INCREASE:	(CPI)						
			<u>RENT PLUS 0%</u>	<u>RENT PLUS 1.00%</u>	<u>RENT PLUS 1.5%</u>	<u>RENT PLUS 2.0%</u>	<u>RENT PLUS 2.5%</u>	<u>RENT PLUS 3.0%</u>	<u>RENT PLUS 3.5%</u>
Voids& Bad Debts (5%)	1		207,107	209,178	210,213	211,249	212,284	213,320	214,355
Management Costs	2		1,570,390	1,570,390	1,570,390	1,570,390	1,570,390	1,570,390	1,570,390
Maintenance Costs	3		820,985	820,985	820,985	820,985	820,985	820,985	820,985
Service Costs	4		44,000	44,000	44,000	44,000	44,000	44,000	44,000
Loan Repayments	5		424,095	424,095	424,095	424,095	424,095	424,095	424,095
Major Repairs	6		950,000	950,000	950,000	950,000	950,000	950,000	950,000
Other Direct Costs	7		207,750	207,750	207,750	207,750	207,750	207,750	207,750
TOTAL COSTS			<u>4,224,327</u>	<u>4,226,398</u>	<u>4,227,434</u>	<u>4,228,469</u>	<u>4,229,505</u>	<u>4,230,540</u>	<u>4,231,576</u>
RENTAL INCOME	8		<u>4,142,133</u>	<u>4,183,554</u>	<u>4,204,265</u>	<u>4,224,976</u>	<u>4,245,686</u>	<u>4,266,397</u>	<u>4,287,108</u>
(Deficit) or Surplus	9		<u>(82,194)</u>	<u>(42,844)</u>	<u>(23,169)</u>	<u>(3,494)</u>	Option 1 16,182	Option 2 35,857	Option 3 55,532

NOTES	
1	Rental voids and bad debts are estimated at 5% (1% and 4% respectively) of the rental income and this is still a prudent estimate in relation to our actual 31 March 2019 performance of 0.33% and 3.59%. Welfare reform is constantly being monitored on the effect this has on our recovery rates and this revised level of 6% has been incorporated into our long term Financial Plans.
2	Management Costs have been extracted directly from the DRAFT 2020/21 Budget (to be presented to the Management Committee in Jan 2020) and are based on actual spend to 30 Sept 2019, estimated to 31 March 2020 and amounts per the 2019-24 Financial Plan. Included in Management Costs, staff remuneration has been increased due to additional pension contributions for the current scheme, new auto enrolment costs and an increase in NI rates.
3	Maintenance costs have been extracted from the revised 2018 Life Cycle Costing document in respect of all stock. The figure includes £456k of reactive maintenance and £365k of cyclical maintenance. This increased amount for cyclical costs is required to be incorporated into the rent setting process in accordance with the sinking fund. A revised LCC document has been prepared for this review.
4	Service costs relate only to those costs which are currently non-recoverable through rents, e.g. common close lighting, caretaker services and grounds maintenance/landscaping works. This figure is reducing as we continue to harmonise the service charges.
5	Loan Repayments are based on all loans we have with CAF Bank and Clydesdale Bank (Dexia Bank loans fully repaid November 2019). This amount includes capital and interest payments and agrees to what has been provided for in the 2019-2024 Financial Plan. The loans amounts payable for HEEPS funding (interest free loan of £860k) and the electric vehicles interest free loan have also been incorporated.
6	Major repair costs have been derived from the fully costed December 2018 Life Cycle Costing Programme (LCC) which indicates a provision of at least £950k per annum being set aside for future major repairs (Please refer to Appendix 1). Target contributions have been deemed at a level necessary to ensure adequate funding of c. £44m of costs identified over the next 30 years.
7	Other direct costs include property insurance, tenant participation expenses and legal and professional services. These costs will form part of the 2020/21 Budget and are based on actual spend in prior years and what is required to be expended in 2020/21.
8	Rental Income of c. £4.14m is the amount expected for 2019/20 in respect of all rents without applying a rent increase. Comparative figures are made up for a variety of rent rises ranging from 1% to 3.5%.
9	Where there are deficits shown (), this will prevent adequate Target Contributions to our Major Repairs Sinking Fund. In the short term this may not pose a great problem but will, in the longer term, compromise the ability of the Association to properly address its Major Repair liabilities. In the current climate, the Association must demonstrate that it places importance on strong financial health and robust financial controls alongside considering the affordability of rents and other charges for customers.

CLYDEBANK HOUSING ASSOCIATION LIMITED

**APPENDIX
1**

FROM: HEAD OF FINANCE & CORPORATE SERVICES

DATE: 21/11/2019

TO: MANAGEMENT COMMITTEE

REF: /LL

SUBJECT: MAJOR REPAIRS SINKING FUND (November 2019 update)

		As at 01.04.19	2020/21	2021/22	2022/23	2023/24	2024/29	2029/34	2034/39	2039/49
		Per Budget - based on LCC Yr 1 £000	LCC Yr 2 £000	LCC Yr 3 £000	LCC Yr 4 £000	LCC Yr 5 £001	LCC Yrs 6-10 £000	LCC Yrs 11-15 £000	LCC Yrs 16-20 £000	LCC Yrs 21- 30 £000
	Notes						5 Years	5 Years	5 Years	10 Years
FUND B/FWD	1	7,396	6,792	6,492	5,038	4,314	4,314	1,347	849	659
Target Contribution	2	800	950	950	950	950	5,750	8,000	4,750	13,000
		8,196	7,742	7,442	5,988	5,264	10,064	9,347	5,599	13,659
Major Repairs Expenditure based on updated LCC Nov 2019	3	1,438	1,282	2,429	1,696	1,359	8,723	8,503	4,944	13,533
		6,758	6,460	5,013	4,292	3,904	1,341	845	655	126
Interest receivable (0.5%)		34	32	25	21	20	7	4	3	1
FUND C/FWD	4	6,792	6,492	5,038	4,314	3,924	1,347	849	659	126

Notes

- 1 The Fund brought forward is based on the opening cash balance as at 1st April 2019 per the audited financial statements.
- 2 The Target Contribution for 2020/21 onwards of at least £950k is necessary given the Association's Life Cycle Costing Programme (LCC), Adjusted for Cyclical Maintenance. Future Target Contributions are at a level necessary to ensure adequate funding for the remainder of the LCC programme and contributions are higher in Years 6-15 where cash levels allow. These "Target Contributions" will be incorporated into the Association's future Rent Setting mechanism.
- 3 Expenditure is per the fully costed 2018 LCC document and adjusted for annual cyclical maintenance costs of £365k per annum which has been incorporated separately into the 2019/20 annual rent setting calculation. Amounts over £365k are included in the sinking fund calculation. However, long term projections are continuously changing (due to stock condition, compliance and legislative requirements) and for this reason our LCC programme will be reviewed annually over the course of the next four years. This will ensure all properties have been surveyed and our rents are set at a level which provides fully for future repairs while still considering affordability for customers (next LCC update due December 2019).
- 4 Provided Rent Reviews make provision for the 'Target Contribution' and LCC expenditure goes according to plan, then at the end of the period, the Fund is carried forward to future periods to accrue interest and meet future expenditure. However, should the LCC programme prove accurate, then in the last 10 years of the programme there appears to be a dramatic decrease in the reserves which could be funded in part from rents and from additional loans easily secured against our unencumbered housing stock. Given the comments made in Note 3 above, we should not unduly worry about deficits which may or may not arise in 20-30 years time.

From November 2022, the Association will be in the favourable position of having cleared the outstanding loans due to Dexia and only the Cart Street finance will be outstanding to Clydesdale Bank and the Graham Avenue finance to CAF Bank.

Next update: January 2020 (Budget and revised 2019 LCC)

Recommendation

Based on the information contained within this report in relation to affordability, comparability, viability, and major repairs investment, it is recommended that Committee approves the rent increase consultation for 2020/21 across the stock to be between 2.5% and 3.5% at this time.

In agreeing this, Committee are asked to bear in mind that the figures used are also estimates which will be firmed up in January 2020. By allowing between 2.5% and 3.5% this should cover any significant changes to these estimated costs.

If agreed, these will be the figures used for consulting tenants and tenants groups. This year, all tenants will again receive an individual letter notifying them of the proposed increase as part of the consultation exercise. This will be complemented by the usual article in the December 2019 Chit Chat.

Part of the consultation information will include a number of options which will be presented within the rent increase consultation. For each option presented, the proposed percentage rent increase will be clearly set out with any enhanced services etc. clearly identified to enable tenants to make an informed choice. For example, proposed rent increase to maintain existing services, to extend existing services or to allow for enhanced levels of services. This year, the options will centre on environmental improvements/services, as this was a key area identified through meetings with the local tenants group during the year and through the tenant satisfaction survey results at the end of March 2019.