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Scottish Federation of Housing Associations

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Rent setting and affordability: the Scottish approach

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Timeline

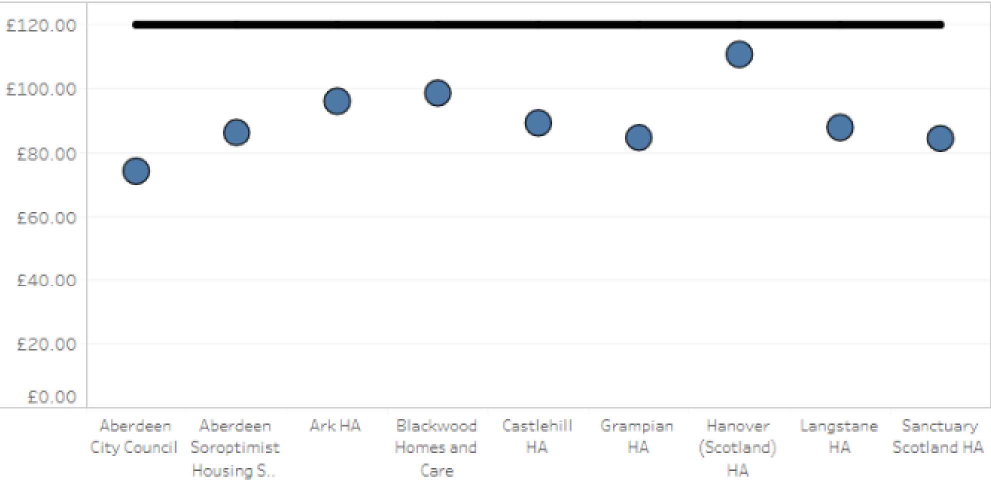
- SFHA began defining affordability as it relates to the social housing sector in 1993.
- The definition has changed on several occasions to reflect political, economic and societal changes.
- Our first version of a rent setting tool was an Excel spreadsheet launched in 2017.
- In 2018 we joined forces with HouseMark Scotland to provide the interactive tool we have today.
- We now measure 5 income types, 8 household types and 6 affordability comparisons. All use open source data.

Rent affordability tool: Rent setting

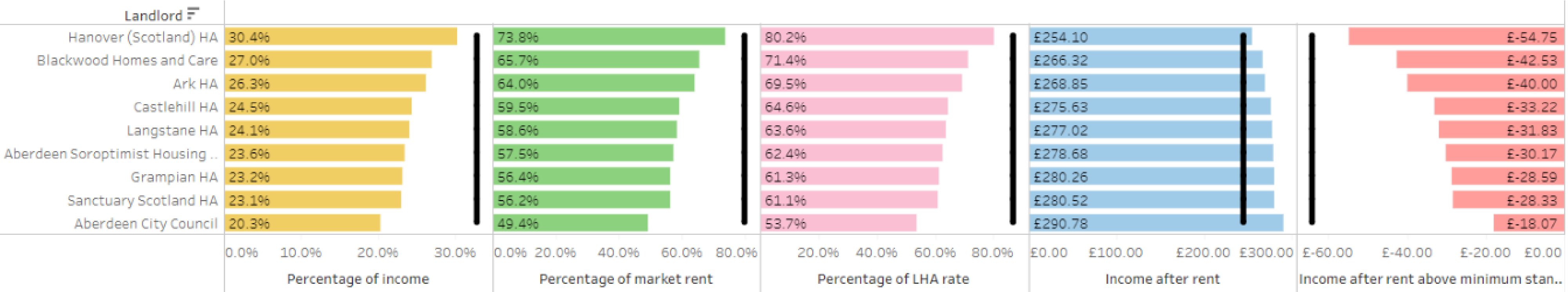
HouseMark Scotland | sfha Scottish Federation of Housing Associations

Proposed weekly rent?	COSTS: Input other costs	COSTS: council tax band	How many bedrooms?	Which local authority?	Comparisons - Landlord type	Comparisons - Clients
£120.00	£0.00	none	3 apartment (2 bed)	Aberdeen City Council	(All)	(All)

INCOME: Select type to assess against	INCOME: Select household	INCOME: Input income	INCOME: Average UC claim households
moderate incomes (ASHE 30th)	Single parent (1 child)	£0.00	Average of Couple, with child dependant(s)



Proposed weekly rent	£120.00
Proposed rent - Percentage of income	32.9%
Proposed rent - Percentage of market rent	80.0%
Proposed rent - Percentage of LHA rate	86.9%
Proposed rent - Income after rent	£244.87
Proposed rent - Income after rent above minimum standard	£-63.98



Rent setting considerations

- **Affordability** – rents must be affordable to households on low or moderate incomes.
- **Viability** – rents need to generate sufficient income to meet the associations financial requirements and costs of any borrowing.
- **Comparability and value for money** – rents should be broadly consistent with those charged by other social landlords providing similar types and standards of property.
- **Transparency** – there needs to be a clear and fair system of setting and apportioning rents for different types of properties.

A case study

Kingdom Housing Association

- Kingdom's rent structure and policy for its social rent customers was reviewed in 2015. The association moved from a points-based approach to a formula model based on property components. There is a base rent, with additional monthly amounts added for certain components and amenities. There are 17 different criteria covering aspects such as bedroom size, property type, energy efficiency, gas heating, external amenities.
- One of the main aims of the new approach has been to improve rent transparency for customers so that they can have a clearer understanding of what their rent pays for, and the relativity of rent values. This has also helped start discussions with tenants on value for money.

Feedback from governing bodies in Scotland

- **Financial situation** - First step is examining financial information and investment requirements to establish the financial position of the association and discussing works required to improve and sustain the condition of our housing stock. This includes information relating to wage increases and pension contributions and requirement for reserves.

- **Rationale** - A rationale for rent increases must go beyond the financial viability of the organisation. Board members want to tell tenants exactly what increased rents will pay for. Is it meeting new standards or regulations etc.

- **Protect covenant compliance** - Loan covenants are a particular concern. Boards look at financial figures quarterly, but lenders consider whether loans covenants have been breached monthly. Board members need to be assured the business is sustainable on a monthly basis and not over a financial year.

- **Single recommendation** - Boards prefer a recommendation, backed up with evidence, to a list of options. This ensures focus and discussion is on one, maybe two, options and not wasting time on options which are highly unlikely.

- **Experience** - It is important to have board members with varied experience. Both housing and finance professionals as well as tenants. This skills mix allows the right questions to be asked of management and provides confidence of wider board in verifying suitability of any increases.

Other considerations

- **Wide range of information** – Boards should consider the cumulative impact of annual rises (in light of stagnant wages and benefit cap), how rents compare to that of councils (and explaining reasons for differences), how a variety of increases would affect the budget, contextual information on income levels in the area, economic outlook over next 12 months.

- **Inflationary markers (CPI or RPI**) - EVH (an organisation in Scotland providing support to the governing bodies of not for profit and voluntary organisations in all aspects of their employer role) use CPI as their marker for setting salaries for association staff and the DWP use CPI as their marker for up-rating benefits, as a result, many boards have opted to use CPI as the inflationary marker for rent considerations.

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