



Scotland's Approach to Rent Setting and Affordability

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The Journey So Far...

- The principle of affordability has been central to the work of SFHA since it was established in 1975.
- The roots of our movement are in 1970's Glasgow where communities created small associations to take on their 'blocks' following lack of investment from the council. Good quality homes people could afford was key - so it was important to these tenants that they set their own rents and this principle is something which has lasted to this day.
- Affordability is a crucial element of social housing in Scotland – it's always been bottom up rather than top down.



Defining Affordability

SFHA first began to examine the issue of measuring/defining affordability in 1991. In 1993, we published the following two-fold definition and encouraged members to use it:

“A rent is only affordable if:

No working household is obliged to pay more than 25% of its net income (including Housing Benefit) on rent

and

No working household is left with less than 140% of the appropriate Income Support amount.”

- The first attempt at defining affordability combined with two common approaches to measuring what is affordable: an income to rent ratio approach and a residual income approach.
- SFHA spent subsequent years pressing the Government to engage in a debate about affordability with a view to reaching a consensus about its definition.



- In 1998, Scottish Homes commissioned Steve Wilcox, a renowned expert on affordability, to look at the issue as it related to our sector – for which SFHA was on the steering board. The report *'The Vexed Question of Affordability'* was published in 1999.
- It explored a range of approaches including the two used by SFHA at that time. The report outlined concerns about the disadvantages of both residual income and ratio measures. Following detailed discussions, SFHA adopted a new measure based on a Housing Benefit dependency approach.



The new definition was:

“For a rent (including service charges) to be affordable, a household with one person working 16 hours or more should only exceptionally be dependent on Housing Benefit in order to pay for it.”

This measure was incorporated into SFHA’s revised Rent Setting Guidance, published in January 2001.

However, we changed it to ‘35 hours or more’ when we issued updated guidance on rent setting in 2010.

Our Current Thinking

- Since 2014, the introduction of a series of changes to support with housing costs (Housing Benefit and Universal Credit) as well as the termination of SCORE which was used to collect data from RSLs about new lets made each year and made it possible to assess what proportion of new tenants were reliant on HB based on specific criteria and metrics...led to a gap in appropriate ways to measure affordability.

SFHA went back to the drawing board.



- SFHA published a consultation paper with the aim of ‘Rethinking Affordability’. A consultant assisted SFHA consulting with members on both how to define, and how to measure, affordability.
- This was the beginning of a two-year period of engagement – reports were published, workshops took place, events were held, etc.

- The aim was to decide upon a new definition consistent with modern circumstances which was simple to measure.
- It became clear we would have to commission a tool as data was not easily accessible in a format which was useful.
- This new tool, which accompanied the *2017 Guide To Rent Setting and Affordability*, was a ‘sense-check’ indicator based on model households.

- The consultation resulted in a new ‘moderate incomes’ approach to rent setting based on affordability and sustainability. It is a measure which takes household type and variations in local incomes in account, but does not rely on landlords having detailed information about tenants.
- To use the tool you select the LA, select number of bedrooms and input proposed weekly rent and it uses local earnings-based incomes to compare the rent. It shows a red-amber-green result for the % of moderate income spent on rent.

Select Local Authority	South Lanarkshire						
	Select or type 1, 2 or 3						
Select number of bedrooms		2 bedrooms					
Rent (per week)	£	78.00					
NB - Excluding Housing Benefit as moderate incomes are above HB eligibility level							
Household type	Number of bedrooms	% of moderate income spent on rent	Income left after rent				
(1) Single person	1-bed						
(2) Couple	1-bed						
(3) Single parent, 1 child	2-bed	21.4%	£ 286.81				
(4) Small family (2 children)	2-bed	14.8%	£ 447.76				
(4) Small family (2 children)	3-bed						
(5) Large family (3 children)	3-bed						
(6) Pensioner couple	1-bed						
(7) Single pensioner	1-bed						
Minimum Income Standard budgets (excluding rent and childcare)							
MIS for remote rural Scotland has 4 headline household types							
Household type	Minimum Income Standard exc. rent or childcare (UK)	Highland Town	Remote Southern Scotland - Accessible to town	Inaccessible Western Isles	Remote from town, Northern Isles		
(1) Single person	£ 198.85	£ 258.60	£ 266.36	£ 275.29	£ 336.27		
(2) Couple	£ 330.17	-	-	-	-		
(3) Single parent, 1 child	£ 297.59	£ 317.51	£ 337.61	£ 343.50	£ 368.68		



A Year On – Next Generation

- Feedback from members who used the tool was hugely positive, they told us it was quick, simple and effective.
- Our original plan was to update the tool when the data (all open source) was updated.
- Instead, in a joint venture with HouseMark Scotland we recently launched a more interactive, second generation tool.



- The tool calculates five affordability measures for a proposed rent. It also allows users to see how the rent and affordability measures compare to other social landlords in the area.
- A range of income types and household sizes can be used to test rents against. Household incomes are calculated using the same evidence-based methods developed by the JRF as the original tool.
- Other costs such as council tax can also be included in the affordability calculations within the tool, which offers greater functionality over the original.



- The inclusion of average Universal Credit payments aims to help assess the impact of welfare reform on tenants and consider the impact of proposed rent increases in a more detailed way for the first time.
- This will help to provide ever greater transparency around decisions about rent increases each year at a time of increasing cost pressures.
- It's a real challenge for associations to keep rents affordable at a time of competing priorities such as meeting the EESSH2 standards and continued improvement in the quality of homes and services.



Tool Demo

In Summary

- The bottom line is that whilst the term ‘affordable’ continues to be widely used, it doesn’t always mean the same thing. But for our sector, it’s a policy term which requires a definition and that is what SFHA ensures members have access to.
- There are so many solutions and no one-size-fits-all approach as there is no national rent policy in Scotland – nor a desire for one!
- Scottish housing associations and co-operatives, together with SFHA, have fought hard for 40 years to keep rents affordable and will continue to do so.

