Rent setting and affordability during the coronavirus pandemic and beyond

Summary paper for stakeholders
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For further information or support from SFHA contact
Shona Mitchell, Public Affairs Manager, smitchell@sfha.co.uk

www.sfha.co.uk
Introduction

Rental income is vital for social landlords. It allows them to provide support and services for tenants as well as carry out essential repairs and maintenance work. These frontline services are needed to ensure the health, safety and well-being of tenants, and it is critical that they can continue, particularly during the ongoing coronavirus pandemic and recovery. Rents also allow housing associations to invest in building new homes.

For housing associations in Scotland, rents charged do much more than cover the management costs of the properties. Ensuring homes are safe and compliant with new regulations comes at a cost, as does building new stock to meet the outstanding need for affordable social homes in Scotland.

Traditionally, housing associations set rents on an annual basis in consultation with tenants. A number of associations now adopt a longer-term approach and set out the level of increase over a number of years, usually linked to a specific programme of improvement works. Rent restructuring exercises can also see rent increases phased in over a number of years.

In light of the ongoing pandemic, associations find themselves and their tenants in a different financial position from what would otherwise have been expected. As a result, many associations plan to limit increases – or even freeze rents – for the coming financial year.

This paper will set out the issues facing associations, the role of tenants and communities in rent considerations, along with context and background on rent setting and affordability more generally.

With every association being responsible for its own business decisions, SFHA’s work in this area seeks to address the essential questions of affordability and value in rent setting. It sets out to equip SFHA members with tools and guidance to help them to reach their own decisions, in consultation with their tenants.

SFHA welcomes the commitment in the recently published Housing to 2040 strategy document that the government plans to develop a shared understanding of affordability which is fit for the future and we look forward to working with government on this important topic.
Rent levels and income

Looking at the average costs of housing across all tenures, it’s clear social rents continue to be substantially lower than those in the private rented sector. The social housing sector does all it can to ensure rents are as affordable as possible and provide much more than a roof over tenants’ heads.

In 2017, almost 70% of social rented households had a net income below £20,000, compared to 44% of private rented households (Scottish Government Communities Analysis Division, CAD, 2019).

Overall, during the 3-year period from 2015/16 to 2017/18, 42% of social rented households in Scotland earned less than £15,000.

During 2015-2018 households in the social rented sector in Scotland spent on average 24% of their net income on housing costs (rent gross of Housing Benefit, water and any service charges), while households in England spent 30% and in Wales 29%. For the same period private rented households in Scotland spent an equivalent of 27% (CAD 2019, p93).

The average weekly rent for RSL social rented properties in 2017/18 in Scotland was £82.28 according to the Scottish Government, which means on average £4278 per year, an increase of 2.4% on the previous year (CAD 2019, p4). The most recent figures available for all socially rented properties relates to 2018 where the average weekly rent was £86.93 in Scotland (UK Housing Review) and Scottish Government private sector rent statistics for 2019 show the average weekly rent in the PRS was £194.31, over twice as expensive.
Rent levels and income

Looking in more detail at the average rent for social rented households in Scotland in 2017/18, this varied from:

- £67.44/week for a 1-bedroom apartment,
- £73.33 for a 2-bedroom,
- £74.94 for a 3-bedroom,
- £81.37 for a 4-bedroom
- £90.39/week for a 5-bedroom apartment (CAD 2019, p81).

In the private rental sector, 1-4 bedroom properties cost:

- £117.69/week (1-bedroom),
- £150.46/week (2-bedroom),
- £197.31/week (3-bedroom)
- £294.92/week (4-bedroom).

Only 3 out of 10 social rented households self-reported that they managed well financially in 2017, despite 59% of social rented households in Scotland received Housing Benefit in the same period. Housing Benefit, and Universal Credit which is replacing it, is aimed at supporting low income households to pay their rent – however, it’s clear that income is a particular issue as even those with full rent payments covered within their benefit income, still struggle financially. Income, rather than rents, is the significant issue for many tenants.

Despite the focus of many efforts to tackle poverty being on rents, in the social housing sector they are deemed to be affordable by most, if not all, measures of affordability. Issues often arise for single person households and for families with children, which are most often a result of the overall cost of living - single people on low incomes could struggle to meet living costs alone, and for larger families the costs of living can easily outweigh additional income.
Rent levels and income

Housing associations also offer support to tenants with maximising their incomes.

**Case study**

**Rural Stirling Housing Association**

Through RSHA’s income maximisation work tenants can receive advice about income support.

Most housing associations offer this free service, and it is considered vital in helping minimise financial stress – especially at a time of economic crisis, such as during the pandemic.

The total number of RSHA tenants who used this confidential service was 150 and remarkably, the total cash sum obtained was close to half a million pounds, at £486,607 between April 2019 and April 2020.
Rent levels and income

Further, to support associations with considering affordability when setting rents, SFHA and HouseMark Scotland provide a rent setting and affordability tool to members.

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 their area. A range of income types and household sizes can be used to test rents against. Household incomes are calculated using the evidence-based methods developed by the Joseph Rowntree Foundation.

Other costs such as council tax can also be included in the affordability calculations within the tool and 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 detail. Over 80% of SFHA members have used the tool since 2018 – that is 70% of all housing associations in Scotland.
Service charges

The cost of providing housing services has to be met by tenants, whether this is described as ‘rent’ or ‘service charge’. Introducing service charges does not generate additional income. Allocating costs to ‘rents’ or to ‘service charges’ will have an effect on how much different tenants pay, but does not affect the overall income of the organisation. The regulator has been clear that a service charge should only be levied at the actual cost of the service being provided so that it cannot be a source of additional income to the organisation.

Service charges are charges added to the rent for services provided, such as stair-cleaning, maintaining gardens, lifts, building security, utility bills, heating and lighting of communal areas. Service charges usually include the charges for the service provided plus administration costs, and they are listed in tenancy agreements.

Services can be mandatory, such as lighting and maintenance of communal areas, and optional such as heating, hot water and lighting and water charges – which are often specific to individual homes. Mandatory services are usually considered as part of the rent, while optional or individual services are separate to the rent. Service charges are usually property specific.

Within our membership, practice varies considerably due to the different types of services provided. Some provide only landscaping, while others with district heating systems for example are more complex.

Housing Benefit covers part of the service charges, but not charges for heating, hot water, lighting, laundry or cooking. In Scotland, many landlords provide only service charges that are covered by Housing Benefit, such as communal heating. Most housing associations adopt a rent and service charges setting policy in line with the Scottish Housing Regulator performance standards for RSLs, in order to set affordable rents and service charges that enable them to maintain properties at high standards.

Tenant opinion on affordability may be different from that of the association. Even if combined rent plus service charge meets the affordability test, tenants may judge the affordability of the service charge in isolation – perhaps by comparison with other services (e.g. a firm advertising a cheaper stair cleaning service) or their own assessment of how the work should be done or how long it should take. Communication is key on this issue.
Consulting with tenants – and providing options

The Housing (Scotland) Act 2001 requires housing associations consult with tenants and take account of their views when making decisions about proposed rent increases. Section 25 of the Act allows housing associations to increase rents or other charges under a Scottish Secure Tenancy (SST) provided they give tenants four weeks’ notice and that, prior to this notice being issued, they consult with tenants affected and take their views into account.

Affordability, quality of service and capital investment are the most important factors when it comes to whether tenants regard their rents as value for money. Involving tenants in the decision-making process and developing an understanding of the connection between rents charged and services delivered is vital.

Despite housing associations offering a variety of methods to encourage participation, tenant engagement has scope to increase when it comes to rent setting consultation. There are many reasons some tenants choose not to get involved in consultations, many see it as a foregone conclusion, others admit they are less interested as their rent is covered by benefits and some do not support the methods of communication used. However, with consultation often taking the form of face-to-face discussions in previous years, the current restrictions as a result of COVID-19, has meant an entirely online, paper-based or telephone consultation and many associations have noted an increase in engagement. There will be lessons to learn for future consultations which the sector hopes will mean a sustained increase in engagement from tenants.

And some associations have also provided information to frontline staff which summarises the position and can be used as the basis for informal conversations with tenants whilst engaging over perhaps a repair or a request for support. This might outline the reasons an increase is required, what the impact of no increase might be – and in some cases it might be an explanation as to why a one-year freeze is possible given the specific circumstances of the organisation.

When it comes to providing options, the regulator states ‘meaningful’ options should be offered to tenants during a rent consultation.

In order for many associations to offer ‘meaningful’ options, the levels of increase would require to be wide ranging. For some an additional 1% increase adds just a few thousand pounds to its total rental income for the year; thus additional service offering would be very minimal and as a result tenants do not support the additional increase. In the majority of cases where options are offered, the lowest level of increase is favoured by tenants.

Other associations do always offer options. The circumstances are specific to each individual organisation, its tenants and communities. A one-size-fits-all approach is not appropriate given the wide range of circumstances and conditions on the parts of both housing associations and their tenants.
The Scottish Housing Regulator position on rents

Standard 3 in the SHR Standards of Governance and Financial Management for RSLs states: ‘The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay’.

In its recent business planning guidance, on rent affordability SHR also stated:

*There is an important relationship between rents, rent setting and VFM. RSLs should consider tenants’ ability to keep paying their rent over the longer term when deciding levels of rent increases and they should be clear on what is affordable for tenants and consider future affordability when determining annual rent increases; demonstrate transparency on costs and a vigorous pursuit of VFM; wherever possible give tenants genuine options and choices during rent consultations; engage in dialogue with tenants about costs versus service levels; and be clear on how tenants’ views are taken into account.*

SHR has been vocal on rents in recent years and last year was particularly critical of the average increase of 3.7% across the country. This year (April 2020) the average was 3%, an indication that the issue of rent affordability is taken seriously by the sector.

As mentioned previously, the increase is likely to be less again next year as associations carefully consider affordability in light of the pandemic.
Creating social enterprises is increasingly a way for housing associations to raise their income, make efficiencies and provide for their communities. However, more support from government in setting these up is a regular ask of our members, especially in identifying the need and right business model for them to be successful.

While housing associations understand why the Scottish Housing Regulator is closely monitoring the setting up of social enterprises, concern has been expressed about how this can deter them from pursuing the model. This works against the emphasis of Scottish Government on innovation and new ways of thinking, which has increased as a result of the current crisis.

Currently, in a bid to bring in additional income to help minimise rent increases and provide more and better services for communities, many housing associations have profit making subsidiary companies which then feed profits back into the parent RSL. Services offered by SFHA members through subsidiaries at the moment include: factoring services, student accommodation, mid-market rent, low cost home ownership, operating a windfarm, running community halls, designing living and work spaces for people with disabilities, running nurseries, operating a stables, recycling and selling on furniture and white goods, delivering repair and maintenance services, running cafes, selling services to other associations, running business parks, managing for-hire storage units and even running the local Post Office. Another association is taking part in a battery storage pilot to complement solar PVs.

Costs are rising across the board, so associations exploring other innovative streams of income to bring in more funds and minimise rent increases. Support with innovation during the next housing programme for 2021/26 could see more schemes like these which can cut costs and support communities. There is clearly already ability and willingness within the sector to deliver.

As well as these innovative projects, many housing associations are also seeing cost benefits through collaboration. To provide safe, warm, affordable and adaptable homes for everyone who needs one requires government action to set building and housing standards to achieve the ambition and to play a role in co-ordinating how housing associations can work together to maximise economies of scale. There are already a number of excellent examples of regional collaborations such as FLAIR in Renfrewshire and ARCHIE in Edinburgh as well as shared services and even shared CEOs elsewhere. Collaboration as a means of delivery is not well recognised and the Scottish Government has a role to play in promoting this – alongside SFHA.
Case study

Berwickshire Housing Association

The Hoprigshiels community windfarm – which was named ‘Fishermen Three’ to reflect the fishing heritage of the nearby villages of Cockburnspath and Cove – is located near Cockburnspath in the Scottish Borders and is a joint venture between Berwickshire Housing Association (BHA) and Community Energy Scotland.

By supplying energy to the National Grid, the wind farm will create revenue for BHA of around £20 million over the next 25 years – enough to allow it to build 500 new homes over that period.

Community Energy Scotland’s £10 million share of the revenue will enable it to support communities across the country to develop and benefit from renewable energy projects and play a crucial part in building a greener energy system.

£20 million in revenue will be generated over 25 years
Discussions on planned rent increases 2021/22

SFHA has engaged extensively with its membership regarding their plans for rents for the financial year starting April 2021.

A survey of over 60 SFHA members to collect information on the proposed increase for 2021 and any options being offered is ongoing. So far responses indicate considerations include:

- a one-year freeze,
- less than 1%,
- 2%,
- 3%,
- 3% assuming CPI is at 1.5%,
- CPI only and
- CPI +1%.

The most common response was CPI only. As of October 2020, CPI is at 0.7%.

Most advise their level of increase will be as low as possible and a reduction on what would likely have been proposed if it had not been for the pandemic.

Although some associations are considering a one-year freeze, SFHA is keen to stress this is not an option for all associations. It’s important to understand the reasoning behind such decisions. One member informed us its long-term debt is due to be paid off in the coming months, so as a result the association is able to offer a freeze for one-year without an impact on services and planned works. Others have taken the decision to delay some projects by a year in order to protect tenant income as much as possible at this time.
Implications of rent freezes or reduced increases

Members advise that lower increases or rent freezes can have significant impacts over a long period of time.

Although spending has been reduced this year due to lengthy delays to development, planned maintenance and non-urgent repairs, the funds originally allocated will still be used for the same purposes at a later date. Members also inform SFHA that as a result of delays and restrictions, some contractors have increased their pricing, and in order to catch up on work delayed due to the pandemic, it will often cost more than had been budgeted for.

Other costs are also increasing for housing associations. The National Living Wage will rise by 2.2% on 1 April from £8.72 to £8.91 and RICS are forecasting construction and repairs costs will rise over 4% next year.
Implications of rent freezes or reduced increases

**Investment in stock and development**

Some associations considering a freeze advise it will see a one-year delay to their development programme as well as reductions in planned maintenance. This adds to delays with planned maintenance where tenants remain unhappy to have contractors in their homes.

However, the implications go beyond a year for many associations. For some, reductions in planned increases would mean millions of pounds of reduced income over a few years at a time when there are ongoing requirements such as new fire safety measures and meeting EESSH2 objectives. It is increasingly difficult for associations to meet the costs of new requirements while limiting rent increases. During the financial crash of 2008/9, many associations reduced increases or implemented rent freezes. This resulted in higher increases later to fund investment in stock and development.

Where associations have already committed to develop, contracts and borrowing are in place which would prove very costly to undo. Any reduction in rental income would then see existing stock suffer and leave the sector in a position where tenants are paying to support the development of new homes, while their own homes are adversely affected by reduced investment.

Concerns have also been raised about the future viability of contractors who deliver much of the development and maintenance programmes. If plans are scaled back to accommodate a reduced rent increase, will there be capacity within these sectors down the line when programmes pick up? There is also likely to be an impact on supply chain jobs.

**Covenants**

There are also loan covenants to consider. Any breach would likely prove very costly. Fortunately, due to lenders faith in the social housing sector in Scotland, many have offered support to associations in terms of flexibility with covenants in light of the current situation. However, SFHA members are taking a cautious approach as flexibility cannot be guaranteed in the future so long-term implications must be considered now.

**Tenancy sustainment and community investment**

All associations provide tenancy sustainment services as part of their broader social and economic support work. Members tell us it’s a service that is vital to keeping people in their homes and tackling homelessness, but as it’s not a requirement to offer such support to tenants, it’s an area which could be hardest hit if income was reduced.

**Digital transformation**

Other areas which would see delays include digital transformation agendas. Although a large investment, such transformations reduce costs in the longer-term and improve value for money. The Scottish Housing Regulator pays close attention to value for money, so there needs to be an understanding that upfront investment is often required before savings can be delivered.
Case study

Almond Housing Association

Tenancy sustainment has been at the forefront of the work of RSLs during the pandemic.

A number of associations, such as Almond, have dedicated tenancy sustainment and welfare benefits staff. Tenants can access the service by contacting their housing officer and requesting a referral.

The association has also worked with ‘community fridge’ organisations who Almond provided with a years’ funding from the proceeds of a community soup event. The association has also used funds to donate essentials, such as nappies, toiletries and food items for the community fridges. The Community Soup Event also supported West Lothian Food Train to purchase resources for its shopping service and newly launched Eat Well Buddy Service. Volunteers were working through the outbreak to shop for vulnerable and elderly residents.

Funding was also made available through an Urgent Assistance Fund. Tenants who are experiencing extreme hardship, and have a child under the age of 21, may be eligible to apply.
Clarity sought from Scottish Government

As rent is a substantial component of costs of living, there are two specific actions mentioned in the Scottish Government Child Poverty Delivery Plan 2018-2022: ‘to ensure that future affordable housing supply decisions support our objective to achieve a real and sustained impact on child poverty’ and ‘to work with the social housing sector in 2018 to agree the best ways to keep rents affordable’ (Scottish Government 2018).

However, there remains a lack of clarity on a number of areas which relate to rents and affordability and SFHA is seeking to establish the following:

- SFHA is keen to continue to engage with government in relation to its interests and intentions when it comes to rents and affordability. We note in Housing to 2040 the government has stated new standards for homes should be balanced with the need to keep rents affordable. We welcome the opportunity to discuss how this will work in practice.

- SFHA also notes with interest the intentions set out in Housing to 2040 for the publication of a Rented Sector Strategy which will be informed by tenants, and also a new Housing Bill early in the next Parliament. SFHA and our members look forward to engaging in the process for both areas of work and we hope this paper outlines the sector position and is useful ahead of work beginning on these projects.

- SFHA and sector partners had a number of useful meetings with government officials to discuss rents and affordability before the pandemic. We would be keen to see these meetings re-established. Scottish government officials referred to rents being set based on types of tenant at previous meetings, however, housing organisation rents are set based on the attributes of a property and not those who will live in it. In light of the strategy for housing for the next 20 years being published, it would be useful to have discussions about what it means in practical, service, fairness and human rights terms.

- SFHA has indicated in the past there have been gaps in joined up thinking across government departments which have resulted in a lack of awareness of the cumulative effect of new requirements placed on social landlords. We hope the paper we have produced as part of the ongoing subsidy review is useful in highlighting these. One reason for rent increases in recent years has been the additional, unfunded requirements on social landlords which can only be paid for through rents. We are willing to engage with government further to discuss how landlords can focus on efficiency and value for money to minimise passing costs on to tenants.
Conclusion and next steps

This paper sets the scene on the current state-of-play on rent setting and affordability in the RSL sector in Scotland. In doing so, it aims to enrich and extend the understanding between and dialogue with Scottish Government. The aspiration is that we work together on rent setting and affordability to ensure that all those who need a warm, safe and affordable home, now and in the future, have one and are supported by strong, resilient housing associations to live there.

We look forward to further discussions to achieve this.

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