

Meeting: BHA Trustees

Meeting Date: 22 January 2019

Author: Jean Gray, Operations Director

Report Purpose: Decision

Required by: BHA Group

Report Title: Proposed Rent Increase 2019/20

Executive Summary

Each year BHA consults with its tenants on an affordable rent increase for the next financial year.

One of the strategic aims of the Association is the provision of good quality affordable homes to people in housing need.

BHA is also required to set rents that take account of affordability; provide revenue to cover the costs of managing and maintaining our houses; that enable us to service existing loans and fulfil contractual obligations alongside considering comparability with other social landlords in the area. These can be categorised as follows:

- Financial Viability – setting rents at a responsible level to ensure the long-term viability of the organisation.
- Affordability - a major consideration in accordance with the Scottish Housing Regulators requirements.
- Comparability – must represent value for money and be broadly comparable with other similar providers.
- Apportionment - set at an appropriate and equitable rent for the type of property.
- Stakeholder Involvement – with tenants involved in setting and reviewing rents.

Affordability is underpinned by a 'rights' approach to housing and is based on the idea that everyone should have access to a warm home that they can afford as the starting point of good health and wellbeing. Affordable housing is not the same as social housing. Affordable housing is open to a broader range of household incomes than social housing, so households can earn higher levels of income and still be eligible. Social housing is let at low rents on a secure basis to those who are most in need or struggling with their housing costs.

We know from the intensive work we are doing with our tenants that many are struggling financially and that there is very little disposable income available. This correlates with recent information from our Financial Inclusion team in relation to more people accessing the foodbank in our area.

Value for money is an interrelated concept of affordability and provides a metric for understanding the quality of home and services provided and the costs associated with this. BHA is working with other Housing Providers to look at Value for Money as part of the Haymarket Group.

Each year BHA considers the affordability of its rents and it is appropriate that this is now considered alongside Value for Money. As an organisation we are looking at how we deliver our services and value for money is being driven through:

- Procurement - joining SPA and regular reviews and retendering of services has resulted in savings on maintenance
- Digital pathways – if increasing numbers of customers can manage their interaction with their landlord on line this should lead to savings in the business; this is an ongoing project that will see online services introduced to target information to customers; however there is no intention to remove face to face communication with our customers in the community
- Continual review of services and learning from satisfaction returns as well as good practice from other providers

In previous budget planning BHA has had to focus on the Scottish Housing Quality Standard (SHQS) which has now been achieved albeit there are still exemptions and abeyances to be addressed. There is a statutory requirement to ensure that all properties achieve the Energy Efficiency Standards for Social Housing (EESH) by 2020. BHA does not see EESH as a standalone legislative requirement. In line with other landlords participating in the recent Scottish Government working groups we are also considering a more person centred approach of considering fuel poverty alongside EESH. BHA has progressed in this approach when surveying our stock ensuring we consider the people living within the property as well as the asset.

We are awaiting final guidelines from the Scottish Government on EESH 2 which will have additional requirements for landlords and could potentially require significant funding. At this time it is not known as to whether any of this money will be available from the Government.

In this financial year 2018/19 the Board approved an increase of 2% this provided a budget which enabled BHA to deliver a planned maintenance programme with consideration for an age & condition attribute replacement as well as some contribution to EESH with a clear focus on fuel poverty. This was a particular direction for maintenance that tenants supported during consultation in December 2016/17 and 2017/18. As the Board is aware there has been some significant work completed to produce a 3 year programme for planned maintenance including the required work to achieve EESH (1) by December 2020, and we have now procured a number of maintenance contracts for 3 years, rather than on a year by

year basis as was formerly the case. This new approach allows for more efficient planning and more certainty over delivery as work can start on site earlier in the financial year with the certainty of both the budget and the contractor being in place. This is a new approach and the programme of planned maintenance improvements and replacements has been identified for 2019/20.

On 27 November 2018 a paper was presented to the Board providing information from the Leadership Team on what was considered as potential options for the rent increase for the next financial year 2019/20. At the meeting the Board was asked to consider the report and agree with the Leadership Team's recommendation that BHA consults with our tenants on an RPI increase of 2.7% (September RPI figure – 0.6%) for houses, garages and service charges. Alongside the discussion regarding the draft budget for the next financial year the recommendation was considered and the Board members agreed that BHA should consult on a 3% rent increase figure for 2019/20 which is RPI – 0.3%.

Following consultation BHA received a 23% return rate with an overall agreement from 71% on a 3% increase for 2019/20.

Action Required:

The Board is asked to consider the feedback from the recent rent consultation exercise and approve a rent increase of 3% for 2019/20.

Report References		
Resource Implications	Financial	<p>Capital: n/a</p> <p>Revenue: The agreed rent, garage and service charge increase figure of 3% ensures that we are setting rents that take account of affordability; the costs of managing and maintaining our houses; comparability with other social landlords managing within rural areas and that enable us to service existing loans and fulfil contractual obligations.</p> <p>Covenants: Based on the proposed budget BHA will meet its covenants</p>
	Personnel	<p>Impact on resources as any change in income/ expenditure with some of our more vulnerable tenants needs a higher staff input to assist them to deal with their overall financial situation. We do find at this time of year following notification of increases that our Financial Inclusion & Arrears Teams see an increase in workload.</p>
Relevant Policy	Rent & Service Charge Policy	
Link to Business Plan	G2 - To ensure the Group is financially sustainable, cost effective and efficient	
Key Risks	Category	Identified in Risk Register
	A1 - Key Risks to Group	Yes
	A2 - Financial and Strategic Planning	Yes
	A3 - External - Economic	No
	A4 - External - Political	No
	A5 - Reputation	No
	A6 - Board and Governance	No
	A7 - Staffing	No
	A8 - Health and Safety	No
	A9 - Business Changes	No
	A10 - Business Interruption	No
Current Risk Mitigation	Welfare Reform remains one of the Top 10 Risks to BHA. We continue to review our, services to ensure we are mitigating risk in this area. At this time we have an in-house working group who continue to determine how we address the future implications of Welfare Reform as well as continuing to deal with existing affordability issues in our communities	
Background Papers and Minutes	Minutes of Audit & Finance Committee – 27 November 2018	

Background Information

Providing homes for 'affordable rent' is the core business for housing associations. Albeit with the continual challenges of welfare reform, and higher levels of poverty within our communities, there are a number of reasons why a rent increase is necessary. These include increased operating costs due to challenges such as welfare reform and the Scottish Social Housing Charter; the continued provision of quality services such as response repairs, cyclical programme and planned maintenance which latterly focused on upgrading properties to meet the Scottish Housing Quality Standard (SHQS) by 2015 and continues to look at an ongoing strategy to eradicate fuel poverty and meet the statutory obligations of EESSH by 2020. BHA is now building new homes and we need to continue to resource this activity to ensure we meet targets and manage all financial, construction and compliance aspects of the development programme.

BHA has continued to invest in its existing stock and we have an agreed new build programme for the next 5 years to deliver new homes in Duns, Eyemouth, Chirnside, Ayton Coldstream and potentially Cockburnspath.

From a financial perspective the business would like to maximise its rental income, but if we raise rents then this will impact on tenancy sustainment, arrears and voids (especially with housing benefit changes to the non-dependant charge; the expected negative impact of universal credit and potentially further ongoing challenges being introduced from welfare reform). BHA is also aware that it is not only those on benefits that are struggling as we have seen an increase of working families who are BHA tenants engaging with the Financial Inclusion Team. However, operationally we have found that by investing in staff resources we can ensure the financial impact of welfare reform is managed for the business but the case workload, albeit manageable, is being closely monitored. BHA rent arrears do fluctuate but normally remain at a controlled level due to intense one to one work by both the Customer Accounts Team and Financial Inclusion staff who have dealt with an increased number of higher cases in comparison to this time last year. Through close monitoring we are aware that Universal Credit is having a major impact on the most vulnerable people in our communities.

We know that tenants continue to struggle to meet costs and that there has been more people using the food banks in our area and that we have also seen an increase in our involvement in assisting tenants who are in fuel poverty and generally being able to manage their income against expenditure. As the problems relating to welfare reform increase we have seen a significant impact on staffing resources which without the Financial Inclusion Team and Project we would not have been able to manage.

There continues to be other financial issues affecting our tenants including the continuing rise in utility costs (although there are cheaper options on the market many tenants find the exercise of switching difficult and many prefer just to remain with the existing provider) and fluctuating petrol prices which have a disproportionate effect in remote rural areas, and which are already prevalent within our communities. As an organisation we know that our low wage economy is suffering extreme affordability issues. At the end of the day, setting our

rents is an inexact science where we are trying to balance competing and sometime conflicting criteria related to what is reasonable for our organisation within the context of the local housing market. Potentially this can mean that actually to address a range of issues BHA would need to consider different rental figures.

In 2015 the Scottish Federation of Housing Associations (SFHA) completed a consultation exercise on rent affordability. In 2017 SFHA produced an Affordability Tool to enable RSLs to complete an exercise to determine whether their stock had affordable rents based on criteria linked to the area – Scottish Borders; expected average income and the individual RSL rents. This is a desk top exercise which when completed shows that BHA rents are affordable however as an organisation this tool considers our customers as a group whereas we are fully aware that each tenant/family's circumstances are different therefore this needs to be an ongoing exercise to determine affordability levels in our area by looking at individual households.

The report issued by the Scottish Housing Regulator in November 2016 “How social landlords consult tenants about rent increases – A thematic enquiry” states that: “There is no national guidance for landlords on how to determine affordability. It is for individual landlords to determine what rent is affordable and there is a clear need to balance affordability of rent with operating costs and the investment needed to give the tenants the quality of housing and delivery of services that they want”.

BHA Objectives for Rent Increase

BHA will aim to set rents at levels which are:

- affordable to tenants whether employed on low income or receive state benefit, as an ongoing exercise we will continue to collate intelligence on tenants income and the level of financial hardship that some tenants are having;
- sufficient income is generated to meet management and maintenance costs, loan charges, voids, bad debts, provision for future major repairs and costs of other services provided;
- comparable with the rents charged by other registered social landlords or within our benchmarking group;
- enable BHA to continue to place our customers and communities at the centre of what we do and provide efficient, effective services as well as keeping rents affordable

Why does BHA consult with its tenants?

- Under Section 25 of the Housing (Scotland) Act 2001, BHA is required to give tenants four weeks' notice of any rent review. Before giving notice of the rent review, BHA will consult tenants / sharing owners when setting charges and reviewing the overall policy.
- The rent review process will seek to achieve a balance between the quality and cost of service delivery, aiming to set charges that are perceived to represent best value and affordability to the majority of tenants. When reviewing rents, consideration will

be given to BHA's investment programme, service delivery arrangements and any new duties or initiatives. Section 8.4 of BHA's Scottish Secure Tenancy Agreement confirms that "BHA will consult tenants about proposals for changes in rent and service charges".

BHA Consultation

Consultation was completed in 3 formats to try and maximise the number of returns:

- Letter to all tenants who rent a house from BHA explaining proposed increase; asking for their feedback;
- Use of the web / Facebook with a link to allow the consultation to be completed on-line.
- Face to face/telephone with approximately 10% of tenants who had not responded to the written consultation

Some of the Information included in Tenants' Consultation Letter

How does BHA spend its money?

Our Business Plan sets our estimated income and expenditure over the next 30 years.

It continues to be very clear from tenant feedback and satisfaction returns that many of you feel that BHA should do more improvements to our existing stock. This will continue to be a future priority for the Association. As a landlord we have a statutory duty to deliver services to our customers; continue to deliver an excellent response repairs service and develop a planned maintenance programme for age, condition and the legislative requirements. We have listened to your feedback and BHA has developed a three year plan to replace not only attributes in poor condition but also some older kitchens and bathrooms. We are required to continue to meet the Scottish Housing Quality Standard going forward and will also continue to work towards achieving the Scottish Government's Energy Efficiency Standards for Social Housing (ESSH) by December 2020 but will also ensure that this work aligns with our focus on reducing fuel poverty in our area. We also know that there are other areas of investment required. We have been successful in seeking grant money for some insulation works but most improvements to homes have to be paid for from the rental income.

BHA is not able to do these all at once but by producing a three year planned programme of works we will ensure you are kept fully aware of what we will be doing in our communities. More information on the planned maintenance programme will be available at the proposed information events scheduled for February 2019.

We know from our recent impact information that with the ongoing challenges of high utility costs and the impact of Welfare Reform, particularly Universal Credit, there is increased concerns regarding the level of debt and poverty within our communities and in particular for some of our most vulnerable clients. As we have a duty of care to our customers it is our responsibility to ensure we have adequate resources to assist these individuals and we have

invested in our front line teams to ensure you can discuss these sensitive and personal issues in the privacy of your own home on a one to one basis. We will also continue where affordable to provide additional support through positive initiatives to sustain our communities and continue to work on community projects with some of our most vulnerable tenants and challenging families.

Although our rental income does not subsidise our new build programme, you may be interested to know that Acredale 3 in Eyemouth is complete and the Chirnside development is well under way. Todlaw 4 should be on site in the next few weeks and we are also looking to further develop in Eyemouth, Cockburnspath, Coldstream and Ayton as well as look at potential sites that are available in other outlying areas where there is demand.

What does this increase mean for BHA rents?

If you are currently paying approximately £69.72 for a 1 bedroom 2 person flat then a 3% increase will mean your rent rises by £2.09 per week; a 2 bedroom 4 person house with a current rent of approximately £82.07 will have an increase of £2.46 per week. A 3 bedroom 6 person house with a current rent of £98.40 will have an increase of £2.95. If you would like to know what a 3% increase means to your current rent then please pop into one of our local offices or contact our staff on 01361 884000. Rents vary by size, type of property and location so it is not possible to give everyone an individual rent figure at this time. When the increase is decided we calculate individual rents and notify tenants of their new rents by letter.

Why does BHA have to increase my rent?

BHA has to increase your rent to ensure that we can continue to meet our promises made to you and the Scottish Government. The income raised from the rent increase goes toward providing services to you, our tenants. It is vital that our business plan remains viable in the future. We aim to continue to deliver excellent services to you including maintaining your home through our responsive and cyclical maintenance programme as well as our major planned maintenance programme. Lower rents now could lead to higher rents in future years, a reduced level of service to you, our tenants, or potentially a reduction in our commitment to improve your homes in future years. As you are aware BHA increases its rents on an annual basis and is required to set rents that take account of affordability; the costs of managing and maintaining our houses; comparability with other social landlords in the area and that enable us to service existing loans and fulfil contractual obligations. The rent levels determined and applied by the Association are considered alongside these key factors to ensure we can achieve our intended outcomes and obligations.

Value for Money

BHA is committed to value for money. We aim to deliver value for money to you as tenants by providing quality housing and quality services for a fair rent. BHA rents remain relatively low in comparison to other RSLs and BHA has considered the low wage economy that we have in Berwickshire. We are also acutely aware that some of our tenants are struggling

financially and therefore affordability is a key area for consideration when we review our rents.

We keep our costs under review. The ratio of staff to housing units and rental income and also management costs per unit are monitored annually. We review our expenditure on repairs and maintenance and through effective procurement we seek to secure value for money in repairs, maintenance and investment works. Our longer term budget strategy and business planning seeks to manage our financial resources effectively. Our approach to people and performance management aims to improve service delivery.

Outcomes from the Consultation:

From the 1749 letters/calls/events BHA received 408 responses; 162 responses are receiving Housing Benefit (HB)

Total Responses = returns 23.3% (previous year 18%)

From the 23.3% returns the responses were:

- 1. Agree 3% increase = 291 tenants = 71% (73% agreed last year)**
- 2. Disagree 3% increase = 117 tenants = 29% (27% disagreed last year)**
- 3. 76.7% of BHA tenants did not respond (78% did not respond last year)**

Some of the comments received through discussion regarding a rent increase were:

- We are happy to pay the increase in the rent if upgrades are getting done to houses in a three year planned programme
- Agree to the proposed rent increase provided BHA stands by its promises as stated in the letter as regards the continued maintenance of existing and older properties. I understand there is a definite need for new housing and this should continue but not at the expense or disregard for older properties no matter whether it be a small repair or other more needed maintenance.
- I have no complaints about the rent increase as we are all aware that the costs are rising in almost everything
- Good explanation in letter about how BHA spends its money, very informative
- Think we receive a very good deal from BHA, increase seems reasonable
- It's a bit much considering we are only getting a 1% increase in our salary
- Working people trying to live on their wages are finding it more difficult every year to keep up with the increases.
- Other costs are rising at same time so struggling; referred to Financial Inclusion
- Families are still struggling especially with the low wage economy
- Council services poor; call back to discuss

- Can't understand why rents go up; we have contacted tenant and had further discussion
- Everything else is going up so have less disposable income
- I'm a single parent like many others and I struggle to make ends meet

From the responses BHA staff has contacted all 57 tenants who disagreed/requested a call back. Their issues have been dealt with and some of the individuals will attend the forthcoming Tenant Information Events being held in Coldstream, Chirnside, Duns & Eyemouth on Saturdays in February & March 2019.

Comparative Increases for 2019/20 from other RSLs

Organisation	Proposed Rent Increase
Argyll & Community HA	Expected to be 3.25%
Castlerock Edinvar	3.3%
Clydesdale HA	3.3% (still to be approved)
DGHP	4.15% (still consulting so may reduce)
Eildon HA	4.3%(to be approved Feb 2019)
Hebridean Housing Partnership	3.2% - 3.7% (still consulting)
Kingdom HA	2.5%
Loreburn HA	Between 2% - 2.5% to be agreed
Scottish Borders HA	4.25%
Waverley Housing	2.9% (higher for 1 & 2 apts)
West Highland HA	2.5% (still to be approved)

Points to be considered

- We will continue to place our customers and communities at the centre of what we do and provide efficient, effective services as well as keeping rents affordable;
- Value for Money:
- There is still a lack of affordable housing available in our area and BHA has a number developments agreed within the Strategic Housing Investment Plan;
- The majority of the tenants who have returned consultation have agreed with increase; we will continue to invest in our homes with a priority to replace poor condition attributes; those failing due to age and comply with the requirements of the Energy Efficiency Standards for Social Housing (EESH) by 2020 but also consider fuel poverty within each household; BHA will also deal with any properties which were exempt / abeyances in SHQS as part of our ongoing programme.
- From a financial perspective the business would like to maximise its rental income;

- Increased rents could impact on tenancy sustainment; tenancy refusal rates; higher arrears, voids & bad debts – aware of a higher number of affordability issues and financial inclusion cases in 2018/19;
- External squeeze - there is also the added impact of higher utility costs and increasing fuel costs within the area;
- Procurement – albeit our experience to date is that we are seeing positive outcomes/value for money there is a possibility that costs/rates for tenders increase as competition for contractor's increases.
- The uncertainty of the current political landscape.
- Welfare reform – Universal Credit is still a significant challenge. We are completing a higher number of Employment & Social Allowance (ESA) work capability questionnaires as well as more PIP; DLA claims and crisis grant applications.

We now have 146 tenancies on UC which is 148 claimants, as at 9/01/19:

30 accounts are either clear or in credit

51 accounts are less than £350 (around 1 month)

28 accounts between £350 & £700 (around 2 months)

36 accounts over £700 and 24 of these over £1,000

Recommendation

Further to the consultation the Leadership Team recommend the proposed rent increase of 3% considering the following key points:

- **Affordability is an issue for our customers and we will continue to work closely with those who are struggling;**
- **Managing the business / budget implications / long term financial planning**
- **Sustaining communities / impact**
- **Listening to what our tenants say from the consultation process**
- **Taking cognisance of other organisations and their intended increases / affordable rents**
- **Reputation; it is important considering our vision and values that we are seen to recognise the difficulties facing our tenants and ensure we take these into consideration in our financial planning**
- **Current & Future challenges – Welfare Reform; increasing fuel / utility costs / other external challenges / employment opportunities**
- **Value for Money**