

## **Knowes Housing Association Ltd – Tenant Rent Consultation 2018/19**

If you are a tenant of Knowes HA please read the following article carefully then answer the questions in the rent survey and give your comments as appropriate. You can use our online link to respond to the survey, email your answers back to us, give your answers via telephone or drop your response into the office next time you are in.

Your answers are important to us. We will take on board your responses and comments you make and where possible will respond individually to you.

### **Background**

Knowes' Management Committee, as an important part of the annual budget process, is required to review the rents the Association charges on an annual basis and decide whether it will be necessary to increase these rents for the forthcoming financial year 2018/19 (1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019).

There are a number of factors which Knowes is obliged to take into account when setting rents. These are as follows: -

1. Knowes is legally obliged to consult with tenants when setting its annual rent increase. This is covered by the Housing (Scotland) Act 2001 and is also recommended practice by the Scottish Housing Regulator.
2. Knowes must ensure that it has a viable long term business plan in place. This means that for a period of at least thirty years our income levels are enough to pay for all our costs. 96% of Knowes' annual income comes from rents.
3. Knowes is legally bound to meet the conditions of the Scottish Housing Quality Standard (SHQS) which states that every house must meet a certain standard and also the Energy Efficiency Standards for Scottish Housing (EESH) by 2020.
4. Knowes carries out a stock condition survey every five years and has a thirty years repairs, maintenance and property component replacement programme in place which is funded from the rents received from tenants. Therefore Knowes must raise a certain level of income from its rents in order to meet its repair and maintenance commitments.
5. Knowes must generate enough income to meet its short and long term costs which include paying back the loan taken out to purchase the properties from the former Scottish Homes and paying its staff salaries and overheads.
6. Knowes must take into account the standards and outcomes set by The Scottish Social Housing Charter with regard to rents so that "*a balance is struck between the level of services provided, the cost of the services, and how far current and prospective tenants and other customers can afford them*".

### **What does the Regulator say with regards to rent increases?**

Moreover the Scottish Housing Regulator in a paper on rents, published in November 2016, recommends that in relation to consulting tenants about rent increases social landlords should undertake to do the following:

- » *ensure that consultation about rent increases is meaningful and give tenants genuine opportunities to participate;*
- » *consider their tenant profile and the best ways to engage with tenants about rent increases;*
- » *give tenants easy-to-understand information to help them to express informed views;*

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*» give tenants genuine options for proposed rent increases and spell out what they mean for levels of investment in homes and the level of services offered; and » show tenants how their views were taken into consideration in decisions and give them feedback on the consultation process.*

The Scottish Housing Regulator paper on rents is available to download from their website <https://www.scottishhousingregulator.gov.uk/>

### **Business Risks**

There are a number of risks which affect Knowes and which the Management Committee need to consider when setting rents.

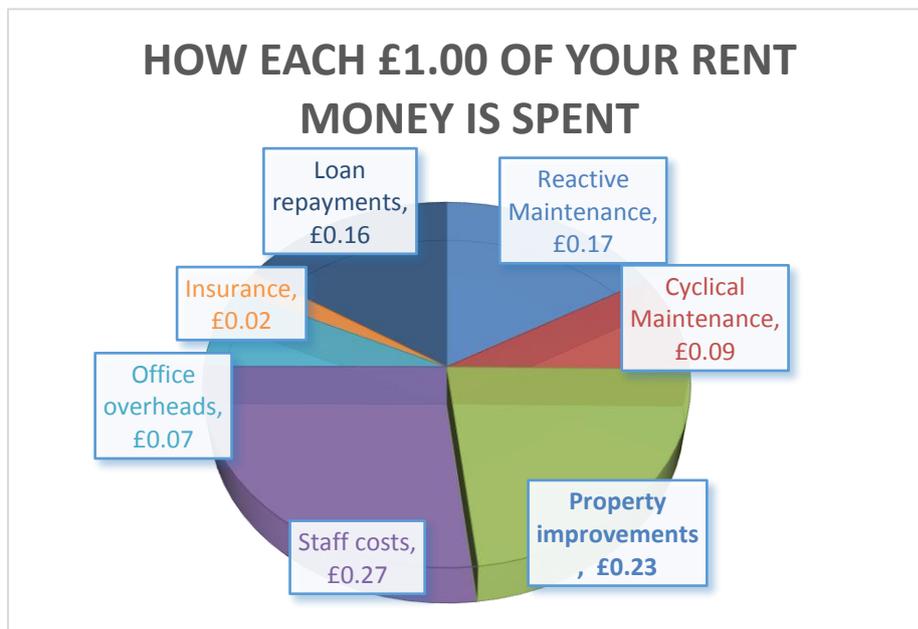
1. The rate of inflation – this is increasing with CPIH now standing at 2.9% and CPI at 3.0%. (RPI is 3.9%). The higher the rate of inflation then the higher Knowes' own costs will be.
2. We need to look at how affordable our rents are to our tenants. Although the rate of inflation is now rising in most cases wage increases are still low. The Management Committee will always consider the issue of affordability when setting rents. The higher the rent increase then the less affordable our rents become to tenants. We wish to avoid this.
3. We need to assess how Knowes' own cost increase year after year. The rate of inflation inherent in Knowes' own costs can be higher than the official rate of inflation. This is influenced by how much building costs are rising by and also Government Taxes which affect costs such as property insurance.
4. The interest rate we pay on our borrowings is also a risk factor. Interest rates are now rising 0.25% to 0.5% in November 2017 with further rate increases planned by the Bank of England. Knowes is still paying back the money which we borrowed to buy the existing properties from Scottish Homes – also utilised to develop new properties and improve existing ones in the years since the stock transfer.
5. Welfare reform and Universal credit are starting to affect our tenants which means that we need more staff at Knowes to assist with Universal Credit applications and deal with arrears arising from tenants who are finding it difficult to pay their rent whilst they are waiting on their application for universal credit being approved. There is also a danger of arrears increasing and we need with our staff to engage with tenants as early as possible to ensure that rents are paid. Without the rent money coming in we would have no money to pay for costs therefore arrears control is one of the top priorities for housing officers at Knowes.
6. There is new Government legislation affecting housing associations and although the intention of this is to ensure tenants receive a better service – this comes at a cost. Government legislation such as Energy Efficiency Standard Social Housing – all have cost implications for Knowes' stock
7. Knowes' aging stock profile will lead to higher future repair costs and we have to be planning for that now.
8. There have been demographic changes in the population with more elderly people in our population and more single parent households. There is an increased demand for more low rise properties with gardens and more adaptable properties for an aging population. Knowes has to consider change

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in needs and aspiration of our tenants and plan accordingly for houses for the future.

9. Change in computer software systems, need for increasing computer security, continual improvement in customer service, Government reporting requirements – all these have cost implications for Knowes.
10. General Data Protection Regulations – in order to fully comply with these will mean cost implications for the Association and its suppliers who will in turn pass the costs on to Knowes.
11. Knowes' original business plan was built on RPI plus 1% rent increases each year. According to our original business plan we should have a rent increase of 4.9% in April 2018. However we feel that this would make our rents unaffordable to our tenants. This means that Knowes has to continually look for efficiencies in its costs to ensure that we outperform the original business plan conditions under which the properties were sold to Knowes.

### **How do we spend your rent money?**



### **How do we set the rents?**

It is the task of the Management Committee to consider ways to mitigate all of the risks which affect Knowes. To do this they examine the recommendations made by the Management Team at Knowes using long term business forecasting and scenario planning. This means that the Committee look at income and expenditure over a thirty year period for Knowes with assumptions for inflation, interest rates, income, expenditure and including capital costs of improving houses. These assumptions are then varied to take into account the risks above and the effect on the business plan is assessed. By performing this analysis the Committee is able to ascertain the minimum

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rent increase required to ensure that the organisation is financially viable over the long term and to ensure that the Association's property assets are maintained to the required standards and tenants' interests are safeguarded. This is a balancing act and the question we need to answer is: - 'what is the minimum rent increase required to ensure that our business model continues to work for our tenants?'

Taking into account all of the above, for 2018/19 the Management Committee wish to consult the tenants on a rent increase of **2.75%**. The Management Committee feel that to offer different rent options would not be in the best interests of tenants. It was felt that 2.75% was the minimum rent increase needed to maintain the standard of service that tenants receive now. However within the survey you will also be asked to comments if you feel that the level of service you receive should increase and how much you would be willing to pay for that. Conversely you will be asked if you feel that the proposed rent increase is affordable to you and if not can you identify which services could be cut in order to have a lower rent increase or no increase at all.

### Effect on Knowes' rent levels of proposed rent increases;-

Apartment size	no in stock	average weekly rent 2017/18	2.5% increase	2.75% increase	3.0% increase
2 APT	78	£66.10	£1.65	£1.82	£1.98
3 APT	555	£70.28	£1.76	£1.93	£2.11
4 APT	359	£78.44	£1.96	£2.16	£2.35
5 APT +	34	£95.07	£2.38	£2.61	£2.85
<b>OVERALL AVERAGE</b>	<b>1026</b>	<b>£73.63</b>	<b>£1.84</b>	<b>£2.02</b>	<b>£2.21</b>

Gross income		2017/18 projected rental income	Additional income generated – with 2.5%, 2.75% and 3.0% rent increases		
per week		£75,858.15	£1,896.45	£2,086.10	£2,275.74
annual		£3,944,624	£98,615.60	£108,477.16	£118,338.72

As you can see from the tables above – each 0.25% rent increase is a difference of on average 18p per week per tenant per rent and means around £10,000 additional income to Knowes per year. A zero rent increase would mean that Knowes would lose £98,615 per annum per year forever. This is not sustainable in our business plan. Each £0.25 rent increase is around £10,000 per annum additional rent.

### Taking into account affordability

If you want to check affordability guidelines for your rent then you refer to the Scottish Federation of Housing Associations' paper on Rent Setting Guidance and Affordability

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<https://www.sfha.co.uk/news/news-category/policy-update/news-article/sfha-guide-to-rent-setting-and-affordability-tool>

Within the affordability tool there is a table for comparing rents for 1, 2 and 3 bedroom properties with guidance as to whether these meet the minimum standards for affordability. The table gives amber and red warnings whenever rent levels are moving out of affordability measures for different types of households. The income of households is based on minimum wage. You will be able to calculate for yourself - based on your own income – how much you have left over after paying your rent.

### Comparing your rents to other housing providers

It is also useful to compare rents against the Scottish Government Benchmarks used for the purposes of assessing rents for new build projects and grant funding - see table below:-

Scottish Government Social rent benchmarks - used for grant purposes

Bed spaces	Equivalent apartment size	Benchmark annual rent 2018/19	Benchmark weekly rent 2018/19	Knowes typical average rent with a 3% increase
2	2	£3747.90	£72.08	£68.08
3	3	£4196.97	£80.71	£73.39
4	3	£4574.70	£87.98	£83.00
5	4	£4847.50	£93.22	£85.14
6	4	£5036.37	£96.85	£96.09
7	5	£5456.07	£104.92	£97.92

Comparison figures for rents for West Dunbartonshire RSL's are not available yet for 2017/18. However we do have figures from the Scottish Housing Regulator ARC returns for 2016/17 as below:-

ARC Indicator 2016/17	Knowes HA	Scottish Average
C17 Lettable self-contained units - Total - Average weekly rent	£74.10 (this figure contains close cleaning charges)	£74.44
1 - Percentage tenants satisfied with overall service provided by landlord	91.04%	89.71%
29 - Percentage tenants who feel rent for their	82.11%	81.85%

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property represents good value for money		
31 - Percentage gross rent arrears of rent due	1.39%	5.3%
34 - Percentage of rent due lost through properties being empty	0.21%	0.87%
34 - Percentage of rent due lost through properties being empty	6.08	31.53

As you can see from the above figures, Knowes outperforms the Scottish average for housing providers for the key rent performance indicators.

Given the above information we would like you to complete our rent survey. We would prefer your responses to be via our website at [www.knowes.org](http://www.knowes.org) but if you do not have online access then we are happy for you to telephone and speak to a member of staff at the office or complete the form below and hand it into the office next time you are in. We would like to receive your responses before 8<sup>th</sup> January 2018. Each response will be entered into a prize draw with a chance of winning £50.00 of vouchers.