



**REPORT TO: HOUSING AND COMMUNITY SAFETY COMMITTEE ON 21
NOVEMBER 2023**

SUBJECT: RENT SETTING POLICY REVIEW

**BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND
FINANCE)**

1. REASON FOR REPORT

- 1.1 This report informs the Committee of the need to review the methodology used to set council house rents and service charges in Moray. It presents a revised Rent Setting Policy for consideration and seeks agreement to consult with stakeholders on the revised policy. It also seeks approval to consult with tenants on rent levels to be included within the Housing Revenue Account (HRA) Budget 2024/25.
- 1.2 This report is submitted to Committee in terms of Section III G (1a) of the Council's Administrative Scheme relating to capital and revenue budgeting, including the setting of rent levels for Council houses.

2. RECOMMENDATION

- 2.1 **It is recommended that the Housing and Community Safety Committee:-**
- i) notes the current practice and the requirement to review the Rent Setting Policy, as detailed in Section 3;**
 - ii) considers and approves the revised Rent Setting Policy, as set out in Section 6 and APPENDIX II, for consultation;**
 - iii) agrees that a consultation exercise on the revised Rent Setting Policy is undertaken, as set out in Section 8;**
 - iv) considers the Integrated Impact Assessment on the Rent Setting Policy at APPENDIX III and notes that it may be updated following the policy consultation;**
 - v) notes that an update report, detailing the outcome of the consultation and providing a revised policy for approval, will be presented to this Committee in February 2024;**

- vi) **agrees that Council tenants are consulted on rent levels as part of the HRA budget setting for 2024/25, as set out in Section 9; and**
- vii) **agrees that the consultation outcome and the tenants' preferred option for the annual increase are included within the HRA Annual Budget for 2024/25, due to be presented to Council in March 2024.**

3. BACKGROUND

- 3.1 The Rent Setting Policy was approved by the Community Services Committee on 23 November 2005 for implementation from 3 April 2006 (Paragraph 5 of the Minute refers). The policy was further reviewed on 16 February 2010, when the Communities Committee agreed to include a premium for new Council houses and to allow a weekly charge for the installation of over bath showers, where tenants wished these installed (paragraph 10 of the Minute refers). Minor policy amendments were approved by the Communities Committee on 22 October 2013 (Paragraph 6 of the Minute refers).
- 3.2 The current structure calculates rents using a points based approach which considers specific elements relevant to each property:
- Property type
 - Bedrooms
 - National Home Energy Rating (NHER) value
 - Garden
 - Kitchen standard
 - Location
 - Council new build
- In addition there is a weekly charge for over bath showers installed at the tenant's request, which is calculated over a 12 year period.
- 3.3 In 2021, Arneil Johnston were commissioned to complete a Housing Revenue Account (HRA) Business Plan review which included an assessment of rent affordability. The review concluded that "Moray Council's average rent levels are lower than all Scottish local authorities and significantly lower than locally operating RSLs. The rent affordability assessment outcome demonstrates rents are affordable across all measures including minimum household income thresholds. With such a low rent base there is clear headroom to increase rents and not breach affordability thresholds." The Business Plan Review considered the borrowing required to accommodate known stock investment requirements and reported that this "is only fundable in the short term with the 35% debt affordability limit breached from Year 8 onwards. Furthermore, there is no capacity to withstand the risk of increasing prices or a fall in projected income, nor is there capacity to invest further in the new build programme beyond current commitments." The Business Plan Review recommended that "Moray Council progress with a rent harmonisation exercise to introduce a fairer and more transparent rent structure that generates an additional income stream of at least 7% in addition to any inflationary rent increase applicable."

- 3.4 Since the completion of the Business Plan review, officers have reassessed the additional income stream required in the current economic context which includes the cost of inflation, increased interest rates, increased energy costs, wage settlements. Officers have assessed the additional income stream required at £2.4m per year.
- 3.5 In May 2022, Arneil Johnston were commissioned to complete a further review of the rent structure to support the development of a consistent, fair and transparent model for setting rent and service charges which ensures rents are affordable for tenants, can support investment, and provide financial security for the HRA Business Plan.
- 3.6 This review identified that the Council's current rent structure had 386 different rent levels with wide variations in the rent values and evidenced a lack of consistency in rent levels across property sizes and property types. This inconsistency means that the current structure lacks transparency, does not align with tenant preferences in relation to types of property and facilities, and cannot be easily understood or explained. In addition, aspects of the policy can lead to tenants refusing upgrades and / or improvements, which has a negative impact on the property standard and the overall ability to achieve required energy efficiency standards.
- 3.7 The rent restructure exercise and resulting draft Rent Setting Policy are separate to any annual rent increase which the Council may apply, subject to consultation with its tenants. In recent years, the following annual rent increases have been agreed.

| Year | Annual rent increase |
|---------|----------------------|
| 2019/20 | 0% |
| 2020/21 | 3% |
| 2021/22 | 3% |
| 2022/23 | 1.5% |
| 2023/24 | 3.5% |

- 3.8 The two most recent annual rent increase consultations informed tenants that a lower increase would result in less available spending which would negatively impact on the Council's ability to achieve identified improvements and upgrades. Furthermore, tenants were advised that such an approach would risk higher increases in future years in order to ensure that the Council could achieve these objectives and meet its statutory requirements, e.g. deliver energy standards (special meeting of Moray Council on 1 March 2023, Paragraph 7 of the Minute refers).
- 3.9 Similar to all Scottish social landlords, the Housing Service is experiencing ongoing financial pressures. The Service must address the cost increases associated with maintaining existing stock, investing in stock to ensure compliance with energy efficiency standards and to achieve decarbonisation of heating, and the delivery of the new build programme. Other overheads associated with delivering the service, such as staff costs, energy costs, interest rates, inflation, insurance and so on, continue to grow.

- 3.10 Moray Council housing rents have been the lowest, or amongst the lowest Scottish local authority rents for many years.

4. RENT SETTING CONTEXT

- 4.1 There is no prescribed method for setting or increasing social housing rent in Scotland. The practice of setting rents varies between landlords. Social landlords must comply with the outcomes and standards set out in the Scottish Social Housing Charter. This requires that:

“Social landlords manage all aspects of their businesses so that:

- tenants, owners and other customers receive services that provide continually improving value for the rent and other charges they pay.”

and

“Social landlords set rents and service charges in consultation with their tenants and other customers 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 service users can afford them
- tenants get clear information on how rent and other money is spent, including details of any individual items of expenditure above thresholds agreed between landlords and tenants.”

- 4.2 The Housing (Scotland) Act 2001, requires landlords to consult their tenants on any proposed rent increase and to have regard to the views expressed. Apart from the requirement to consult, legislation does not specify how social landlords should set their rent or limit possible rent increases.

5. REVIEW OF THE RENT SETTING METHODOLOGY

- 5.1 A Rent Setting Review Group was established to:

- consider and analyse the revised rental model provided by Arneil Johnston;
- consider the outcomes of the tenant consultation (see 5.4);
- assess the impact of the revised rental model and agree what aspects should be taken into account when agreeing rent levels;
- consider what changes could be made to ensure that the rent setting process is fair and transparent and affordable; and
- develop a revised Rent Setting Policy.

- 5.2 The review has been guided by the following principles:

- The system should be fair, equitable, consistently applied and supported by tenants;
- The application of the policy should be straightforward and should be easily understood by tenants and staff;
- Rents charged should reflect the benefits and/or amenities of a property;
- The process should ensure that sufficient income continues to be generated to fund the HRA and that it continues to be financially viable; and
- Rent should continue to be affordable to tenants.

- 5.3 A key element of the review, facilitated by Arneil Johnston, was to engage with Moray Council tenants to establish what tenants perceive to be a fair and consistent set of rules for rent and service charge setting, accounting for those property characteristics that should be considered when calculating rents.
- 5.4 In Summer 2023, all Moray Council tenants were contacted and invited to provide feedback, via the completion of a questionnaire, on the principles of rent restructuring and to give their opinions on the potential property characteristics which could be considered for rent setting and on the methodology for applying service charges. Tenants were also invited to attend online and in-person workshops which were intended to gather enhanced details on tenant opinions on the principles and methodologies for setting and applying rent and service charges. In addition to direct contact, the promotion of tenant engagement was widely publicised across social media platforms. The response rates were slightly lower than anticipated. However, the outcomes of the survey did provide an important measure of tenant attitudes and opinions to proposals for rent and service charge restructuring. **APPENDIX I** provides details of the response rates and a summary of the consultation outcomes.
- 5.5 The outcome of the tenant consultation exercises presented recommendations regarding the principles which should be implemented in the restructuring of the rent setting framework. These recommendations have been at the forefront of the review and have informed the policy review and development process.
- 5.6 Tenant feedback towards the revised structure was generally supportive. Those who attended focus group expressed the merit regarding the need to increase rent in order to achieve and deliver better quality housing and improvements. During the consultation tenants expressed strong support for incorporating the service charge for showers within the rent charge. In reaction to this, the revised rental structure has removed the service charge for showers installed at the tenant's request and the cost will be pooled into the rental charge. The original version of the modelling of the rent structure has been revised to better reflect the tenant opinions returned during the consultation.
- 5.7 Extensive modelling and testing of various scenarios have been undertaken in order to assess their impact on the HRA Business Plan and tenants and to develop a robust rent setting structure. Officers have completed a benchmarking exercise, comparing the modelled rents with neighbouring local authorities and with locally operating Registered Social Landlords (RSLs), and conclude that the new rent levels would remain considerably below those comparators.
- 5.8 The following table demonstrates that the proposed rents will remain below comparable rents charged by Highland and Aberdeenshire Councils and locally operating Housing Associations, and below the Local Housing Allowance (LHA), and remain affordable.

| Rents per week (1/48 th) 2023/24 | | | | | |
|--|---------------|---------------|---------------|----------------|---------------|
| Beds | 1 | 2 | 3 | 4 | Average |
| Apartments | 2 | 3 | 4 | 5 | |
| Moray Council (Current Policy) | £62.15 | £72.94 | £84.46 | £102.89 | £73.51 |
| Highland Council* | £82.74 | £91.85 | £102.13 | £114.17 | £93.01 |
| Aberdeenshire Council* | £94.83 | £98.46 | £114.48 | £130.83 | £100.47 |
| Grampian HA* | £103.48 | £120.15 | £133.00 | £151.52 | £119.53 |
| Cairn HA* | £106.64 | £107.19 | £125.81 | £141.20 | £112.28 |
| Langstane HA* | £100.95 | £115.63 | £123.74 | £138.41 | £107.45 |
| LHA Highlands & Isles* | £105.96 | £137.13 | £158.32 | £199.45 | n/a |
| LHA Aberdeen & Shire* | £105.96 | £148.34 | £186.98 | £249.32 | n/a |
| Moray Council (Proposed Policy) | £66.49 | £73.89 | £88.61 | £108.11 | £76.20 |

rents converted to 1/48th of annual rent for comparison

* published rates 2022/23 + published annual increase

- 5.9 Officers have consulted the Scottish Housing Regulator on the proposed approach to the rent setting exercise throughout its development. The Regulator has requested to be kept informed on progress but has not raised any concerns on work completed to date, nor on future proposed actions.

6. REVISED RENT SETTING STRUCTURE

- 6.1 The methodology used to calculate the weekly rent adopts a combined approach, which uses a minimum baseline rent, varied using a points based scheme, based on the attributes relevant to the property.
- 6.2 The proposed baseline rent has been developed around the rental charge for a two bedroom, semi-detached property, which is the most common property size and type in Moray Council housing stock. The points based scheme is calculated according to values awarded to the characteristics and amenities of each property, which are applied uniformly. The attributes which are taken into account are:
- Property size (number of bedrooms)
 - Property type (e.g. house or flat, mid or end terraced, detached or semi-detached, etc.)
 - Energy rating (based on the Energy Performance Certificate (EPC) rating)
 - Parking (private or shared parking)
 - Additional toilet
 - Garden (private or shared)
 - Sheltered housing (heating charge applicable to Larch Court, Elgin only)
- The rent is charged over 48 weeks per year.
Further detail is provided in the revised Rent Setting Policy (**APPENDIX II**).
- 6.3 It is anticipated that by applying a baseline rent and thereafter adding or subtracting the values assigned to the attribute, sufficient revenue will be generated (subject to any additionally agreed annual rent increase) to secure the financial viability of the HRA Business Plan, whilst also ensuring that rents remain affordable.

- 6.4 The proposed Rent Setting Policy scoring would result in rent level changes to a variety of property types. The policy aims to deliver rent level variations which reflect the priority tenants assign to the various attributes listed at Para 6.2, and which match house price variations according to attributes in the wider housing market. For example, rent levels for flats would reduce, mid terraced properties would be almost unchanged and semi-detached properties would increase. Newer properties which provide the additional amenity of a private driveway and second toilet will attract a higher rental than an older property without these features.
- 6.5 In recognition that the energy efficiency of some properties remains below recommended standards, where the property is fuel inefficient the rent setting structure incorporates a discount. The tenant will benefit from the discount until the improvement works are available and the EPC rating improved and importantly will be removed if the tenant does not consent to improvement work being carried out. The historic policy does not afford any discount. It is anticipated that as the five year improvement plan is achieved and rents adjusted to reflect the improvements, ultimately rental income will increase.

7. HARMONISATION OF RENT SETTING PROCESS

- 7.1 The impact on individual tenants has been a key consideration throughout the review and policy development process. Therefore, in order to minimise any adverse impact, it is recommended that the policy should be subject to a period of convergence.
- 7.2 During the convergence period, tenants will be provided with transitional relief which will alleviate any financial impact and ensure that rent continues to be affordable, without posing a risk to the income required to ensure that the HRA continues to be financially viable. The modelling undertaken to assess the impact of the rent structure assumes that the maximum additional rent or reduction in rent experienced by tenant should be limited to £7.50 per week, until full convergence. This was the preferred option stated by tenants during the review consultation. It is anticipated that this approach would result in full convergence within just over five years.
- 7.3 At the time of writing this report, 2,941 council tenants (46.15% of all tenancies) were in full or partial receipt of either the Housing Element of Universal Credit or Housing Benefit. It is anticipated that, should these tenants experience an increase in rent, they would not pay anything extra, since benefits are based on a person's income and ability to pay, rather than the amount of rent. Therefore any increase in the rent would normally be matched by an increase in the benefit received, unless there are changes in the household's circumstance or other benefit restrictions apply.
- 7.4 Transitional relief applied during the convergence period would be separate to any annual rental increase which may be agreed by the Council, following consultation with tenants.
- 7.5 Any new tenancies created after 1 April 2024 would assume the full amount of rent as calculated under the new policy, without any transitional relief.

Summary

- 7.6 If the Rent Setting Policy is approved, Officers intend to implement the new Policy from 1 April 2024.
- 7.7 The revised rent modelling indicates that it could deliver an estimated additional £1.8m to the HRA Business Plan, at the end of the convergence period (excluding annual rent increases).
- 7.8 It is anticipated that the revised Rent Setting Policy will have the following impacts:
- The rent structure will be streamlined and simplified. The number of different rent levels will decrease from 386 to 28, whilst the ratio of properties to each rent level will increase from 28 to 227.6.
 - No rent will increase/decrease by more than £7.50 per week during the convergence period.
 - The overall average rent will increase from £73.25 to £76.20. However, this will remain:
 - below the affordability thresholds, referred to at para 3.3.
 - below the average weekly rent for both neighbouring local authority landlords and locally operating RSLs. It is anticipated, that the average weekly rent will continue to remain the lowest amongst social landlords in Scotland.
 - significantly below private rents in Moray and below the Local Housing Allowance rate.

8. CONSULTATION ON THE RENT SETTING POLICY

- 8.1 It is proposed that a consultation exercise on the revised Rent Setting Policy is undertaken, providing tenants, Housing List applicants and other relevant stakeholders with the opportunity to provide feedback.
- 8.2 The consultation process will involve:
- publication of the revised Rent Setting Policy, along with a comprehensive explanatory leaflet, on the Council website;
 - developing an online survey available on the Council's website and publicising it across the Council's social media platforms;
 - contacting relevant stakeholders and requesting feedback, including:
 - Moray Council tenants;
 - Applicants on the Housing List;
 - Register of Interested Tenants; and
 - Moray Tenant's Forum.
- 8.3 The consultation will commence on 22 November 2023 and close on Friday 5 January 2024. The consultation feedback will inform the policy development process.
- 8.4 It is proposed that a briefing session for Elected Members will be arranged during the consultation period, which will be delivered by Arneil Johnston.

9. ANNUAL RENT INCREASE CONSULTATION 2024/25

- 9.1 Until recently, the proposed rent increases under the HRA Business Plan would normally be above the rate of inflation, based on the Consumer Price Index (CPI) + 1%. This would be the equivalent of 7.7% increase to Council house rents (an average weekly increase of £5.20). In order to meet the HRA Business Plan requirements and ensure continued financial viability, it is proposed that the Council consult tenants on options which are equivalent to and above this amount. The consultation will present tenants with the following options for 2024/25:
- 7.7% increase i.e. CPI +1%
 - 11% increase i.e. Business Plan optimum
- 9.2 The information provided to tenants as part of the consultation will provide details on what rents have funded during the previous year, explain how rents are used to fund investment for key improvements to homes and will include a comparison with other local authority rents.
- 9.3 The consultation process will involve:
- publication of a comprehensive explanatory leaflet on the Council website;
 - developing an online survey available on the Council's website and publicising it across the Council's social media platforms; and
 - contacting Moray Council tenants, the Register of Interested Tenants; and Moray Tenant's Forum to seek their feedback.
- 9.4 The consultation will commence on 22 November 2023 and close on Friday 5 January 2024.

10. FUTURE ACTIONS

Rent Setting Policy

- 10.1 Following analysis and consideration of comments received during the policy consultation, any necessary amendments to the policy will be made. A further progress report with the outcome of the consultation process, along with a final Rent Setting Policy, will be presented to this Committee on 13 February 2024 for approval.
- 10.2 Subject to the consultation feedback and Committee's approval in February 2024, an implementation plan will be developed to support a "go live" date of 1 April 2024. This will include, contacting tenants to inform them of the changes and arrangements for implementing the policy, carrying out testing and making necessary changes to NEC housing system to facilitate the policy implementation, staff training and awareness of the revised policy and a review of all relevant applicant information resources.

Annual rent increase 2024/25

- 10.3 The Council will have regard to the views of tenants who respond to the annual rent increase survey. Feedback will be used to inform the annual increase recommended within the HRA Annual Budget for 2024/25, due to be presented to Council in March 2024.

11. SUMMARY OF IMPLICATIONS

(a) **Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP)) identifies an increase in the supply of affordable housing as one of the key components of a growing, diverse and sustainable economy in Moray. Assuring the long term financial stability of the Housing Revenue Account will contribute to delivery of this aim.

(b) **Policy and Legal**

The Rent Setting Policy will be subject to detailed consultation and further reporting to this committee in February 2024. In addition, Officers are providing the Scottish Housing Regulator with updates. There are no legal implications arising from this report.

(c) **Financial implications**

The HRA deals with expenditure and income for the Council's housing stock. The HRA is expected to be self-financing, that is, the budgeted income is sufficient to cover the budget expenditure. The HRA is not permitted to show a deficit at the end of the financial year.

The HRA Business Plan is agreed over a 30 year period and is reviewed on a three yearly basis in order to provide assurance that the Council can continue to fund its housing activities within the constraints for the accounting regime for housing.

The HRA Business Plan Review has identified a risk that HRA borrowing would exceed the agreed parameter of 35% within eight years, and recommends the implementation of a rent review. Officers have estimated that additional rental income of £2.4m is required in 2024/25.

The increased income is modelled as:

| Scenario | | estimated total rental income 2024/25* |
|-----------------|---|---|
| 1 | Existing rent setting policy | £22.404m |
| 2 | Existing rent setting policy + 7.7% rent increase | £24.130m |
| 3 | Existing rent setting policy + 11% rent increase | £24.869m |
| 4 | Proposed rent setting policy | £23.262m |
| 5 | Proposed rent setting policy + 7.7% rent increase | £25.053m |
| 6 | Proposed rent setting policy + 11% rent increase | £25.821m |

*excluding harmonisation

Scenario 5 proposes the best fit with Business Plan review recommendations re rent setting, long term financial viability, and additional rental income required.

(d) Risk Implications

The risk to the financial viability of the HRA has been assessed through the HRA Business Plan Review, completed in March 2023. These proposals aim to mitigate these risks and ensure sufficient funds are available to meet all Moray Council's statutory obligations in its role as a social landlord.

(e) Staffing Implications

There are no staffing implications arising from this report.

(f) Property

There are no property implications arising from this report.

(g) Equalities/Socio Economic Impact

An Integrated Impact Assessment (**APPENDIX III**) has been completed as part of the review of the Rent Setting Policy and no negative impacts identified. This will be reviewed following the formal consultation process with stakeholders and updated as required.

(h) Climate Change and Biodiversity Impacts

These proposals aim to ensure sufficient funds are available to meet all Moray Council's statutory obligations in its role as a social landlord. This includes delivery of ESSH/ESSH2, net zero carbon emissions and the aims of Housing to 2040.

(i) Consultations

Consultation on this report has taken place with the Head of Housing and Property, Housing Services Manager, Housing Strategy and Development Manager, Officers within the Housing Service, the Chief Financial Officer, Alistair Milne (Accountant), Georgina Anderson (Legal Services Senior Solicitor), the Equal Opportunities Officer and Lissa Rowan (Committee Services Officer) and any comments have been incorporated into the report.

11. CONCLUSION

11.1 This report provides Committee with an update on the requirement to review the rent setting structure. It presents a revised Rent Setting Policy for consideration and seeks agreement to undertake a formal consultation with stakeholders. It seeks approval to consult Council tenants on proposed rent levels as part of the HRA budget setting for 2024/25.

Author of Report: Gillian Henly, Senior Housing Officer (Policy)
Fiona Geddes, Housing Strategy and Development Manager

Background Papers:

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