

Tenants First Housing Co-operative
Report to the Committee of Management
For the Meeting held on 30th January 2012
At 23 Albert Street, Aberdeen

AGENDA ITEM 2.2

1. Subject

Rent Consultation 2012-13.

2. Summary

A letter was issued to members in January 2012 proposing a rent increase, for 2012-13, of 6.4%. Members were asked to return a comments sheet to the Director of Finance.

In accordance with best practice guidance from the SFHA and the Scottish Government this report aims to –

- Review the affordability of the proposed increase
- Compare the Co-op rents with those of other RSL's
- Analyse the responses from members
- Recommend the rent increase for 2012-13.

The report should be considered along with the 2012-13 budget proposals.

3. Link to Business Plan

This report is linked to the following objectives –

Objective 2 - As a fully mutual Co-operative, to maximise the involvement of members and promote co-operative benefits and principles.

Objective 4 – To manage and develop the business innovatively whilst maintaining financial viability

4. Proposal

Affordability

The Rent Increase Report was presented to the COM in December 2011 and showed that affordability tests had been carried out.

New SFHA formula

The SFHA now recommends that child benefit and tax credits should be added to earned income. The suggestion is that "*affordability should*

be measured using the minimum wage and child benefit/tax credits as appropriate”.

There is an advantage in all landlords using a standard affordability measure. This would give tenants and governing bodies the comfort of knowing that their rents are being judged on the same criteria as others. The SFHA continues to recommend the use of the 'Housing Benefit dependency' model but suggests that using a 35 hour working week rather than 16 hours.

During 2011 a working group, to review the Rent Policy, met regularly to consider a new affordability test, in line with the recommendation of the SFHA Rent Setting Guidance booklet produced in January this year.

The criteria of the affordability test suggests that the lowest allocation criteria is met for a property - that is one member of the household is working 35 hours on minimum wage. Using this criteria the affordability levels show:

- 100% for 1 and 2 bedroom properties (100% for 2011);
- 93.41% for 3 bedroom properties (86% for 2011);
- 67% for 4 bedrooms properties (81.7% for 2011); however
- Of the 2x 5 bedroom properties only one was affordable; and
- The 6 bedroom property was not affordable for a single person working 35 hours on minimum wage.

Overall this gives an affordable level of 96.3%

Assuming that overall household incomes do not reduce drastically, but instead remain stable, an increase of 6.4% will affect some households but is likely to be affordable to 96.3% of households.

Comparisons with Other Housing Providers

In Aberdeen City comparing the rents of other social housing providers showed that the Co-op rents are generally higher than those of the others for all apartment sizes - except for 2 apartment and 5 apartment properties at Langstane Housing Association.

In Aberdeenshire the comparability table showed that the Co-op rents, in general, are the lowest for most apartment types, except for Castlehill HA and Kincardine HA against which the Co-op compares well.

For the City of Glasgow the Co-op rents compare favourably with those of three selected other social housing providers in Glasgow – except for the 4 apartment properties.

For Angus the Co-op's rents for the 50 properties in Arbroath were not compared to the average RSL rents in Angus in 2011-12 because, until April 2010, the properties in Arbroath were at market rate levels.

If the Co-op's rents are increased, for 2012-13, by the proposed recommendation of 6.4% this will be slightly lower than Castlehill HA (6.6%). Aberdeenshire HA is recommending an increase of 5% - linked to the investment to each of the properties over this period (including meeting SHQS deadlines). Grampian HA and Langstane HA are unable to give an indication of their rent increases for next year but are usually linked to the RPI at December and January (which is expected to be around the 5% level).

Aberdeen City Council is to consult on a rent increase of RPIX (November 2011) + 1% (approx 6.5%) - this is in line with the Council's 3-5 year business plan. However I have been advised by a representative from the council that because of local elections in May 2012 there is the chance that councillors may vote for a reduced increase in February 2012.

Aberdeenshire Council is planning to increase its rents by between 7% and 8% based on CPI (November 2011) + 2%-3%.

Responses from Members

The number of responses to the rent consultation document is lower than last year - there have only been 30 written replies (40 in 2011 and 44 in 2010) representing a 2.14% feedback (3% in 2011 and 3.27% in 2010).

I have formally replied to three members, who requested answers to their comments, and I have asked a Housing Officer to visit one member in Peterhead to discuss housing benefits with her.

As in previous years I have sorted the Comments sheets, that have been returned to me, into 4 categories – Happy, Unhappy, Property Management, No Comment. I simply list some of the comments submitted by these members to give members of the COM the tone expressed by these people.

Happy

There were only 3 replies from members who commented favourably about the rent increase -

“We understand the reason for increase and although we struggle from month to month we will be able to cope.”

“We are both happy about the rent increase and the way work is done to the house and the workmen who do the job”.

“We do think that this is a reasonable increase considering your annual costs”

Unhappy

There were 17 replies from members and the three main points were

- it is difficult for members to meet such an increase when their salaries/pensions were not being increased

- to explain the additional small charge for converting properties from a market rent to a social rent (some of the new members do not understand the reasons and others are simply unhappy with the year on year charges)
- to give an explanation for why Tenants First continues to build developments which require additional borrowing.

“Very disappointed to see that in times of great difficulty you have increased rent by such a large amount. The double hit with the additional small amount which should have been published is not good. Normally I am a great advocate of TF but now feel badly let down also with the COM who should be helping members much more. New projects should not hurt the pockets of current tenants”

“Surely the small additional charge should be made known to the tenants in value. And why are tenants being charged for converting the Co-op’s market rent to social rented properties and why is it necessary to do so? You also state that next year you will be asking for another above inflation increase to help fund a new build. Once this project is completed will tenants see a reduction in rent? With projected debt increased to 35% I am concerned that this represents good value for money or is prudent in these financial times”

“Tell me where are pensioners going to get extra costs from? I’ll tell you where by cutting back on food and heating etc.”

“Just wish state pension would rise accordingly”

“I know that rents have to be increased every year but I do not approve of all this borrowing, stop building new projects for a while as the projects are getting larger and need more money”

“I find it unfair that my rent should increase to fund Borrowing Interest for a project that’s future rental income flow I will not financially benefit from in future in my rent”

“It’s a pity income doesn’t increase at the same rate as living costs”

“We elders are not educated in all the jargon we receive in the mail. It’s all jibberish items that we don’t understand”

“How can it be justified of a 6.4% increase and also a small additional increase when wages don’t go up by half that amount”

“Your proposed rent increase is well above RPI and a small amount will be added each month in respect of the conversions. I know that my salary increase will never amount to 6.4%”

“It’s absolutely ridiculous – we pay enough as it is. People will find it hard to live with in a budget if most of their pay is paying rent and council tax. There’s plenty of money to put up new buildings and we’re the ones that suffer – really unfair”

“We will struggle if this continues. We love our house but with continued increases we might have to think about this as we do not want to go into debt”

“Could you explain your table of rents? Your new affordability test does not seem to take account of a single parent on an 18 hour week whose entire monthly wage will be used on rent alone”

"I do object to paying a service charge for the flats to be cleaned and the stairlifts to be maintained"

"I do not think it fair to help to pay service charge for cleaning other tenants hallways"

And finally this obscure comment

"The only comment I can say is would you please tell me what I have to do, or say, as I am without words"

Property Management

All of the 8 replies received under this heading have been referred to Hugh Crothers, the Director of Property, and he will reply to these members. Two of these complaints were from members at Burnside Court at Mintlaw who were unhappy about the general state of the buildings – water running down walls instead of the downpipes, windows not draughtproof. Two members from Kemnay complained about the ages of their property and of ill fitting doors and a bathroom upgrade. A member in Sheddocksley commented that the boiler could be upgraded and external walls needed insulated. A resident of the sheltered housing complex at Aboyne Terrace commented that the complex is not water tight, most properties do not have a walk in shower (which should be a basic minimum) and there are draughts at windows and doors. Another member in Garthdee commented that windows are by far the worst she has ever seen, paving slabs are uneven in garden and the property that she rented before (from Aberdeen City) was brilliant.

No Comment

There were 2 replies under this heading.

5. Financial Implications

A rent increase of 6.4% (RPI Oct 2011 + 1%) has been included in the draft budget submitted to the COM for approval. With a prudent management of costs the proposed increase should meet all operating costs for next year. The forecast surplus in the budget is needed to build up reserves to meet future planned maintenance costs which have been deferred until the development at Donside is completed.

It should also be noted that the RPI figure for December 2011 stands at 4.8% and shows inflation starting to fall. RBS advises that the outlook for inflation is that it should peak in the last quarter of 2011 and then begin to head lower in 2012 - driven by sharp falls in food, drink, tobacco and energy prices - and then fall further, with the effects of the VAT rise unwinding from the calculation alongside further falls in energy and food prices.

Whilst the ability to increase rents presents an opportunity to grow revenues, in a time when grants are constrained and surpluses are critical

to development aspirations, the Co-operative may find itself wrestling with the balancing act between affordability and viability and keeping a keen eye on the level of arrears.

6. Risk Management

If rents are too expensive people will seek to be housed by landlords charging lower rents. This scenario would put the rental income of the Co-operative, and ultimately its viability, at risk. We have carried out an exercise with the rents charged by other landlords in the area and we can see that our rents are, on the whole, pretty reasonable compared with other providers. Although there are no signs at present that the rents are dissuading people to rent our houses these rents should be monitored in case they become uncompetitive.

7. Sustainability

Apart from operating costs, RSLs have to service the debt that has been used to finance their development activities.

The ability to maintain a sustainable ratio between cost and turnover is an important factor for the Scottish Housing Regulator and if total costs, plus interest charges, exceed turnover the sustainability of the Co-op may be called into question unless some of these increases in costs are met from a similar increase in rents. This trend has been reversed over the past three years by the Co-op but needs to be monitored closely.

8. Staffing Issues

None.

9. Equal Opportunities

None.

10. Recommendations

The Committee of Management should be advised that all members have been consulted on the proposed rent increase and they should note the responses that have been received. It is recommended that the Committee of Management consider the contents of this report and approve a rent increase of 6.4% to be applied from 1 April 2012.

Donald Repper
Director of Finance
24 January 2012