



GWSF

Glasgow and West of Scotland
Forum of Housing Associations

Pressure on rents: the challenges facing community based housing associations



GWSF briefing paper
October 2018

1 Introduction – why is this an issue?

No-one likes rents going up. But they go up for a reason. This briefing is being shared with MSPs and other stakeholders across the GWSF area, as part of the Forum's effort to increase understanding of the pressures facing housing associations over their rent levels.

There has probably never been a time when there wasn't a debate around rents in the housing association sector. And at different times in our history, there will always have been different pressures on the rent.

What feels distinctive now is the nature of the attention on rents from external sources. This is primarily pressure from the Scottish Housing Regulator. Closer to home,

scrutiny from tenants – albeit often a small minority of tenants – seems likely to increase, not least because of the disproportionate impact of social media, which can lead to anyone's views being disseminated widely and gaining greater traction than would once have been the case.

And this scrutiny is coming at a time when overall pressures are genuinely increasing on a number of fronts: the impact of Universal Credit may be the most obvious preoccupation but there are many others, such as the demands of fire safety, energy efficiency, investing in older stock, addressing homelessness and dealing with the decline of public services.



2 Rents – what are the requirements on housing associations?

Traditionally rent levels have had to strike a balance between the viability of the association, affordability for tenants and the quality of the service. There is no legal framework which housing association (or local authority) rents must adhere to, and currently no policy or political framework which directly intervenes in rent levels. Neither the Scottish Government nor the Scottish Housing Regulator issues any guidance on rent setting. The social housing sector in Scotland will be keen to see this continue, so that rent levels can be sensitive to local circumstances.

Whilst different criteria for affordability have been grappled with for the last 30 years or more, and no official criteria exist, housing associations have long been committed to ensuring as far as possible that their rents can be afforded by people in low paid work. For all the excellent financial inclusion and employability work so many housing associations undertake, the single

greatest contribution they can make to the reduction and alleviation of poverty is to keep the rents down. Minimising fuel costs may be a close second but is not something over which housing associations have much control.



3 Pressure from external scrutiny

(a) Scrutiny from the Regulator

Over the last four years the Scottish Housing Regulator has made a number of public statements about the need to keep rents down, with its main concern appearing to be a belief that many associations were sticking to business plan assumptions of, for example, 'RPI plus 1%' rent increases at a time of low/nil wage inflation and cuts to benefits. The first detailed addressing of the issue was at the CIH Scotland Annual Conference in March 2014, and similar messages have been delivered by SHR representatives at a range of events and in blogs etc. since then.

GWSF would not question the SHR's right to raise the issue of rent affordability. We would observe, though, that the challenge for SHR will be to demonstrate that it is balancing concerns about affordability with the expectations it has of associations on issues such as fire safety, homelessness, dealing with welfare reform, EESSH and a range of other Charter delivery standards.

The Scottish Government – in terms of both Ministers and officials – has maintained a relatively low profile on rents. Apart from the fact that social rents in Scotland remain generally much lower than in England, one reason why it would seem unlikely for any English-style rent capping to be considered by the Scottish Government is that this would mean intervening in local authority rents – something which would very much go against the spirit of the long-standing concordat between central and local government.

(b) Scrutiny from tenants and campaign groups

Housing associations always welcome informed feedback from tenants on rents and services. In fact many associations say they would prefer to get more feedback than they do when they consult tenants on rents.

Over the last 12 months there has been particular pressure on a (so far) very small number of housing associations in the form of local challenges and protests against current rent levels or, more commonly, proposed rent increases. Some have involved an organisation called Living Rent, which refers to itself as Scotland's tenants' union. At least three associations in the west of Glasgow and one on the south side experienced protests of one kind or another in the lead up to April 2018.

It has not always been clear to what extent it is tenants themselves involved in such protests as opposed to external 'activists'. In most cases social media has been used to add to the perception of the scale of the protest.

The relative ease with which challenges and protests can be made shows housing associations that they are always potentially open to challenge. Whilst there is no guarantee that pressure groups will always adhere to the facts, a key lesson for associations is the importance of pre-empting challenges as far as possible with good, clear explanations of what rent is used for and why it usually needs to increase if services are to be maintained.



4 The difficulty of defining what is an ‘affordable’ rent

There is no single, officially recognised definition of what is an affordable social rent. The complexities of coming up with a universally acceptable and reliable measure of affordability was well summarised in a recent briefing for MSPs by SPICE – the Scottish Parliament’s Information Centre – see Annex B of the report at http://www.parliament.scot/S5_Local_Gov/Meeting%20Papers/20180516_MeetingPapers.pdf

The main attempts to define affordable rent have come from SFHA, going back to the original SCORE system in the early 1990s, which had two measures – one which was a ‘rent as a proportion of income’ measure, aimed mainly at single person households, and one which was an ‘income remaining after rent is deducted’ measure, aimed mainly at family households.

SFHA has since adopted a number of replacement measures, most recently with its 2017 guidance, and then with an affordability tool developed jointly with HouseMark Scotland and launched in August 2018. The general impression, over the years, is that whatever SFHA measure is used, associations find that the majority of their rents pass the test. This will undoubtedly be of some comfort to associations, though is not cause for complacency.

BEDSPACES	2018-19	2019-20	2020-21	2021-22
2	£3,758	£3,833	£3,910	£3,988
3	£4,209	£4,293	£4,379	£4,466
4	£4,587	£4,679	£4,773	£4,868
5	£4,861	£4,958	£5,057	£5,158
6	£5,050	£5,151	£5,254	£5,359
7	£5,471	£5,581	£5,692	£5,806

And because housing associations have no control over what people earn or how the benefit system supports people with their housing costs, it is all but impossible to guarantee that even a very low rent would be affordable to every tenant.

The Scottish Government does use a notional benchmark three-person house rent level in its assessment of new build applications. For projects whose rent level will exceed the relevant benchmark by more than 5%, the association must justify to the local authority and to the Scottish Government why the proposed rent is considered affordable. Approval of rents exceeding benchmark by more than 10% will be given only in exceptional circumstances: justification for variations in excess of these levels may, for example, include reference to market conditions in the geographic area, or the energy efficiency of the homes.

The table below shows the relevant social rent benchmark assumptions over the years 2018-19 to 2021-22 inclusive, as set out in April 2018, which applies annual year-on-year increases of 2%.

Another complicating factor in considering rent affordability is what can sometimes be artificial divides between rent and service charges. Ultimately both are part of the housing costs a tenant has to pay, and it can be problematic for the two to be considered separately where payment of both is a tenancy condition.

5 The increasing pressure on rental income

There are numerous pressures on housing association rents at the current time, including:

- Rising arrears as a result of Universal Credit
- The need to invest in older stock, particularly mixed tenure tenemental stock
- Meeting new standards, which are effectively mandatory (e.g. EESSH, fire safety)
- New build challenges and risks, for those with development programmes
- Greater focus on preventing/responding to homelessness, and on tenancy sustainment
- Maintaining high standards on repairs, and other landlord services
- Pressure to ‘fill in’ when public services are declining, e.g. on environmental works
- Wider role/community regeneration activity
- Dealing with regulation – SHR requirements, GDPR, FOI

These are covered individually in the following sections.

(a) Rising arrears as a result of Universal Credit

Those housing associations and council housing departments already in Universal Credit Full Service areas invariably report much higher arrears levels as a direct result of UC. Arrears build up not only because of the period before which applicants get any UC but also from ongoing difficulties faced by tenants after this initial period. The example below is from a housing association which has been in a Full Service area since 2016:

	Arrears	UC arrears as % of annual rent due
2014-15	£15,806.41	1.25%
2015-16	£14,172.75	1.12%
2016-17	£21,435.69	1.64%
2017-18	£28,376.54	2.40%

Whilst the UK Government made a 7-day reduction to the existing waiting time of at least six weeks (effective from February 2018), there seems to be no prospect of

further changes ahead of the final rollout of UC in the months leading up to the end of 2018.

Additionally, the current indications from members are that the ‘Scottish flexibility’ to have the housing element of UC paid direct to the landlord is not working well, taking around 10 weeks to put in place for each tenancy where it is requested. This is similar to the delays in arranging Managed Payments for vulnerable tenants and others who have fallen into arrears.

The likely scale of arrears under the full rollout of UC is hard to predict and will doubtless vary between associations, but where arrears are much higher than under the Housing Benefit system, associations are likely to view other pressures on expenditure in the context of this fall in income.

On top of the arrears issue is the extra staffing resources associations need to find to work as closely as possible with individual tenants to help them manage their UC and pay their rent.

(b) The need to invest in older stock

GWSF is currently working on the challenges of investing in existing stock. This work highlights, in particular, the barriers associations face in improving and repairing older mixed tenure blocks where owners are either unable or unwilling to fund their share of the costs. Whilst associations want to avoid a position where rental income may be covering the cost of such works, they are equally aware that the alternative is likely to be that tenants in mixed tenure blocks lose out on having work carried out.

There are examples of successful partnership working between housing associations and councils in some areas, but pressure seems likely to increase as conditions deteriorate. There continues to be little likelihood of a radical shift in the Scottish Government’s view that owners are responsible for the condition of their properties.

It may be that some associations will look to use

the new power to pay missing shares and recharge owners. This mechanism could sometimes be used alongside agreement from an owner to take out a Scottish Government equity loan in areas where the pilot scheme is operating. But such an approach still requires tenants’ rents to effectively underwrite the risk of non-payment from owners.

Some associations are working in partnership with their local council to tackle poor tenement housing which is entirely privately owned – usually by acquiring and then improving flats and making them available as social rented housing. Whilst such acquisitions may be partly or even fully funded by the council in some areas, such work invariably involves use of rental income and can entail different types of risk for the association.



(c) The requirement to meet new standards – energy efficiency, fire safety

On top of managing the particular challenges of maintaining mixed tenure stock, associations are facing numerous pressures relating to the introduction of new standards for social housing.

On fire safety, associations have two years, likely to start from January 2019, to install interlinked smoke alarms and heat detectors in all their housing. Costs vary depending on the circumstances but typical indications are an average cost of around £300-£400 per property. A new standard was already being planned before the Grenfell tragedy, but was brought forward. Further new standards are likely to be introduced over time as a result of Grenfell, particularly in relation to existing high rise blocks. And some time after March 2021 sprinklers will become mandatory in all new social housing.

The pressure to improve energy efficiency is ongoing, with the recent proposals on a new Energy Efficiency



Standard for Social Housing (ESSH) after 2020 coming on top of the Scottish Housing Quality Standard and the first ESSH. GWSF has expressed concern at the proposal for an 'aspirational standard' of EPC 'B'. This is likely to put pressure on associations to spend significant amounts of rental income to achieve very modest improvements to energy efficiency, whilst no similar pressure is being placed on owners of private housing.

(d) Building new homes - the challenges and risks

There may have been a time in the past when very high grant rates, and additional funding such as development allowances etc., made new build development a low risk activity which needed relatively low input, or no input at all, from private finance or the association's reserves etc. This is no longer the case. Whilst risk levels may vary from one site to another and one association to another, the view of most if not all associations is that involvement in new build can have implications not just for the rents of the proposed new development but across all of the association's rents.

An example is a site feasibility study, which could typically cost in the region of £30,000 or more. Few councils would nowadays be able to fund this and so associations have to find the money – for something which may or may not lead to a development



progressing. Some outside bodies may have a perception that such monies come from reserves and not rental income, not realising that ultimately it is all tenants' rent money.

(e) Addressing homelessness and tenancy sustainment

Most housing associations believe that they are dealing with a greater proportion of tenants and applicants with multiple/complex needs than in the past. Some of these needs may be addressed by specialist agencies such as drug/alcohol addiction services. But inevitably it falls to housing management staff to manage difficult situations and spend more time providing additional housing support to people who are more vulnerable to losing their tenancy (for example because of chaotic lifestyles which might lead to anti social behaviour and/or rent arrears). Very few housing associations now run externally funded housing support services and so must fund this themselves.

People who need additional support may or may not have come out of homelessness. With the increasing emphasis on rapid rehousing, and particularly initiatives such as Housing First, the pressure on associations to 'provide housing and ask no questions' is increasing. But even with support packages in place, this is not round-the-clock support and there is a significant chance that the association will need to spend a greater amount of time managing the tenancies of people with complex needs. Associations want to play their full part in responding positively to homelessness, but this type of activity holds risk in both reputational and financial terms.

(f) Maintaining repairs and other landlord services

Housing associations – and community based associations in particular – have an excellent track record on repairs and related landlord services, as clearly evidenced by published Charter outcomes. This includes measures such as relet times, which are likely to be less obvious to tenants but are part of the highly efficient service offered. This level of performance is one associations are always going to be keen to maintain or even improve further on – something that requires ongoing investment. Generally, expenditure would be reduced only if ways of making savings whilst maintaining service quality had been identified.



(g) Filling in for declining public services

GWSF's 2018 report Minding the Gap highlighted newer services, such as environmental services (bulk refuse, grass cutting etc.), which many community based associations were carrying out as local authority service levels declined. These services are popular with tenants, but normally come without any direct funding from the council, thereby putting additional pressure on rental income, and leaving tenants to pay twice for such services – through their rent and council tax. In the current climate of tight local authority finances, this issue seems unlikely to go away.



(h) Wider role/community regeneration activity

Community based housing associations pride themselves on the wide range of community regeneration work they undertake directly and in conjunction with local voluntary organisations and other partners. This work includes:

- employment training and support
- projects promoting better health
- services aimed at addressing social isolation
- initiatives to tackle poverty
- promotion of recreational opportunities
- projects specifically aimed at younger people.

A lot of the 'wider role' activity carried out by community based associations is or has been externally funded, mainly through grant from Communities

Scotland and, more latterly, Scottish Government funding streams such as the People and Communities Fund and its successors. But it is almost certain that associations have invested at least some resources of their own, not least when they are asked by funders to accept cuts in grant but cannot easily reduce the level of an existing service. Again these various activities are usually very popular with tenants and the wider community, but are another pressure on rents.



(i) Dealing with regulation and legislation

A robust system of regulation is crucial for the credibility of the housing association sector. All associations have to ensure they put sufficient resources into dealing with the requirements of the Scottish Housing Regulator, the Scottish Charities Regulator and additional regulation in areas such as data protection (and Freedom of Information looks

like being an additional requirement in the next 12-18 months). Most associations say they invest more than they used to as the requirements and expectations increase. Such compliance work is not an option and is a further pressure on rents, almost certainly affecting smaller associations disproportionately.

6 Process issues around housing association rents

Alongside the various pressures on rents are a number of considerations around process issues, including:

- Whether a rent harmonisation/rent restructure exercise has been carried out in the past or may be needed in the future. This type of exercise usually addresses issues such as what is the right difference between a two-bedroom rent and a three-bedroom rent. This can be an issue for any association, but perhaps affects stock transfer associations more, as they may have inherited rent structures which are particularly complex and/or with anomalies which can seem hard to justify. Such exercises are never undertaken lightly, as there are losers as well as winners, and transitional periods are normally needed to cushion the blow for those facing increases.
- The ongoing pressure to demonstrate efficiency and show that costs in the overall running of the association are kept down wherever possible
- The need for clarity around any service charges which some or all tenants must pay on top of their rent
- The value which can be obtained from devoting some resources to benchmarking with similar associations locally and/or nationally (and, where relevant in demonstrating value for money, making comparisons with private rents)
- The pressure from SHR to offer options as part of the rent consultation process. GWSF recognises that it is good to offer choices, but we have anxieties that the pressure to do this can sometimes lead to associations feeling they must contrive options for the sake of it
- Rent consultation processes can be an opportunity to explain to tenants why the association has reserves and how these are used; without adequate explanation there is the potential for misunderstanding



7 Communicating rent challenges to tenants

Alongside this briefing paper, GWSF has circulated to members a 'model leaflet' which some associations may wish to adapt for use in their own communications with tenants about rent – either as part of the annual rent consultation exercise or in more general communications such as the regular newsletter.

It is hoped that this may be helpful in supporting members to convey key messages about how rent is used, and that this in turn may reduce the chances of challenges/protests coming from people who may not have a full, clear picture of the various pressures associations need to balance in setting the rent.



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Photo credits:

p1 – Glen Oaks HA

p2 – New Gorbals HA, Ayrshire
Housing

p3 – Paisley HA

p4 – Trafalgar HA

p5 – Queens Cross HA

p6 – Linstone HA, Pineview HA

p7 – Cadder HA, Milnbank HA, Pineview
HA

p8 – Elderpark HA

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