



Rent Increase 2019/20

Briefing Paper

Consultation on Proposals January 2019

At this time of year we consult with our tenants on the rent increase proposal for implementation from the start of the new Rent Year, 29 March 2019.

Background

Those of you who have been tenants for a number of years will be aware that it is our usual practice to apply a rent rise linked to the Retail Price Index as published in November each year. We consulted with tenants on this as part of the original stock transfers of housing stock from Scottish Homes and again in 2010 when there were changes in relation to the conditions of contract around the transfers. There is an annual consultation exercise carried out with all tenants on the increase for that year.

There are some exceptions to the normal increase formula, for example where properties are newly build and in an estate jointly developed with a partner, we normally have a rent increase in the first two years that keep rents in line for all tenants in the estate.

The feedback from all our exercises and annual reviews to date are that that those tenants responding broadly agreed with this approach. We continue to use this approach.



Annual Rent Increase Consultation Process

This normally takes the format of a paper survey and a meeting of the Rent Focus Group open to all tenants.

Last year we asked for feedback on how we can improve the rent consultation process for you but we had a low response. We have looked at good practice in the housing sector and we are trying a few different things this year and we would like to hear your views on these.

What's Happening For 2019/20?

- News Letter and Survey sent to all tenants
- Rent Briefing posted on line, distributed in our office and posted to those who request a paper copy
- Email Newsletter and Survey issued to those tenants where we have an email address
- Drop in sessions in Alloa, Sauchie & Stirling
- Rent Focus Group in Paragon Offices in Grangemouth on Friday 11th January 10:30am

Results of the consultation exercise will be fed back to the Management Committee at the end of January to allow them to decide on the increase to be applied.

Rent Increase Proposals

Through looking at detailed financial plans which are set up to ensure that the organisation can meet its commitments and is financially healthy over the short and longer term, the current view is that we should look at a wide range of potential options. Our Finance Staff are looking at the impact of these and we are looking for your views. Then we can make a decision on the basis of a balance of tenant views and the factors we need to take account of to ensure that we can continue to deliver services, invest in homes and be financially stable.

We have produced this paper to try and explain how we set rent increases. We know that you will have questions and views on this so we have tried to pull together the answers to some questions you may have. We also explain how you can make your views known to us or find out more. **These are complex matters and there is no simple way to communicate all the issues. We hope that this briefing note provides you with some useful information and don't be afraid to ask us if you need any further explanation.**

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How are rent increases usually decided?

The Association normally uses a formula linked to inflation (Retail Prices Index – RPI). We use the RPI rate as at November and the decision is taken in January the following year. Rents are then increased from 29th March for the next rent period.

Before this decision is taken each year, and following consultation, the Management Committee has to make sure the money coming into the Association is adequate to ensure that

- Financial obligations can be met eg loans repaid, financial and contractual obligations met and so on
- Investment priorities can be delivered to ensure that we
 - can deliver the investment programme
 - continue to meet the Scottish Housing Quality Standard (SHQS)
 - work towards the 2020 Energy Efficiency Standard Social Housing (ESSH).
 - meet Health & Safety obligations – for example Fire Safety
- A good standard of service continues to be provided to you
- Repairs can be carried out to your homes
- Take account of factors which will impact on how we operate eg rising costs , the roll out of Universal Credit and more
- Importantly we also have to ensure that rents continue to be affordable
- Improvements to services – eg CHAT visits

This is how rent increases have been set since the Association was set up in 1998.

We operate on the principle of “rent pooling” and do not add a premium to rents for improvements to tenants’ homes. The only exception to this is where there is a first time installation of central heating and the overwhelming majority of our properties now have central heating. Only a handful of properties do not have central heating and in all cases this has been as a result of a tenant refusal.

For the vast majority of our tenants there is no additional service charge for landscaping etc. However in some of the new developments there is a small service charge, eg Baille Court, Bo’ness, for close cleaning.

What is inflation doing now?



The inflation figures for November 2018 show that the Retail Price Index (RPI) fell slightly whilst the Consumer Prices Index (CPI) remained stable.

The Office of National Statistics (ONS) published November's inflation rates on 19th December 2018.

	Oct	Nov
RPI	3.3%	3.2%
CPI	2.2%	2.2%

Both inflation rates have fallen from last year.

What might happen to inflation going forward?

The answer is that there is no certainty.

We know that the UK Government's target is 2% for CPI and that inflation is running above target. The Bank of England's inflation report of November 2018 suggests that inflation will remain over, but around this target, until 2021 when the target is expected to be met. The economic outlook overall eg growth, wages, investment etc are all expected to be influenced by what is happening with "Brexit".

What does this mean for rents?

Our long term projections are based on rents rising at the start of each new rent year at the rate of Retail Price Index Inflation (RPI) plus 1%. As a starting point we use the rate of RPI as at November each year.

However we look at rents year on year to see what level of increase should be applied so please help us by giving your feedback on your views.



What are the Scottish Housing Quality Standard (SHQS) and Energy Efficiency Standard Social Housing (ESSH) and why is it important to meet these?

Scottish Housing Quality Standard (SHQS)

In 2004 the Scottish Government introduced a new standard for all housing association and council houses in Scotland. This is the Scottish Housing Quality Standard (SHQS). It includes standards on energy efficiency, kitchens, bathrooms and safety and security. This has had to be funded from rent money and has meant that the Association has had to find the money to pay for it in the timescale required. We did not have to increase rents specifically for this purpose.

The SHQS Standard needed to be achieved by 2015 and maintained beyond this. It was not optional and we delivered it. 91.1% of properties are compliant. The SHQS standard recognises that some things may be beyond the control of the landlord and so are held as “abeyances”

There are 2 areas of current non compliance for the Association’s stock and this is why properties are not 100% compliant.

1. Where tenants have not agreed to the works eg replacement central heating – in these cases we continue to offer to do the work or carry it out when the property is vacant. The numbers here are very low (5 as at April 2018).
2. Door Entry Systems (DES) where owners in blocks do not agree to participate in improvement works – we continue to engage with owners to try to get their agreement and do the work. We understand that this can be frustrating for tenants in these blocks but we continue to pursue this and have taken account of DES installations in the financial projections.

Energy Efficiency Standard Social Housing (ESSH 1)

The Energy Efficiency Standard for Social Housing (ESSH) is a Scottish Government standard which aims to improve the energy efficiency of social housing in Scotland. It will help to reduce energy consumption, fuel poverty and the emission of greenhouse gases. This can be achieved in many ways including more efficient boilers, improved insulation, new double glazing and more.

We have our ESSH programme underway and require to be compliant by December 2020. To date we are 78.3% compliant which compares favourably with the progress made by other landlords but we still have some way to go over the 2 years to ensure we meet the target.

Future Standards & Regulations Changes

Energy Efficiency Standard Social Housing (ESSH 2) When ESSH was introduced, a review was proposed for 2017 to assess progress towards the 2020 target and to consider future milestones beyond 2020. Phase 1 of the review was completed in October 2017, assessing progress towards the 2020 target and updating the ESSH Guidance for Social Landlords produced by the Scottish Government. Phase 2 of the Review has been completed and below is an overview of the outcome proposals.

The Scottish Government are proposing future activity for ESSH2, as follows:

- a challenging and aspirational target to maximise the number of social rented homes meeting an EPC B by 2032;
- a minimum energy efficiency standard of EPC D is set for a house to be let, subject to limited temporary exemptions.
- a vision for 2040 for social housing's contribution to realising the fuel poverty, energy efficiency and climate change ambitions of the Scottish Government;

An EPC is an Energy Performance Certificate to show the energy efficiency rating of your home, this is similar to the stickers you might see on your white goods.

Consultation on Fire & Smoke Alarms in Scotland's Homes Following the major fire spread through Grenfell Tower the Scottish Government set up a Ministerial Working Group (MWG) to oversee a review of building and fire safety regulatory frameworks in Scotland. Since 2017 the MWG have made fire and smoke alarms in Scottish homes a priority. The consultation closed December 2017 with the intention to lay the recommendations in Parliament late 2018. The proposals likely to be announced early 2019 and incorporated into the Housing Scotland Act 1987 are:

- Align all rented properties to that of the private rented standard
- Minimum 1 smoke alarm installed in the room most frequently used for general daytime living purposes
- At least 1 smoke alarm in every circulation space (halls & landings)
- At least 1 heat alarm installed in every kitchen
- All alarms to be ceiling mounted and
- All interlinked

In addition to the above, the following may also be proposed:

- To specify a maximum age of ten years for alarms and
- To require carbon monoxide detectors in all homes

It is likely that once the above are incorporated into the Act, there will be a two year period for compliance. We believe that landlords will be expected to fund this and this might impact on our future financial plans.

Brexit: Implications for materials availability and cost may be an issue.

Health & Safety: Again, and on the back of the Grenfell Tower fire, there are likely to be implications and changes to fire door specifications, materials and general inspection regimes. Again there may be funding implications with this.

<p>What is the rent increase proposal for 2019/20 ?</p>	<p>We are looking at the impact of rent increases from CPI only at 2.2% to RPI +1% at 4.2%.</p> <p>Once we factor in all the things we need to consider to make sure that we can achieve what we need to and taking account of tenants views and priorities, then a decision will be taken on the level of increase to be set within this range.</p> <p>No decision has been made yet. This decision will be made at the end of January so your views are very important.</p>
<p>Why does the money have to come through an increase in rents?</p>	<p>Our Business Plan sets our estimated income and expenditure over the next 30 years.</p> <p>We are required to continue to meet the Scottish Housing Quality Standard going forward and also meet the EESSH standard in the set timescale. We also know that there are other areas of investment required and that there are new regulations and requirements likely to be brought into force in the near future such as fire detection measures.</p> <p>The feedback that we generally receive is that most tenants want to see the quality of their homes improved as quickly as possible and we believe that continuing to make good quality improvements to your homes is very important.</p> <p>We have been successful in seeking grant money and interest free loans available eg for some insulation works but most improvements to homes have to be paid for from rents.</p>

What would be the difference between 2.2% or 4.2% increase in rents overall?



An increase of 2.2% results in a projected overall increase in rental income in the region of £5.8m for the year 2019/20.

A 4.2% increase results in a projected overall increase in rental income to around £6m for the year 2019/20. This is a big difference in income in the short term for example for £115,000 we could install around 40 new bathrooms.

The lower increase would mean less money available in the year and there is also a longer term effect as the reduced income “rolls up” over the life of the business plan.

A lower than 3% increase could mean some reduction in investment or the need for service reductions in the future. However this could possibly be dealt with by further reviewing the timing of work etc or cutting some service areas. These are issues being considered and your views are welcome.

What is the planned level of spend of the next 5 years on works to tenants' homes?



The Association plans to spend around 11.5 million on planned maintenance and improvements to our tenants' homes over the 5 years from 2018/19. This is in addition to the £3 million worth of work undertaken in 2016/17 and 2017/18 which included windows, doors, gas boiler and electrical works.

The planned 5 year programme from 2018/19 / 2022/23 includes

Component	Budget	Property Nos.
Insulation/External Rendering/Roofs	£4.2 million	714
Electrical Works Inc Smoke & CO Alarms	£2.1 million	All stock
Heating – New & Replacement	£1.0 million	442
Kitchens & Bathrooms	£1.1 million	628
Door Entry Systems- new & replacement	£0.5 million	430
Windows & Doors	£0.5 million	179
Other investment & planned maintenance	£2.1 million	All stock

This is a substantial amount of investment in the housing stock and is spread over all our areas of operation.

In addition to this we spend in the region of just under £1.0 million per year on repairs and other maintenance services.

What does this mean for my rent?



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.

The table below is a useful “ready reckoner” to give you an indication of what the proposed increases may mean for you.

Qualifying tenants will be able to claim housing benefit or the housing element of Universal Credit. We have Sarah Nicolson in the role of Tenancy Sustainment Officer as part of our Tenancy Management Team. If you need help with financial issues affecting your ability to pay your rent then Sarah or other members of the Team may be able to help.

RENT READY RECKONER

Sample Weekly Rent	Weekly Increase if 2.2% applied	Weekly increase if 3% applied	Weekly increase if 3.2% applied	Weekly Difference from 2.2% to 3.2%	Weekly increase if 4.2% applied	Weekly difference from 3% to 4.2%
£60.00	£1.32	£1.80	£1.92	£0.60	£2.52	£0.72
£65.00	£1.43	£1.95	£2.08	£0.65	£2.73	£0.78
£70.00	£1.54	£2.10	£2.24	£0.70	£2.94	£0.84
£75.00	£1.65	£2.25	£2.40	£0.75	£3.15	£0.90
£80.00	£1.76	£2.40	£2.56	£0.80	£3.36	£0.96
£85.00	£1.87	£2.55	£2.72	£0.85	£3.57	£1.02
£90.00	£1.98	£2.70	£2.88	£0.90	£3.78	£1.08
£95.00	£2.09	£2.85	£3.04	£0.95	£3.99	£1.14
£100.00	£2.20	£3.00	£3.20	£1.00	£4.20	£1.20
£105.00	£2.31	£3.15	£3.36	£1.05	£4.41	£1.26

How does my rent compare to tenants of other housing associations and local authorities?

In your Winter Newsletter there is a section on the Charter and from this you can see how Paragon Paragon average weekly rents compare with other providers. These figures are as reported to the Scottish Housing Regulator through the Annual Return on the Charter.

Paragon rent levels compare favourably to rents charged by other housing associations including other Forth Valley associations.

In addition to rents some Housing Associations charge a service charge. For the vast majority of our tenants there is no additional service charge for landscaping etc. However in some of the new developments there is a small service charge, eg Baille Court, Bo'ness, for close cleaning

Rents Forth Valley Housing Associations Average Rents 2017/18*

	1Apt	2Apt	3Apt	4Apt	5 Apt
Scottish Average	£ 67.44	£ 73.33	£ 74.94	£ 81.37	£ 90.39
Clacks Council	£ 67.48	£ 69.20	£ 70.96	£ 72.77	£ 74.82
Falkirk Council	£ 46.32	£ 53.04	£ 62.95	£ 71.10	£ 81.53
Forth HA	n/a	£ 68.63	£ 77.00	£ 84.59	£ 90.46
Link HA	£ 64.10	£ 75.08	£ 85.97	£ 94.22	£ 102.62
Ochil View HA	£ 65.19	£ 72.27	£ 79.19	£ 85.28	£ 87.76
Paragon Housing Association Ltd	£ 58.06	£ 64.00	£ 71.69	£ 81.68	£ 97.59
Rural Stirling HA	n/a	£ 69.91	£ 79.22	£ 86.65	£ 91.60
Stirling Council	£ 54.35	£ 61.41	£ 63.60	£ 66.15	£ 67.86
Weslo HA	£ 56.61	£ 68.98	£ 74.15	£ 80.60	£ 93.72
Private Sector Local Housing Allowances 2018/19	£ 62.38	£ 83.91	£ 103.56	£ 126.58	£ 181.80

*The 2017/18 figures are used as these are based on published Annual Return Charter figures by SHR
The increase column shows the rate that rents were increased for the year 2018/19

AFFORDABILITY

How does Paragon know if rents are “affordable” and how can you help if I have problems paying my rent?



Affordability 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. We appreciate that tenants all have different financial circumstances and obligations.

Rents for individuals

At an individual level we discuss rent payments and obligations with new tenants as they sign up and the Tenancy Management Team are there to help if tenants have problems in paying rent. We publicise this in our newsletters and would urge anyone experiencing difficulties to contact them. They can help with budgeting and benefits advice and looking at options such as moving to a property with a lower rent. We also have a programme in place to improve energy efficiency across the housing stock to cut energy use and so save on fuel consumption.


Rents across the housing stock

The Scottish Federation of Housing Associations' (SFHA) have developed an Affordability Toolkit that lets us use our rent data and data at a local authority area level on household income to consider if our rents are “affordable”. It is based on an assumption of income by household type just above what would typically qualify for housing benefit. This is a “moderate income” approach

Applying this approach across our 2018/19 rent levels demonstrates that whilst rents across our stock continue to be affordable in terms of the model, any increase in excess of 3.2% would see rents for certain household groups (single people, and single parents with 1 child) on the margins of affordability.

We can't provide all the details of the calculations in this briefing but anyone attending the Rent Focus Group or Roadshow can find out more about how it works. We do realise that these calculations are based on broad assumptions but these are an industry standard model.

We know that everyone is different and if you have any problems paying your rent please get in touch with the Tenancy Management team who will try to help.

<p>Will Paragon still be able to carry out improvements and repairs?</p>	<p>If we adopt an increase of less than 3% there may have to be some saving for 2019/20 and as noted above it would have a longer term impact too so we would have to look at reducing investment, services or delay some works.</p>
<p>How will Paragon fix rent increases in future?</p>	<p>There are no proposals at this time to move away from RPI inflation based formula with an annual consultation on the increase to be set.</p> <p>The Association can continue to invest in your homes, meet the SHQS, EESSH and maintain a good level of service and meet our other obligations provided we take account of all the considerations when we set the increase.</p> <p>We will continue to inform and consult with you on rent matters and are happy to listen to your views on how we can make that work for you.</p>
<p>Will Paragon continue to be financially sound in the future?</p> 	<p>We are not complacent about what we do. We regularly review our financial position and look ahead. We subject to scrutiny and make regular returns to the Scottish Housing Regulator on performance and financial matters.</p> <p>We have produced a summary of our financial position in our Annual Report and we produce Annual Accounts. You can find this on our web site at our Facts and Figures section – here is the link www.paragonha.org.uk/node/406</p> <p>We are of the view that we can successfully deliver services to you into the future, continue to provide homes at affordable rents without excessive rent increases and continue with our investment in your homes.</p>

What about Value For Money?



Outcome 13 of the Scottish Housing Charter expects Social landlords to 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.

The Scottish Housing Regulator's National Panel of Tenants and Service Users published its 4th Annual Report in March 2017. The report considered views on what value for money means for users of social landlord services. It included a range of factors that contribute to value for money judgements and to what extent service users see these factors as potentially justifying higher rents. Feedback suggests that value for money judgements are influenced by a broad range of factors.

The main drivers on value for money appear to be:

Rent levels and affordability

Comparability of rents

Quality of Services such as Repairs / Maintenance

Capital Investment in Homes

The Size of Annual Rent Increases

Feedback from the Panel did not express a clear preference for a single value for money performance indicator, but saw value in a range of measures around rent comparability, income remaining after tenants have paid housing costs and tenant satisfaction with rents. Looking at our Annual Charter Return we believe that we offer value for money against the above indicators.

However we realise that there is no room for complacency and we continue to look at Value for Money and are currently working with our tenant scrutiny group to look at our Void (empty property) management process. We also intend to undertake a benchmarking exercise in the final quarter of 2018/19 to see how we compare with our Peers and what lessons we can learn.

How can I make my views known?



This year we have extended the number of ways you can make your views known:

1. By returning our postal survey
2. By using an email version of the form – request via enquiries@paragonha.org.uk or you may have received this direct to your in box
3. By using our online web site survey form
4. Taking part in the sample Phone Survey if contacted
5. By attending a Rent Roadshow event
6. By joining the Scrutiny Group and/or taking part in the Rent Focus Group

If you have any other ideas on how you would like to make your views known please let us know!

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