



# **Rent Setting Policy**

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This policy can be made available in different languages, as required, or in other formats such as in large print, on CD and in Braille.

## Foreword

The Rent Setting Policy is important for several reasons as follows: firstly, it is essential to have a system of setting rents to ensure that rents are affordable to tenants, as well as reflecting differentials within the housing stock. For example, rental variations because of differences in the size and type of housing stock available for let.

Secondly, rental levels must be adequate to meet the costs of providing an efficient and effective service in line with our Business Plan objectives. Rents must be adequate, too, to meet our commitments towards providing quality services that offer value for money.

Thirdly, the rent setting system must be transparent and accessible to both tenants and staff. This includes establishing a rent setting system that is both flexible and easy to administer.

Fourthly, it is essential to comply with any legal and good practice provisions in developing this Policy. It is a fundamental principle of this Policy, therefore, that we will consult with tenants in formulating and reviewing this Policy. This will include reviewing rent levels and proposals for rent increases in respect of service options.

Finally, we aim to comply with the Communities Scotland regulatory standard that deals with rent setting. This standard states that we:

“Set rents that take account of affordability, the costs of managing and maintaining our houses, comparability with other social landlords in the area, and that enable us to service existing loans and fulfil contractual obligations. We have a fair system for apportioning rents between individual properties.”<sup>1</sup>

Director of Finance and Housing.

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<sup>1</sup> COSLA/Communities Scotland/Scottish Federation of Housing Associations: AS1.6, Performance standards for social landlords and homelessness functions, 2001.

## **Section 1: Introduction**

This Policy is the Rent Setting Policy of Orkney Islands Council. The Council is referred to generally as “we” throughout this document.

The main issues covered by the Policy are as follows:

- The rent structure.
- Rent levels.
- Consultation arrangements.

In addition, the Policy details a range of important issues concerning policy implementation such as links with other policies, training, monitoring and appeal arrangements.

The next section of the Policy highlights issues that are relevant to the context in which we operate. This is followed by a summary of the aims and objectives that underpin this Policy.

## **Section 2: Orkney – The Context**

Orkney Islands Council holds a stock of approximately 700 Council houses. These are located in a range of different locations throughout the island group. The majority are within the main towns of Kirkwall and Stromness, but others are located in villages and rural locations throughout the mainland. Houses are held on 8 of the isles.

The variety of stock is wide ranging, with some properties being pre-first World War and others being built during 2011. There are various house types including bungalows, terraced housing and flats.

Traditionally rents were set according to the property's rateable value. Over time this resulted in rents not varying significantly enough to reflect variations in property and location.

Following the introduction of the requirement to meet Scottish Housing Quality Standard by 2015, the need arose to look more closely at rents to reflect the differences between properties.

## Section 3: Policy Aims and Objectives

This section outlines the aims and objectives of our Rent Setting Policy.

3.1. We will set rents in line with legal and good practice provisions. For example, we will consult with our tenants in the development of this Policy, in particular we will consult tenants on proposals concerning rent levels. (Appendix 1 summarises law and good practice provisions).

3.2. We will set rents, wherever possible, at levels that are affordable to tenants in line with the definition of affordability within this Policy. (Appendix 2 provides a definition of affordability).

3.3. We will consider a number of factors when setting rent levels, including:

- The views of tenants (2.10 below).
- Rents charged by other landlords for comparable properties.
- Differences in housing stock characteristics.
- The levels and types of services that we offer.

3.4. We will charge rents that are adequate to meet the costs of providing an efficient and effective service; this must satisfy organisational commitments to providing quality services that offer value for money.

3.5. We will set rents based on accurate housing stock and financial information (Appendix 3).

3.6. We will establish detailed accounting systems that clearly distinguish charges within tenancy accounts covering:

- Rents.
- Service charges.
- Rechargeables.
- Insurance.
- Housing benefit overpayments.

3.7. We will ensure that our rent setting system is accessible to both tenants and staff and is easy to administer. This includes ensuring that the system is flexible to adapt to changes in law, housing stock or tenancy profiles.

3.8. We will develop a rent structure that is accountable to all service users and internal and external auditors.

3.9. We will provide tenants with information to improve our services. For example, we will provide tenants with information about rental variations among other forms of tenure such as the private rented sector and the housing association sector. (Appendix 4).

Again, we will provide guidance to tenants who may wish to transfer from larger housing that is currently under-occupied to less expensive accommodation.

3.10. We will consult with tenants in developing and reviewing this Policy, including consultation on any proposed rent increases. We will also consult on proposals regarding possible service options. For example, consultation with tenants on possible options regarding the quality and type of services that can be provided at different rent levels.

3.11. We will monitor the effectiveness of policy implementation through our performance management system.

3.12. We will review this Policy on a regular basis as agreed with tenants through our Tenant Participation strategy. Tenants will be given a summary of this Policy and have the right to get a copy of the full Policy on request.

## **Section 4: Rent Structure**

This section outlines the rent structure that we have chosen as the basis for setting rents. Section 5 and Appendix 2 deal with the issue of affordability and the determination of actual rent levels.

### **4.1. Key Principles**

The rent structure that we have selected must satisfy the following principles:

Firstly, it must ensure that housing services are provided efficiently and give value for money.

Secondly, it must satisfy principles of equity so that people in similar circumstances pay similar rents.

Thirdly, it must be both transparent and accountable so that the basis for setting rents is clear to both staff and tenants, as well as being easy to administer.

Fourthly, it must enable our financial targets to be achieved.

Finally, and an issue dealt with in detail in section 5, it must ensure that rent levels are affordable to tenants. Failure to keep rents affordable is likely to result in a variety of potential problems as follows:

- Personal financial hardship to tenants.
- Growth in rent arrears.
- Tenants being drawn into “the poverty trap”, for example, tenants unable to take up employment as Housing benefit would cease, while their income is not sufficient to pay both the rent and maintain basic living standards.

The affordability principle, it is emphasised, is also critical to our policy commitments of developing inclusive communities in which tenancies are sustainable. Section 6 clarifies how this Policy links to other key organisational policies.

### **4.2. Methods for Setting Rents**

Methods of setting rents vary and comprise essentially five main types. This section summarises these systems - including making comment on their relevance to housing in Orkney - before outlining the system that we have adopted.

#### **4.2.1. Market Systems**

Market systems take many factors into account when setting rents such as the costs of providing housing (the capital costs), levels of demand and income levels of both current and future tenants.

In reality, this means that rent levels will vary considerably with tenants in higher income brackets having greater access opportunities to housing.

This system, then, is clearly not compatible with our aim of setting rent levels that are affordable to tenants and not distorted by market factors such as demand and supply.

#### **4.2.2. Cost Systems**

Cost systems set rent levels based on the relative costs of housing provision, that is, their capital value; these costs may include both current and historic costs. An important principle underpinning this approach is that rents should reflect a rate of return on public housing assets.

Historically, rents have not been set in line with capital values since capital subsidies, or grants, have enabled the Council to keep rents at levels affordable to tenants.

As with the system in 4.1.1, however, this system is not compatible with the principles of affordability and sustainability to which we are committed. This applies since, in any cost-based system, rent levels are not restricted by social concerns such as limited income of both current and future tenants.

#### **4.2.3. Tenant-Based Systems**

Rent setting under tenant-based systems is linked to tenants' incomes and/or their preferences. The principal drawback with this type of system, though, is that it fails to take account of differentials in house types, or the costs involved in the provision of those houses. The relationship of income and rents remains an extremely important matter in connection with rent levels, however, and this is discussed in detail in section 5.

#### **4.2.4. The Target Rent Approach System**

This system incorporates three basic elements as follows:

Firstly, it recognises that rents in the public housing sector must be linked to the issue of tenants' ability to pay.

Secondly, rents must cover management and maintenance costs, for example, the costs of carrying out repairs to houses.

Thirdly, rents should incorporate a rate of return to replace the house (or renovate it) at the end of its life.

This system has definite merits in that it incorporates both concerns with affordability and efficiency, for instance, as it focusses on issues concerning costs of providing and maintaining houses.

Again, though, concern with issues of an economic nature in respect of house replacement values may result in setting rents at higher levels that are not affordable to many tenants; or affordable to those tenants only who are in receipt of full Housing benefit and thus potentially "trapped in poverty".

#### 4.2.5. Administrative Systems

This system, as the target rent approach, concerns itself with both affordability and the costs involved in managing and maintaining housing. In addition, it takes account of the type of housing stock for example house or ground floor flat etc, the size of the properties (number of bedrooms), access to outside space and the location (Kirkwall, Stromness, Rural Mainland, Inner Isles, Outer Isles), by setting rents based on differences in property attributes. These values are set by professional housing staff in liaison with tenants when consulting on the Rent Setting Policy. For example, a two bedroom ground floor flat with access to a drying green, would attract a higher rent than a two bedroom flat first floor flat without access to a drying green.

This system operates by allocating points to each property attribute; points may also be apportioned to reflect the desirability of houses. Points, in effect, equal monetary values. For example, each point might be equivalent to one pound.

The total rental income required to manage and maintain housing to desired quality standards is then divided by the total number of points. This gives a value for each point.

Individual rents are finally calculated by multiplying the number of points for each property by the point value. This is illustrated by the following example.

#### **Example:**

Total weekly rental yield required: £38,985.

Total number of houses: 781.

A Ground Floor 1 bedroom Flat in Kirkwall with access to a drying green would attract the following points.

Ground Floor Flat: 75 points.

1 Bedroom: 20 points.

Access to drying green: 50 points.

Location: Kirkwall no adjustment.

**Total Points for this property: 145.**

**Minimum points: 150.**

Total points for all stock: 14,402.

Total points divided by weekly rental yield required: 0.27.

Thus each point has a monetary value of 27 pence, meaning that the property above would have a weekly rental of £40.50.

It is emphasised that the above example is only for illustrative purposes and is not an actual example of current values. For example, not all Council stock are two bedroom ground floor flats.

#### **4.2.6. Preferred Rent Setting System**

In accordance with our policy commitment to develop our Rent Setting Policy in line with good practice, we have adopted the administrative system as it satisfies the principles outlined in section 3. This system will be adapted to local circumstances, however, and may involve specific elements from different structures. For example, in line with our commitments to tenant participation and the provision of quality services, tenant preferences will be taken into account when rent levels are set.

This system is also recommended by the Chartered Institute of Housing because it is:

- Simple to understand and administer.
- Consistent and transparent.
- Flexible.
- Generally favoured by tenants.

(Chartered Institute of Housing (1997): Good Practice Briefing No 11, Rents and Service Charges).

The next section of this Policy highlights key issues concerning rent levels that will be charged.

## Section 5: Rent Levels

Rent levels have traditionally been modified in the public housing sector through the provision of grants (or subsidies) that cover part of the capital costs in building and providing houses. The purpose of these grants was to enable Scottish Councils to set rents at levels that tenants could afford.<sup>2</sup>

In setting our rental levels, the rent setting system must ensure that rents are:

Affordable.

- Meet the costs of service delivery in respect of management and maintenance costs.
- Adequate to service outstanding debt, for example, loan charges on previous borrowings.
- Sufficient to provide for surplus to meet future works such as house renovation.
- Adequate to cover any service charges, for example, cleaning and gardening services.

This section now summarises key issues in respect of each of the above points. Appendix 3 details the points factors that we take into account in calculating rents and provides illustrations of rent setting for individual properties. A separate leaflet has been developed for tenants to show how rents are set.

### 5.1. Affordability

Affordability is a major element of this Policy since we are committed to ensuring that rents are reasonable. The concept of “affordability” is not, however, easy to define. Indeed, there have been various definitions.

The main definition traditionally followed by social landlords in Scotland was the double standard introduced by the Scottish Federation of Housing Associations (SFHA) as follows:

“For households with at least one member in work, rent should not exceed 25% of the net household income; and the household must be left with at least 140% of the appropriate level of Income Support. This was based on the assumption that actual Income Support levels are insufficient to enable people to maintain reasonable living standards.”

(SFHA (1993): Affordability, Briefing Paper No11, page 7).

This definition has now been abandoned by SFHA in favour of a housing benefit dependency approach that is simpler to apply. In line with this measure rent is deemed to be affordable where households do not have to claim housing benefit.

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<sup>2</sup> Gibb (1999) - a full discussion of the history of housing finance and the development of grants. (Appendix 1).

To cite the new SFHA definition in full:

“For rent to be affordable, households with one person (head of household or their partner of opposite sex) working 16 hours or more should only exceptionally be dependent on housing benefit in order to pay it.”

It is important that we acknowledge that in Orkney, a higher percentage of our tenants work, and are not benefit dependent than elsewhere in Scotland and that, the definition of affordability is therefore particularly important.

In 2007 The Department of Communities and Local Government adopted the definition that a household should be considered able to afford market house renting in cases where the gross rent payable constitutes no more than 25% of their gross household income. On the basis that this refers to private rented housing and that we believe that Social Housing should if anything be more affordable we have adopted the following definition:

“A household working 16 hours or less should be dependent on Housing Benefits only in exceptional circumstances, whilst a household where one or more members is working full time should not be reliant in any form on Housing Benefits and their gross rent should constitute no more than 20% of their Gross Household Income.”

## **5.2. Service Delivery Costs**

Rent levels must be sufficient to cover the costs of delivering housing services; these relate mainly to management and maintenance costs such as repairs.

These costs, in turn, are themselves determined by a range of other factors such as:

- Ensuring that services comply with legal and good practice requirements as detailed in our policies.
- Meeting corporate requirements to achieve value for money in line with “best value” commitments.
- Implementing services to meet standards agreed with tenants through our tenant participation strategy.

When setting rents each year, we will consult with tenants on proposed rents taking these factors into account.

We are also legally required to consult with tenants about any proposed increase in rent or service charge and take account of their views before any decision to increase these charges is taken.

We will not normally change the rent more than once every twelve months. Where rent is increased, tenants must receive at least four weeks written notice before the relevant rental period begins.

(Housing (Scotland) Act 2001, section 25).

### **5.3. Loan Charges**

Rent levels must be sufficient to cover loan charges on previous borrowings. This must cover both capital and interest payments on outstanding debt.

### **5.4. Future Works**

Rent levels must cover projected costs of future works such as house renovation. This is likely to include renovations required in order to ensure our properties meet the Scottish Housing Quality Standard by 2015. Further information is contained within our Standard Delivery Plan.

### **5.5. Service Charges**

We are entitled to provide services to tenants as agreed within the Tenancy Agreement.

Where services are provided, these are detailed in a separate document that also details costs of services. This makes clear to individual tenants what they are paying for.

Service charges can be fixed or variable in nature.

Fixed charges can only be altered when rents are reviewed.

Variable charges allow service costs to be varied dependent on actual costs.

Our Tenancy Agreement provides for service charges to be set if required though currently we do not charge for these.

Service charges may be eligible for housing benefit. Prior to providing such charges, we will consult with tenants on whether services qualify for payment under the housing benefit regulations. This is important to ensure that service provision does not adversely impact on tenants' financial situation. Services that qualify for housing benefit are detailed in Appendix 6.

## **Section 6: Links to Other Policies**

This section highlights links with other policies to show the importance of this Policy for overall effective service delivery. The policies covered are:

- Tenant Participation.
- Lettings and Voids.
- Rent Arrears.
- Development.
- Sustainability.
- Social Inclusion.

### **6.1. Tenant Participation**

Tenants are entitled to receive information on this Policy, on request. We provide information to all tenants, however, as part of our general strategy of ensuring that important information is made available to all of our tenants.

(Housing (Scotland) Act 2001, section 23 (6)).

In line with legal requirements, we will consult with tenants on this Policy and, in particular, we consult with them prior to making any rental changes.

(Housing (Scotland) Act 2001, sections 55 and 25).

### **6.2. Lettings and Voids**

The Housing Officer will discuss rental charges as part of the sign up of tenancy process. This will involve consideration of the following matters:

- Current rent levels and benefit entitlement.
- Service charges and benefit entitlement.
- Rehousing options where rent levels for specific properties are not affordable for individual tenants.
- Monitoring of offers refused by applicants because rent levels are deemed to be too high.

### **6.3. Rent Arrears**

We operate a comprehensive and detailed Rent Arrears Strategy. In assessing rent arrears trends, we monitor whether there is any relationship between arrears levels and rent levels.

Our rent accounting system distinguishes the various charges that individual accounts may comprise. These include:

- Rent arrears.
- Former tenant debt.
- Housing benefit overpayments.
- Insurance premiums.

- Credits such as right to repair compensation payments and compensation payments for home improvements.
- Other charges such as charges for repair work carried out due to breach of tenancy.

#### **6.4. Development**

A key element of our development strategy is to provide housing that meets all relevant legal and good practice standards. For example, modern housing should contain basic levels of facilities and amenities. Our re-let standard outlined in our Voids Policy details these minimum standards.

It is important to note, that with some points systems, the provision of specific amenities may lead to higher rents, for example, the provision of central heating. Given the need to have properties that are high quality we have avoided pointing issues such as these. However, we monitor improvement programmes to ensure that, where rents are increased as a result of the cost of development works, rents are still affordable for tenants.

#### **6.5. Sustainability**

A key corporate policy to which we are committed involves the creation of sustainable communities and sustainable tenancies within those communities. When letting houses, therefore, the Housing Officer advises tenants on issues relevant to sustainability. For example, advice is provided regarding heating costs to ensure that tenants receive appropriate financial assistance to avoid situations where tenants have to choose to live in inadequately heated homes in order to pay for their rents.

As such, this is part of our strategy to tackle fuel poverty that exists where a person is a member of a household with a low income living in a home that cannot be kept warm at a reasonable cost.

(Housing (Scotland) Act 2001, section 95).

#### **6.6. Social Inclusion**

We are committed to the development of inclusive communities through our Equal Opportunities Policy. Consequently, we monitor the levels of tenants in receipt of housing benefit to evaluate whether rent levels may exacerbate problems of social exclusion. For example, rent levels acting as a deterrent to people becoming economically active because wage levels are insufficient to cover rents and provide for a reasonable standard of living, whereas current rents are paid for by housing benefit.

## **Section 7: Training and Development**

In order for this Policy to be implemented effectively, it is essential that staff receive comprehensive training covering a broad range of matters. Our Staff Development and Training Policy outlines the various stages involved in implementing quality training.

In line with this Policy, the actual training provided varies depending on the job descriptions and work duties of individual staff.

Examples of types of training provided include the following:

- Legal provisions, for example, legal training on the Housing (Scotland) Act 2001 and its importance in respect of rent setting and rent changes.
- Good practice guidance covering rent setting and the provision of service charges.
- Policy and procedures training.
- Specialist training on tenant participation, for example, methods for consulting on rent setting systems and proposed rent increases.

## **Section 8: Performance Management**

We have established a comprehensive performance monitoring system that covers all of our mainstream housing services. This is essential for several reasons as follows: firstly, monitoring is necessary to ensure that this Policy has been implemented effectively. In particular, this is important to show that we are complying with our legal obligations to consult with tenants on matters concerning the setting of rents and their subsequent review.

Secondly, this Policy has major links with a range of other mainstream policies. It is important, therefore, to ensure that information identified through monitoring of this Policy are incorporated into other policy reviews, for example, reviews of our Lettings and Rent Arrears Policies.

Finally, monitoring of this Policy is necessary to ensure that it is promotional of corporate organisational objectives concerning sustainability, Best Value and social inclusion.

Appendix 5 details the specific indicators that we currently use to monitor this Policy.

## **Section 9: Consultation and Review**

We have consulted widely with tenants and other service users in the development of this Policy and will continue to do so throughout the process.

This process has included writing to all tenants, articles in the Housing News, the production of a specific leaflet and relevant sessions provided through our Tenants Day for summer 2008.

This Policy will also be subject to regular review as agreed with tenants through our Tenant Participation strategy. Reviews will take account of:

- Changes in legislation.
- Good practice guidance.
- Views of service users, for example, their views about levels of rents and the quality of general service delivery.
- Information derived through monitoring of performance.

Information about this Policy is published in a separate leaflet.

Other information that will be published annually in Housing News and on our website is as follows:

- Views of tenants about this Policy and its effects in practice.
- Trends covering levels of rents and levels of rent arrears.
- Rents payable for properties throughout our housing stock.
- Service charges that we offer and costs of such services.

## **Section 10: Appeals and Complaints**

If an applicant is dissatisfied regarding any decision made in the rent setting process, they have the right to appeal. Appeals are likely to be in relation to the pointing which results in the rental determination set.

Applicants should be made aware of their right to appeal and be advised that independent agencies such as the Citizen's Advice Bureau and Advocacy Orkney can assist them with this process if they wish.

### **10.1. Appeals**

#### **10.1.1. Pointing**

Applicants should notify the Council in writing, or verbally, as to the reasons why they feel the points applied to their home have been assessed incorrectly. This may include details of any independent agencies they feel may be able to support their application. The applicant can request an interview with a relevant senior member of staff who will explain their assessment in detail. Following the interview the member of staff involved will confirm, in writing, the assessment details and address any issues that were raised by the applicant within 5 working days.

If the applicant still feels that their points level is incorrect, then they can request a review of the application by the Director of Finance and Housing. Where such a request has been made, it will be acknowledged within two working days, and the Director of Finance and Housing will normally review the application within 14 working days. The appeal should be in writing or other appropriate form as agreed with the Officer.

If it is decided to amend the decision, then the applicant will be notified in writing, and their points details updated accordingly.

Where the decision is made to uphold the decision to award the same pass, (as determined within the original assessment), the applicant will be notified in writing of this.

Full details of this process will be made available during the appeals process.

### **10.2. Complaints**

Complaints could be made if applicants feel that the service delivery they have experienced has not been offered in line with Council standards. A copy of the Council's Corporate Complaints Procedure is available on request from the Council office or can be downloaded from our website.

Applicants should note that an independent review of decisions may be available through the Ombudsman if service maladministration has taken place and the complaints procedure has first been used.

This is a free and impartial service and a leaflet giving details is available at the Council offices. The Ombudsman address is:

Scottish Public Services Ombudsman,  
4 Melville Street,  
Edinburgh,  
EH3 7NS.

Telephone: 08700115378.

Fax: 08700115379.

Email: [enquiries@scottishombudsman.org.uk](mailto:enquiries@scottishombudsman.org.uk)

## **Appendix 1: Law and Good Practice**

This section summarises the main law and good practice guidance that we have taken into account in developing this Policy.

### **Legislation**

Local Government in Scotland Act 2003.

Housing (Scotland) Act 2001.

### **Good Practice Guidance**

Chartered Institute of Housing (1997): Good Practice Briefing No 11, Rents and Service Charges.

Chartered Institute of Housing Standards.

Scottish Federation of Housing Associations (1993): Affordability, Briefing Paper No 11.

### **Other References**

Gibb et al (1999): Housing Finance in the UK, Chapter 4, Macmillan Press Ltd.

## Appendix 2: The Points System

As of 1 April 2011, the points awarded to each property on the Housing Revenue Account will be determined as follows:

Category.	Description.	Points.
Property type.	House.	100.
	Bungalow / single story house.	100.
	Ground floor flat.	75.
	Flat on first floor or above.	50.
	Bedsit.	As per property type above.
Size.	Bedsit.	15.
	1 bed.	20.
	2 bed.	40.
	3 bed.	50.
	4 bed or more.	60.
Outside space (1 only).	Access to identified parking space.	50.
	Access to communal drying green.	50.
	Own garden.	70.
	Own garden and driveway.	90.
General.	Minimum points threshold.	150.

Additionally consideration will be given to the locality of the property with the following adjustments being made to the final points allocation for each property.

Kirkwall.	Points value remain as calculated.
Stromness.	95% of points total.
Rural mainland.	90% of points total.
Inner isles.	85% of points total.
Outer isles.	75% of points total.

In addition in relation to new build properties a 25% premium will apply. The 25% premium will be applied after calculating the rent charge determined by the pointing process.

## **Appendix 3: Other Tenure Forms**

This section summarises rents payable for other rented accommodation in the Orkney area. This is important to show how our rents compare to those charged by other local housing providers.

This section is divided into the following categories of landlords:

- Orkney Housing Association.
- Other housing providers.
- Private sector landlords.

This information will need to be obtained from consultation with partner agencies and will be updated on an annual basis.

The Association has available information gathered through its SCORE data base.

Tables showing comparisons can be inserted as the information is available.

## **Appendix 4: Performance Indicators**

Current information that we gather to monitor whether this Policy is being implemented effectively is as follows:

- Monitoring of numbers of tenants in receipt of housing benefit.
- Refusals of offers because rent too high.
- Monitoring of arrears levels and links with rent levels.

## **Appendix 5: Service Charges and Housing Benefit**

Zebedee Guide to HB/CTB 2006/7, page 147. Service charges paid for the following:

- Fuel for communal areas.
- Furniture/household equipment.
- Communal window cleaning.
- Other exterior window cleaning which the occupiers cannot do.
- Communal cleaning.