

DECISION

Committee:

**Board of Management of Sanctuary
Scotland Housing Association Limited**



Date:

13/12/2022

Agenda Item:

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Report from:

Head of Housing

Title: Consultation on Proposed Rent Increase for 2023

Executive Summary: To seek approval for Sanctuary Scotland's approach to rent consultation for 2023/2024.

1. Introduction

1.1 This report recommends the basis on which tenants should be consulted in respect of proposed rent increases for 2023/2024. It provides information on a range of issues relating to rents to assist the Board of Management in its consideration of the level of proposed rent increases.

2. Background information

2.1 Under the terms of Section 25 (four) of the Housing (Scotland) Act 2001, landlords under a Scottish Secure Tenancy must consult with tenants who are affected by any proposal to increase rents and must have regard to the views expressed by those consulted.

2.2 The final decisions on the budget and any rent increase are normally made by the governing body in February of each year. In some years, however, the final decision on the rent increase has been delayed until the April cycle of meetings. To enable this, a consultation exercise is carried out each January with tenants for whom a rent increase is proposed seeking their comments on the proposed increase. Any feedback from this exercise is then considered by the governing body

members as part of the budget setting process. Any rent increases are implemented from the appropriate review date in July of each year.

- 2.3 Current levels of inflation are an important factor in rent setting decisions. November RPI (Retail Price Index) is the base rate which has historically been used for Sanctuary Scotland rent increases. This month was specified in some of the original stock transfer contracts and some early tenancy agreements. The most recent published rate of inflation at the time of writing, October 2022, is 14.2 per cent.
- 2.4 The Cost of Living (Tenant Protection) (Scotland) Act was approved by the Scottish Government in October and introduced a variable cap which creates the possibility that social housing rent levels for 2023/24 are frozen or capped. The Scottish Government has committed to making an announcement on any cap or freeze by 14 January 2023.
- 2.5 A process of rent harmonisation had previously been approved by the Board of Management which resulted in additional increases and reductions for properties in Cumbernauld. All properties have now reached their target levels so the outcome of this rent increase consultation will impact in the same way for all properties in Cumbernauld.

3. Rent setting framework

- 3.1 Our most recent rent setting consultation took place prior to the increase for 2020/23 and approval was given for a three-year period, where rents increases would be set at three per cent or November RPI plus 0.5 per cent, whichever is lower. The recommendation this year is to consult on rent increases for one year only given the economic environment.
- 3.2 Members will be aware that much of Sanctuary Scotland Housing Association's housing stock has been assembled by way of various stock transfers, mergers or other similar transactions, during which rent "guarantees" were agreed. These arrangements normally dictate maximum rent increases which can be applied and have been incorporated into contracts accepted by Sanctuary Scotland Housing Association.

These restrictions will not be relevant this year if the proposals on rent increase levels in this paper are approved.

- 3.3 Where there are no contractual commitments, the rent increase approved by the board has normally been higher than where we do have a contractual commitment, although this has still resulted in an actual rent increase of less than RPI plus one per cent. Differential rent increases have increased the difference in rent levels between properties, sometimes in adjoining estates. It has been these differing levels of rent increase that have attracted the most adverse comments

from tenants in previous consultation exercises. Sanctuary Scotland Housing Association is committed to review the process of rent harmonisation, however the impact over time of these contractual commitments has limited the scope for this piece of work to a significant degree.

4. Considerations

- 4.1 The base date which has in the past been used as the relevant RPI figure for rent increases is November each year. This month was specified in some of the original stock transfer contracts and some early tenancy agreements. The level of RPI over the period since October 2021 is shown at **Appendix 1**. Last year, the rent increase was capped at three per cent when November 2021 inflation was 7.1 per cent, and inflation has since risen steadily up to 14.2 per cent in October 2022.
- 4.2 While it had been normal practice for many years to increase rents by the maximum available under the terms of the various contracts and commitments, in recent years it has been possible for Sanctuary Scotland Housing Association to restrict the maximum level of rent increase. Details of the maximum rent increases applied over the past 20 years are shown in **Appendix 2**. For those estates which have contractual commitments limiting rent increases to RPI only, the level of increase which has been applied has always been at the relevant rate of RPI.

5. Consultation on proposed rent increase

- 5.1 Consultation on a rent increase of seven per cent is proposed. The Scottish Government will announce their decision on the variable cap no later than 14 January. If a variable cap is set at less than seven per cent then the proposal is to consult at the level set by the Scottish government.
- 5.2 This year more than any previously there is a tension between maintaining services for our customers in the face of rising costs, and ensuring rents are affordable. Modelling on the impact of a rent freeze, compared with a seven per cent increase, shows loss of income of £3.6m per year, or £167m over 30 years. This is the equivalent of 6,000 new affordable homes, 8,000 air source heat pumps or 16,000 bathrooms. The impact of setting the rent increase at below inflation levels will be fully set out in the budget presentation in February.
- 5.3 It is proposed that we wait until the outcome of Scottish Government announcement, before starting our own consultation exercise with our tenants. We will write to or email all tenants, provide information on our website, and make a hard copy of the information available to anyone who would like it in that format.

- 5.4 The timetable for the proposed rent consultation and increase process is as follows:

December	Board of Management approves consultation process and pamphlet issued to tenants.
January	Tenants consider proposals and comment on options provided.
February	Analyse responses and report outcome of consultation exercise to Board of Management. Decision taken on level of rent increase and budget.
By end of May	Issue rent increase notifications.
July	Rent increase takes effect.

- 5.5 The above timetable reflects the fact that a minimum of 28 days' notice of any rent increase has to be given to tenants. This requires increase notifications to be issued to tenants by the end of May 2023.

6. Affordability Exercise

- 6.1 An analysis of affordability in relation to the proposed annual rent increase is provided at **Appendix 3**. The purpose of this is to measure the impact of rents applied on households with moderate incomes. This will allow the Board of Management to consider the impact on affordability on tenants' rents when considering the rent increase for 2023/2024. The model is based on Scottish Federation of Housing Associations (SFHA) guidance on a 'moderate approach' to rent setting based on affordability and sustainability.
- 6.2 The SFHA definition of affordability states that, "for a rent (including service charges) to be affordable, a household with one person working 35 hours or more should only exceptionally be dependent on Housing Benefit (or Universal Credit) in order to pay it".
- 6.3 The Scottish Federation of Housing Associations guide advises that a rent charge which is less than 25 per cent of a household's net (moderate) income would be considered affordable. Rents between 25 per cent and 30 per cent of a household's net (moderate) income are on the margins of what would be considered to be affordable. A rent charge which is more than 30 per cent of a household's net (moderate) income would not be an affordable rent.
- 6.3 Income data from Office for National Statistics is used for the analysis and has an important impact. This year reported earnings for people on moderate incomes increased more than Sanctuary Scotland Housing

Association rents, which resulted in a lower number of amber properties. The total number of amber properties for 2022/2023 is 65, compared with 364 in the previous year.

- 6.4 The projections shown in **Appendix 3** are based on an assumption that earnings will increase at the rate of RPI, which is estimated at five per cent for 2023/2024. Applying a seven per cent rent increase results in 33 additional units falling into amber, giving a total of 98. The analysis by local authority shows the impact to be greatest in Aberdeen City, with smaller numbers of amber properties in Dundee, Glasgow City and Aberdeenshire. Of the 98 projected properties in amber, 92 are one-bedroom properties. Indicative rents for example properties are also shown in **Appendix 3**.

7. Appraisal

7.1 Risk management

- 7.1.1 RM 3 Cost and income pressures; the level of annual rent increase is of great significance to Sanctuary Scotland Housing Association's financial position. Sensitivity analysis applied to long-term business plans and financial projections highlights the level of rent increase as the most significant variable in terms of its impact. Setting an appropriate rent increase contributes to the management of the risk associated with this.

- 7.1.2 RM 8 Legislative/Regulatory/political; conducting a consultation exercise with tenants on the proposed level of increase also ensures that relevant legal and regulatory requirements are satisfied.

7.2 Impact on diversity

- 7.2.1 This report has no direct diversity implications. Any rent increases are applied consistently across all tenancies.

7.3 Value for Money

- 7.3.1 The costs of the rent consultation exercise are covered by approved budgets. Tenants may make a "value for money" judgement on the levels of rent charged by Sanctuary Scotland Housing Association.

8. Recommendation

8.1.1 The Board of Management is asked to approve Sanctuary Scotland's approach to rent consultation for 2023/2024. It is recommended that a consultation exercise is carried out with tenants out with Toryglen in January 2023, regarding proposed rent increases for 2023/2024, on the basis of whichever of the following is lower:

- A rent increase of seven per cent; or
- A rent increase at the maximum level set by the Scottish Government.