

**REPORT TO: BOARD OF MANAGEMENT OF SANCTUARY
SCOTLAND HOUSING ASSOCIATION LIMITED**

REPORT FROM: HEAD OF HOUSING - SANCTUARY SCOTLAND

DATE OF MEETING: 9 FEBRUARY 2021

SUBJECT: PROPOSED RENT INCREASE 2021/2022

1. Introduction

- 1.1 This paper recommends to the Board of Management the proposed rent increase for 2021/2022 and is intended to support the report on the Budget and Rent Review for 2021/2022 which will be submitted separately.
- 1.2 Analysis is provided on affordability in relation to the proposed annual rent increase, measuring rent against the Scottish Federation of Housing Association model.

2. Background information - Exempt from publication under Section 33(1)(b) (Commercial interests and the economy) of the Act.

3. Affordability Analysis

- 3.1 The Scottish Housing Regulator (SHR) has reported that most tenants in social housing have seen earnings remain level or rise at rates below inflation. However, this report was written prior to the current Covid-19 pandemic which has impacted on tenants earnings as evidenced in an increase in claims for universal credit. The SHR asked Housing Associations to consider tenants' ability to keep paying rent in the longer term when setting rents. This topic has been discussed in detail at several Board of Management away days.
- 3.2 Analysis has been conducted to measure the rents applied to tenancies in Scotland by Sanctuary Scotland Housing Association against the thresholds defined by the Scottish Federation of Housing Association's current affordability guidance allowing the Board of Management to consider the impact in relation to affordability on tenants' rents.

4. Affordable Rent - Definition

- 4.1 The 2017 Scottish Housing Regulator report on affordability identifies and shares positive practice in the approach to development of affordable homes. The report also advises of potential challenges and risks which could impact on the Register of Social Landlord's ability to develop affordable housing in a sustainable way.

- 4.2 In 2018 the Scottish Federation of Housing Associations produced an updated guide with a 'moderate approach' to rent setting based on affordability and sustainability.
- 4.3 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 considered to be an affordable rent.
- 4.4 An 'affordability tool' is included with the guide. The affordability tool defines monetary value thresholds which represent 25 per cent and 30 per cent of a moderate income. The thresholds vary as they are dependent on the Local Authority in which the tenancy is located, the property size and the household type.
- 4.5 The local-area moderate income model proposed by the Scottish Federation of Housing Associations is based on weighted Annual Survey of Hours and Earnings income (ASHE) data provided by the Joseph Rowntree Foundation.

5. Analysis of Rent Charges

- 5.1 Our Financial Planning team have provided the analysis of affordability in relation to the proposed annual rent increase. The purpose of the report is to measure rents applied to Sanctuary Scotland Housing Association tenancies against the thresholds defined in the Scottish Federation of Housing Associations affordability guidance. This will allow the Board of Management to consider the impact in relation to affordability on tenants' rents when approving the rent increase for 2021/22.
- 5.2 The outcomes from this year's analysis on the various scenarios tested are very similar to the information provided last year. Over time they show a shift in the geographical areas where rents potentially become unaffordable, following a rent increase and changes to household income. Although one bedroom properties in Aberdeen and Aberdeenshire remain affected in all scenarios tested, the analysis shows a much greater impact on our properties, including new builds, and properties in Glasgow, East Dunbartonshire and Renfrewshire. The properties affected are in high demand areas with low turnover. Our stock in Dundee remains largely unaffected and none of the properties in North Lanarkshire show as potentially unaffordable.

6. Appraisal

- 6.1 Risk management
 - 6.1.1 RM 8 Legislative/Regulatory/Political; in terms of managing expectations

from tenants to provide services and carry out works already promised, there is a risk that our ability to deliver would be restricted should we fail to approve an appropriate level of rent increase.

- 6.1.2 Stock condition surveys and regular inspections of our stock continue to identify additional works required to our properties. A large sum of money on improving homes over the last 10 years has been spent in order to meet the Scottish Housing Quality Standard. There are plans to spend significant sums on energy efficiency based upgrades such as internal and external insulation, next year.
- 6.1.3 In addition to these re-investment works, planned and cyclical programmes will continue covering elements such as roof and roughcast renewal, gutter cleaning and external decoration.
- 6.1.4 Every one per cent of a rent increase equates to approximately £337,300 of income, based on the current level of stock and anticipated rental income. The compounding effect over time of lost rental income must be borne in mind.

6.2 Impact on diversity

- 6.2.1 Sanctuary Scotland Housing Association is an equal opportunities organisation and in relation to tenant participation and resident involvement is committed to ensuring that no tenant is unable to, or discouraged from, contributing.

6.3 Value for Money

- 6.3.1 In order to provide comparison with other landlords, contact has been made with a number of Registered Social Landlord's in Scotland to review their proposed rent increase for 2021/2022.
- 6.3.2 Caution must be exercised when comparing associations as they can mask a lot of the variation that exists, for example the level of improvement works already completed to stock or the results of rent harmonisation, but as a rough indicator they present a picture of proposed housing association rent increases across Scotland.
- 6.3.3 The proposed increase for this year reflects our need for additional income in order to continue to invest in existing stock and this point was accepted by our tenants who participated in the consultation exercise.

7. Recommendation

- 7.1 The Board of Management is asked to note the content of this report on the proposed rent increase for 2021/2022, and to consider the following when discussing the paper on the Budget and Rent Review for 2021/2022:

- that rent levels for residential properties be increased by 1.4

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- per cent from the relevant increase dates in July 2021;
- those properties with a contractual guarantee of rent increases limited to RPI only be increased by 0.9 per cent;
- that rent levels for garage lock ups are frozen for 2021/2022 in order to stimulate demand for garages;
- that the rent harmonisation process continues for affected properties in Cumbernauld, however as we near the end of the project this can no longer be cost neutral;
- that service charges, including supported housing developments, be set at levels which ensure that the projected service charge costs for these properties are recovered; and
- the monetary multiplier for HAG-funded and other similar developments be increased by 1.4 per cent to £52.22 per point per annum.