

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

REPORT FROM: HEAD OF HOUSING - SANCTUARY SCOTLAND

DATE OF MEETING: 10 DECEMBER 2019

**SUBJECT: CONSULTATION ON PROPOSED RENT INCREASES FOR
2020/2021**

1. Introduction

1.1 This report recommends the basis on which tenants should be consulted in respect of proposed rent increases for 2020/2021. 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 (4) 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 The rent increase consultation exercise for this year no longer requires Sanctuary Scotland Housing Association Limited to consider the guarantees made at the transfer of engagements, which resulted in the 2016 merger. Members will recall that one of the benefits of the merger was the restriction of rent increases to a maximum of RPI +0.5 per cent for a period of at least three years following the merger and this ended with the increase for 2019/2020.

2.4 The Board of Management is also advised that in Cumbernauld a process of rent harmonisation has been carried out which has seen additional increases and reductions of up to a maximum figure of £2.50 per week approved and implemented from November 2011 and on

each rent increase date until July 2019. There are still a number of properties where the rents have not yet reached target levels. This process requires to continue, with a further increase to be applied in future years until the target rents are reached. The over-riding principle on which the rent harmonisation exercise had been based was that it should have an overall neutral impact on the total amount of rental income generated. Although the principles on which the rent harmonisation exercise is based have been widely understood and endorsed by Cumbernauld tenants under the banner of “fairer rents”, as we near the completion of this exercise it must be noted that only rents that are below target remain to be harmonised.

2.5 A total of 14 properties have yet to be harmonised and set to their target rents.

3. Rent setting framework

3.1 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. The various agreements which are still in force are shown below in Table 1:

3.2 Table 1

Area/estate	Rent restriction
Priesthill new build (Orlit replacement only)	Maximum increase of RPI only (contract ends 2033), 206 units
West Central Pollok project	Maximum increase of RPI only (contract, in perpetuity), 26 units
Muirshiel project	Maximum increase of RPI + 1 per cent (contract with Glasgow City Council in perpetuity), 94 units
Anderston - new build stock	Maximum increase of RPI +1 per cent only (stock transfer commitment to tenants ends 2024), 413 units

3.3 This year however, the intention is to set out three different options for the 2020/2021 rent increase explaining how each option will affect our re-investment plans and on which tenants will be asked to comment, the option chosen will be applied to all rent accounts.

3.4 There are no contractual commitments or any stock transfer commitments in place for any of Sanctuary Scotland Housing Association’s other developments. In the interests of equity, the same level of rent increase has applied for such properties as for the majority of mainstream properties. Since 2011 this has resulted in an actual rent increase of less than Retail Price Index (RPI) plus 1 per cent.

3.5 There are varying levels of contractual commitments or guarantees in place and Sanctuary Scotland Housing Association has in the past applied the maximum increase permissible under these contracts or guarantees, which has resulted in differential levels of rent increase. These 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 RPI rate for November 2019 may not be known by the date of the Board of Management meeting. The level of RPI over the period since October 2018 is shown at **Appendix 1**. RPI has fallen over the past 12 months from the rate as at October 2018 which was 3.3 per cent. Over the last three years RPI has fluctuated from 2.2 per cent at its lowest point to 4.1 per cent, the average RPI rate during this period is 3.2 per cent.

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.

4.3 The current financial business plan, as approved earlier this year, is now based on assumed annual rent increases of RPI +0.5 per cent. This has resulted from adjustments made to the cost base over recent years, including the shared operating platform with the former Sanctuary Cumbernauld and Tenants First. The draft budget for 2020/2021 currently being prepared for consideration by the Board of Management is therefore based on an assumed maximum rent increase of RPI +0.5 per cent.

5. Consultation on proposed rent increase

5.1 While budgets for the next financial year are still being developed, taking the considerations outlined in Section 4, it is considered

appropriate that Sanctuary Scotland Housing Association should consult with tenants on the following options;

- A rent increase of RPI + 0.5 per cent (if this figure is less than 3 per cent this will be option 1) or,
- A capped rent increase of three per cent for each of the next three years or,
- A rent increase of RPI + one per cent.

5.2 The relevant RPI figure (for November 2019) should be known by mid December 2019 so it will be possible to provide tenants with examples of actual rent increases as part of the consultation exercise if requested.

5.3 It is proposed that the consultation exercise for this year will be based on a pamphlet sent to all affected tenants detailing what rents have helped to deliver in terms of improvements to homes, neighbourhoods and services. Tenants' views from previous consultations and satisfaction surveys will be highlighted, options presented for the first time and tenants will be offered an opportunity to comment on the proposals. Discussions with our National Residents Review Panel and meetings with local tenants' focus groups will also be arranged.

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

5.5 Table 2

Month	Timeline Detail
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.

5.6 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 2020.

6. Affordability Exercise

6.1 At the recent Board of Management away day on 17 November 2019, Board members considered the Scottish Federation of Housing Associations (SFHA) definition of affordability. The definition 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”.

- 6.2 Our Financial Planning team have provided at **Appendix 3** an analysis of affordability in relation to the proposed annual rent increase. The purpose of their report is to measure rents applied to Sanctuary Scotland Housing Association tenancies against the thresholds defined in the SFHA 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 2020/2021.
- 6.3 The outcomes from this analysis on the various scenarios tested show a shift in the geographical areas where rent, following a rent increase and changes to household income, potentially become unaffordable. Although one bedroom properties in Aberdeen and Aberdeenshire remain affected, the analysis shows a much greater impact on our properties, including new builds, in Glasgow 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.

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 10 Legislative/Regulatory; 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 It is recommended that a consultation exercise is carried out with tenants in January 2020 regarding proposed rent increases for 2020/2021 on the following basis (with the relevant RPI figure being that for November 2019):

- A rent increase of RPI + 0.5 per cent (if this figure is less than 3 per cent), or
- A capped rent increase of three per cent for each of the next three years, or,
- A rent increase of RPI + one per cent, and;
- Rent harmonisation continues to the affected properties in Cumbernauld.