

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

REPORT FROM: HEAD OF HOUSING

DATE OF MEETING: 12 FEBRUARY 2019

**SUBJECT: OUTCOME OF CONSULTATION ON PROPOSED
RENT INCREASES 2019/2020**

1. Introduction

- 1.1 This paper reports on the consultation exercise carried out with tenants regarding the proposed rent increase for 2019/2020 and is intended to support the report on the Budget and Rent Review for 2019/2020 which will be submitted separately to the Board of Management.
- 1.2 Analysis is provided on affordability in relation to the proposed annual rent increase, measuring rent against the Scottish Federation of Housing Associations (SFHA) model.

2. Background

- 2.1 At the meeting of the Board of Management on 11 December 2018 it was agreed that tenants should be consulted on a proposed rent increase, based on the Retail Price Index (RPI) rate for November 2018 plus 0.5 per cent. The relevant RPI rate was subsequently confirmed as 3.2 per cent, giving a maximum proposed rent increase of 3.7 per cent.
- 2.2 As in previous years, all tenants were advised in writing of the proposed rent increase and invited to submit comments on it. Fifty-three formal responses had been received at the time of writing, details of which are provided at **Appendix 1**. Fewer individual responses were received than in the last year; however, a petition with 151 tenant signatories from a local Member of Parliament was received. There were 102 formal responses across Scotland last year. Where responses referred to repairs and other issues, appropriate action has been taken to respond to the points or concerns raised.
- 2.3 Representatives from the Glasgow-based focus group commented that this year's increase is high and potentially unaffordable, particularly for those tenants in receipt of either partial benefit or no benefit at all. As in previous years, the tenant representatives commented on the general issue of affordability of rents, the disparity in rents between areas, and that value for money, in terms of investment in their homes,

is diminishing. In contrast, the general tone of comments received from the Cumbernauld Housing Partnership Tenants Forum and the Cumbernauld-based focus group was positive. They expressed an understanding of why a rent increase is necessary, and, in general, that the proposed increase is fair.

- 2.4 The level of individual responses to the consultation reflects the fact that the proposed increase of 3.7 per cent is lower than last year; however, the petition received from the Paisley area significantly increased the number of tenants who disagree with the proposed rent increase.
- 2.5 Details of rent increases applied by Sanctuary Scotland Housing Association Limited (Sanctuary Scotland Housing Association) from 2000 to 2018 are provided at **Appendix 2**.
- 2.6 The majority of those tenants responding have commented negatively or that the rent increase is too high. Most tenants made more than one comment and a breakdown of responses is provided in Table 1.

Table 1: breakdown of responses to proposed rent increase

Disagree with proposed increase	30
Unhappy with repairs service	19
Lack of investment in property	16
Agree with proposed increase	10
Poor service provision	5
Clarification on rent sought	3
Petition in which tenants disagree with proposed increase	151

- 2.7 Details of rent increases applied or proposed by other housing associations have been collated, and are attached at **Appendix 3**. It can be noted from this information that the proposed increase of 3.7 per cent on which Sanctuary Scotland Housing Association has consulted tenants would sit above the median level of increase for the sector.
- 2.8 Following the successful transfers of engagements of Tenants First Housing Co-operative Limited and Cumbernauld Housing Partnership Limited to Sanctuary Scotland Housing Association, commitment was made to restrict annual rent increases to a maximum of RPI plus 0.5 per cent for a three year period, starting from 1 July 2017.

- 2.9 There are two estates, the Priesthill new build (Orlit replacement) and Pollok Bellway estates, where the level of rent increase is restricted to the rate of RPI only. These restrictions reflect contract conditions or stock transfer commitments. The appropriate level of rent increase for these estates is therefore 3.2 per cent.

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. The SHR has therefore 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 recent Board of Management away days.
- 3.2 The purpose of the analysis below is to measure the rents applied to tenancies in Scotland by Sanctuary Scotland Housing Association against the thresholds defined by the SFHA'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 SHR report on affordability identifies and shares positive practice in the approach to the development of affordable homes. The report also advises of potential challenges and risks, which could impact on the ability of Registered Social Landlords (RSLs) to develop affordable housing in a sustainable way.
- 4.2 In 2018 the SFHA produced an updated guide with a 'moderate approach' to rent setting, based on affordability and sustainability.
- 4.3 The SFHA 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 representing 25 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 SFHA is based on weighted Annual Survey of Hours and Earnings income data provided by the Joseph Rowntree Foundation.

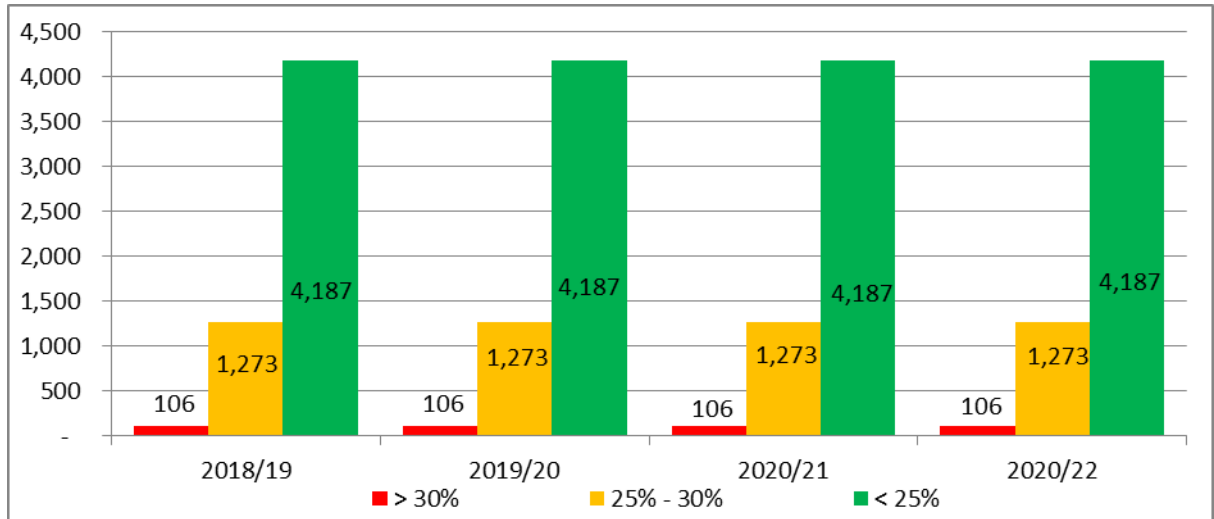
5. Analysis of Rent Charges

- 5.1 This analysis compares information on Sanctuary Scotland Housing Association rents with affordability thresholds at local authority level provided by the SFHA. The analysis is for one, two, and three bedroom general needs properties only.
- 5.2 It is important to highlight that this is not an estimate of the actual income of tenants, rather it is an analysis of the potential impact of rents on the smallest households, earning moderate incomes and paying rent without housing benefit.
- 5.3 The SFHA data allows for analysis of different income thresholds for the same property size. For example, for a one bedroom property a threshold figure is available for a single person and for a couple. The affordability threshold is a lower rent for the single person, because the income for a single person is lower than that of a couple. All analysis is based on household types with the lowest income, so for one bedroom properties, the analysis is based on the threshold for a single person.

6. Analysis of individual rents

- 6.1 Four scenarios are presented below, which set out the impact of future rent increases depending on the change in the 'threshold' figure at which rents reach 25 and 30 per cent. This change in threshold figure is assumed to proportionate to the likely increase in moderate incomes used in the analysis.
- 6.2 Scenario 1 - Rent inflation RPI plus 0.5 per cent, threshold increases by RPI plus 0.5 per cent.
- 6.2.1 There are currently 1,273 properties in which the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 25 per cent or more of their income towards rent. There are currently an estimated 106 properties where the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 30 per cent or more of their income towards rent. In scenario 1 these numbers would remain the same.

Affordability	2018/19	2019/20	2020/21	2021/22
> 30%	106	106	106	106
25% - 30%	1,273	1,273	1,273	1,273
< 25%	4,187	4,187	4,187	4,187
Total	5,566	5,566	5,566	5,566

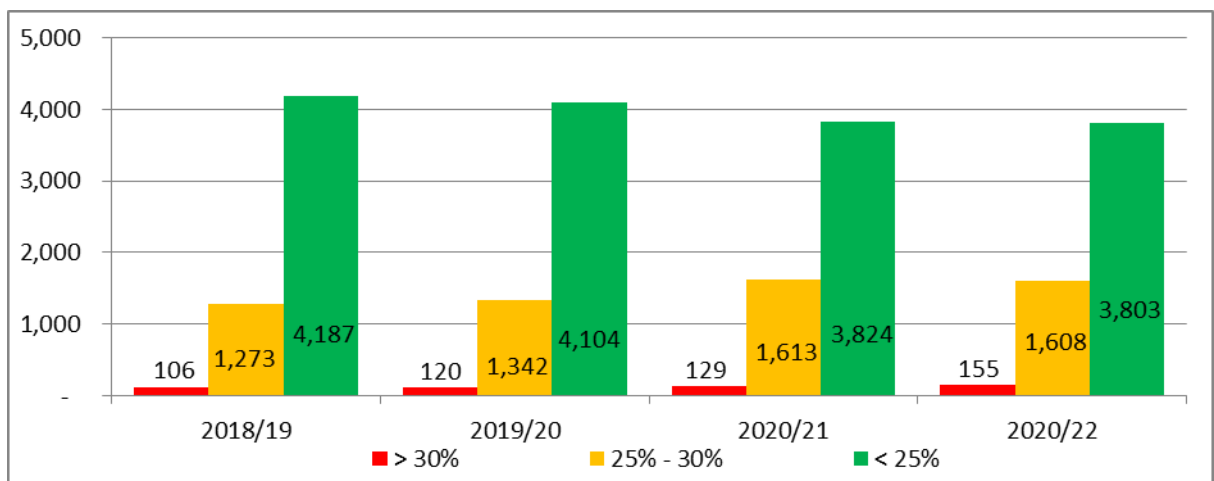


6.3 Scenario 2 - Rent inflation RPI plus 0.5 per cent, threshold increases by RPI only.

6.3.1 In Scenario 2, the number of properties in which the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 25 per cent or more of their income towards rent would increase from 1,273 to 1,608 by 2021/2022.

6.3.2 The number of properties in which the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 30 per cent or more of their income towards rent would increase from 106 to 155 by 2021/2022.

Affordability	2018/19	2019/20	2020/21	2021/22
> 30%	106	120	129	155
25% - 30%	1,273	1,342	1,613	1,608
< 25%	4,187	4,104	3,824	3,803
Total	5,566	5,566	5,566	5,566



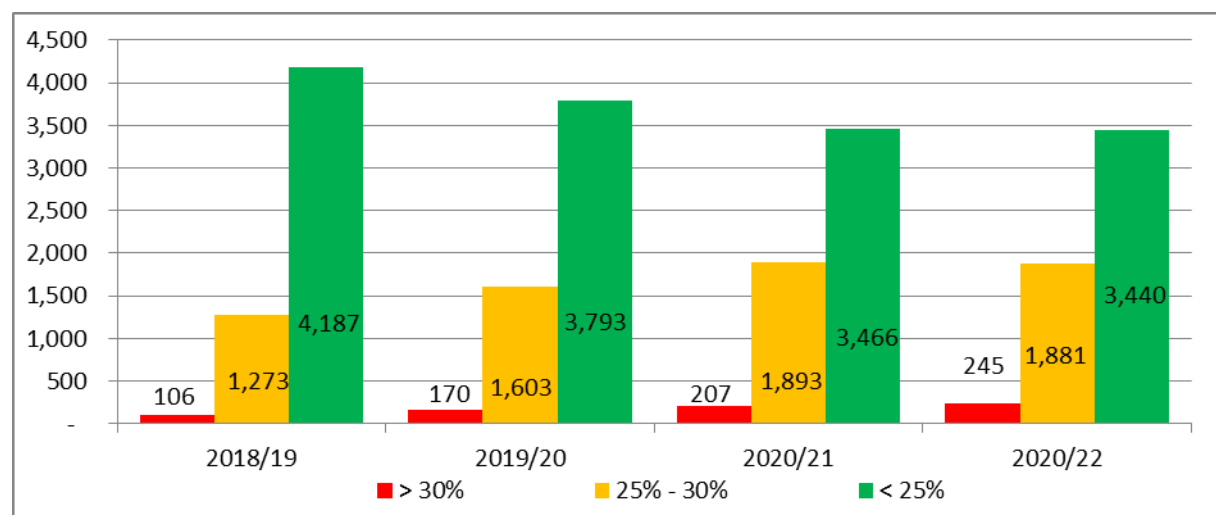
6.4 Scenario 3 - Rent inflation RPI plus 0.5 per cent, threshold increases by RPI minus one per cent.

6.4.1 In Scenario 3, the number of properties in which the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 25 per cent or more of their income towards rent would increase from 1,273 to 1,881 by 2021/2022.

6.4.2 The number of properties in which the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 30 per cent or more of their income towards rent would increase from 106 to 245 by 2021/2022.

6.4.3 Of these 245, a large number would be in Aberdeen City, with Dundee, Glasgow, and Renfrewshire also affected over a mixture of one and two bedroom properties.

Affordability	2018/19	2019/20	2020/21	2021/22
> 30%	106	170	207	245
25% - 30%	1,273	1,603	1,893	1,881
< 25%	4,187	3,793	3,466	3,440
Total	5,566	5,566	5,566	5,566



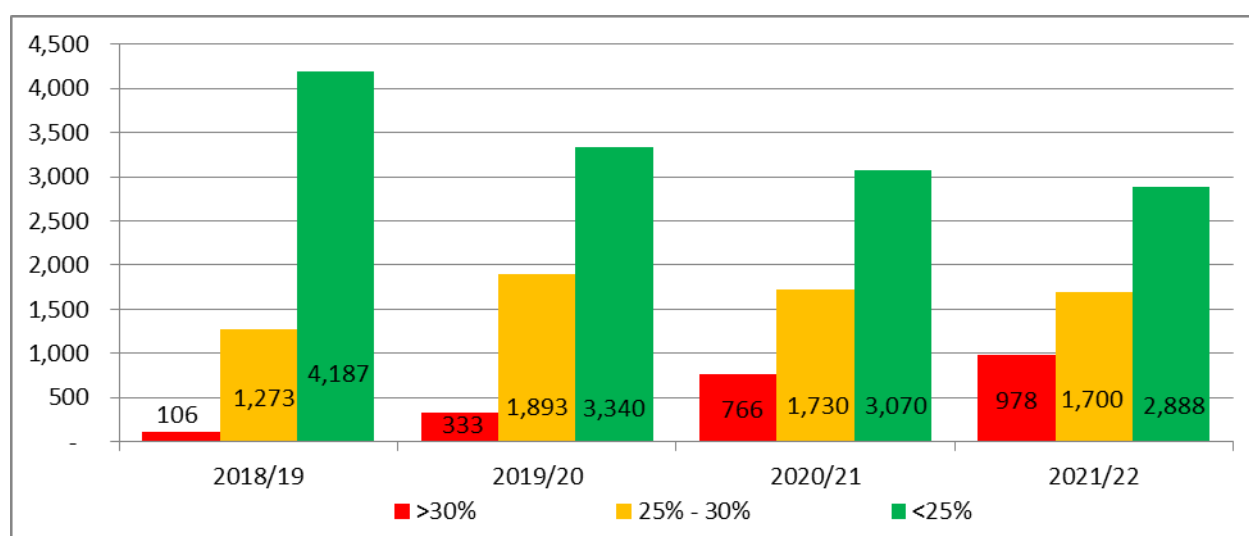
6.5 Scenario 4 - Rent inflation RPI only, threshold decreases by one per cent.

6.5.1 In Scenario 4, the number of properties in which the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 25 per cent or more of their income towards rent would increase from 1,273 to 1,700 by 2021/2022.

6.5.2 The number of properties in which the rent is at a level where a small household on a moderate income paying rent without housing benefit would be contributing 30 per cent or more of their income towards rent would increase from 106 to 978 by 2021/2022.

6.5.3 As in Scenario 3, of these 978, a large number would be in Aberdeen City and Dundee, with Aberdeenshire, Glasgow, and Renfrewshire also affected across a mixture of one and two bedroom properties. No properties in North Lanarkshire would be affected in this scenario.

Affordability	2018/19	2019/20	2020/21	2021/22
> 30%	106	333	766	978
25% - 30%	1,273	1,893	1,730	1,700
< 25%	4,187	3,340	3,070	2,888
Total	5,566	5,566	5,566	5,566



7. Appraisal

7.1 Risk management

7.1.1 RM 1 Welfare Reform, RM 2 Maintenance Service and Long-Term Investment, RM 3 Cost and Income Pressures, RM 7 Management and operational overstretch and RM 10 Legislative/regulatory; given the analysis of affordability outlined above the following options could be considered:

Action	Outcome	Consideration
Freeze the rents for those tenancies which have a rent charge which is greater than the affordability threshold.	Reduced overall income.	Risk to business plan assumptions. Savings would need to be found elsewhere.
Action	Outcome	Consideration
Maintain the status quo (rent increase based on current formula and other guarantees).	Maximisation of income.	Affordability risk, for example regulatory pressure, demand for housing.
Harmonise around the margins e.g. freeze 'unaffordable rents' and target increases for some specific areas/types where the affordability rating is more favourable.	Rent harmonisation 'lite', focusing on making rents affordable without a full scale harmonisation exercise. NB we cannot raise any rents at more than RPI + 0.5% until the Transfer of Engagements guarantee period is over.	Not a full rent harmonisation.
Harmonise all rents.	Full rent harmonisation with fair and consistent rent setting taking into account affordability.	Difficult to achieve and likely cost implication in gathering sufficient data to make the exercise fair.

7.1.2 Stock condition surveys and regular inspections continue to identify additional works required. Sanctuary Scotland Housing Association has spent large sums of money on improving homes over the last 10 years in order to meet the Scottish Housing Quality Standard. Again, next year, there are plans to spend significant sums on energy efficiency-based upgrades, such as internal and external insulation.

7.1.3 In addition to these reinvestment works, planned and cyclical programmes will continue covering elements such as roof and roughcast renewal, gutter cleaning, and external decoration.

7.1.4 Every one per cent of a rent increase equates to approximately £304,000 of income, based on the current level of stock and anticipated rental income. The compounding effect of lost rental income over time must be borne in mind.

7.1.5 In terms of managing expectations to provide services and carry out works already promised to tenants, there is a risk that the ability of Sanctuary Scotland Housing Association to deliver would be restricted, should an appropriate level of rent increase fail to be approved.

7.2 Impact on diversity

7.2.1 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.

7.3 Value for Money

7.3.1 In order to provide comparison with other landlords, contact has been made with a number of RSLs in Scotland to review their proposed rent increases for 2019.

7.3.2 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. With this in mind, as a rough indicator they present a picture of proposed housing association rent increases across Scotland.

7.3.3 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 tenants who participated in the consultation exercise.

8. Summary

8.1 Including the petition, 203 tenants have responded to the consultation exercise to oppose the proposed rent increase of 3.7 per cent; this represents just 2.97 per cent of all tenants, and should not be considered significant opposition to the proposal.

9. Recommendation

9.1 The Board of Management is recommended to note the outcome of the consultation exercise carried out with tenants and interested parties on the proposed rent increase for 2019/2020, and to consider the following when discussing the paper on the Budget and Rent Review for 2019/2020:

- that rent levels for stock in the Priesthill new build (Orlit replacement only), and West Central Pollok (Bellway) estates be increased by 3.2 per cent from the relevant increase date in July 2019;

- that rent levels for all other properties (residential properties) be increased by 3.7 per cent from the relevant increase dates in July 2019;
- that rent levels for garage lock ups are frozen for 2019/2020 in order to stimulate demand for garages;
- that the rent harmonisation process continues for affected properties in Cumbernauld and Aberdeen, however as we near the end of these projects 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-fund and other similar developments be increased by 3.7 per cent to £50.15 per point per annum.