

# DECISION

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**Committee:**

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

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**Date:**

**08/02/2022**

**Agenda Item:**

**9**

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**Report from:**

**Heads of Housing**

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**Title: Annual Rent Increase 2022/2023**

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**Executive Summary:** To recommend to the Board of Management that the rent levels for 2022/2023 for residential properties be increased by three per cent.

This is in line with the decision taken in 2020 that rent increases for the following three years will be restricted to RPI (November figure) + 0.5 per cent or three per cent, whichever is lower.

The paper also provides an updated affordability analysis of Sanctuary Scotland Housing Association Limited's rents measured against the Scottish Federation of Housing Association's model.

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## **1. Introduction**

- 1.1 This paper recommends to the Board of Management the proposed rent increase for 2022/2023.
- 1.2 Analysis is provided on affordability in relation to the proposed annual rent increase, measuring rents against the Scottish Federation of Housing Association's model.

## **2. Strategic context**

2.1 At the meeting of the Board of Management on 10 December 2019, it was agreed that tenants should be consulted on a proposed rent increase based on the following options:

- Retail Price Index (RPI) as at November 2019 plus 0.5 per cent.
- A rent increase capped at three per cent for three years, but if the annual RPI figure (as at November) plus 0.5 per cent is less than three per cent, this lower level of increase would be applied.
- RPI as at November 2019 plus one per cent.

2.2 The option preferred by most tenants responding to the consultation exercise was Option 2, therefore for the following three years the Board of Management agreed that rent increases will be capped at no more than three per cent. Last year, the November RPI figure plus 0.5 per cent was 7.6 per cent, therefore the level of increase recommended to the Board of Management to be applied is three per cent.

## **3. Proposal**

3.1 As has been the case in previous years, details of rent increases applied or proposed by other housing associations have been collated. From this it can be noted that the increase proposed by Sanctuary Scotland Housing Association Limited (Sanctuary Scotland Housing Association) would sit at the median level of proposed increases.

3.2 The rent increase for this year no longer requires Sanctuary Scotland Housing Association to consider the guarantees made at the transfer of engagements which resulted in the 2016 merger. Members will recall that rent increases were limited to a maximum of RPI plus 0.5 per cent for a period of at least three years following the merger however, this guarantee ended with the increase for 2019/2020.

3.3 Affordability Analysis

3.4 The Scottish Housing Regulator has reported that most tenants in social housing have seen earnings remain level or rise at rates below inflation. However, this report was published prior to the current pandemic. The Scottish Housing Regulator has asked housing associations to consider tenants' ability to keep paying rent in the longer term when setting rents.

3.5 The purpose of the analysis is 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.

- 3.6 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.
- 3.7 In 2018 and 2020, the Scottish Federation of Housing Associations produced updated guides with a 'moderate approach' to rent setting based on affordability and sustainability.
- 3.8 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.
- 3.9 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.
- 3.10 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 2022/2023.
- 3.11 Comparing this year's analysis to that reported last year there is a difference in the number of red and amber banded units that we are now reporting. Last year we identified 83 properties as red, rising to 89 after a year following a rent increase of RPI plus 0.5 per cent and rising to 142 properties over a three-year period. This year our data shows just eight properties affected falling to four after three years. Our Financial Planning Team have accessed actual data from the Office of National Statistics (ONS) for weekly pay in Scotland. Previously, we had to assume that the weekly pay used as the threshold had risen in line with RPI but the actual data now available shows that the actual increase, particularly in the 30<sup>th</sup> percentile, is higher than RPI. The actual weekly wage has increased across the

three regions which have seen the highest movement in red and amber units.

- 3.12 The outcomes from this year's analysis on the various scenarios tested identify 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 lower impact on our properties, including new builds, across the regions where we have stock. The properties affected remain in high demand areas with low turnover. Our stock in Glasgow and the west remains largely unaffected and none of the properties in North Lanarkshire show as potentially unaffordable.

#### **4. Appraisal**

##### **4.1 Risk management**

- 4.1.1 RM 8 Legislative / Regulatory/political; to manage expectations from tenants to provide services and carry out works already promised to our tenants, there is a risk that our ability to deliver would be restricted should we fail to approve an appropriate level of rent increase.

- 4.1.2 Stock condition surveys and regular inspections of our stock continue to identify additional works required to our properties. Over the last 10 years large sums of money have been invested to meet the Scottish Housing Quality Standards and the Energy Efficiency Standards in Social Housing. There are plans to spend significant sums on energy efficiency-based upgrades such as internal and external insulation next year.

- 4.1.3 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.

- 4.1.4 Each one per cent of a rent increase equates to approximately £400,000.00 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.

##### **4.2 Value for Money**

- 4.2.1 To provide comparison with other landlords, contact has been made with several Registered Social Landlord's in Scotland to review their proposed rent increase for 2022/2023.

- 4.2.2 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.

4.2.3 The proposed increase for this year reflects our need for additional income to continue to invest in existing stock.

4.3 Corporate Strategy

4.3.1 This proposal supports the Group's core strategic priorities of Investment, to prioritise investing in existing homes and Growth, to continue as a developer of social housing.

4.4 Customer and/or Employee considerations

4.4.1 Tenants have been afforded the opportunity to comment on the process for rent increases which have been agreed for a three-year period.

4.4.2 There are no direct employee considerations.

## **5. Recommendations**

5.1 The Board of Management is asked to note the content of this report on the proposed rent increase for 2022/2023, and to approve the following for 2022/2023:

- that rent levels for residential properties be increased by three per cent from the relevant increase dates in July 2022.
- those properties with a contractual guarantee of rent increases limited to RPI only be increased by three per cent.
- that rent levels for garage lock ups are frozen for 2022/2023 to stimulate demand for garages.
- 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 three per cent to £53.79 per point per annum.