

# DECISION

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**Committee:**

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



**Date:**

**12/12/2023**

**Agenda Item:**

**9**

**Report from:**

**Head of Housing**

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**Title: Consultation on Proposed Rent Increase for 2024/2025**

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**Executive Summary:** To seek approval for Sanctuary Scotland's approach to rent consultation for 2024/2025.

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## **1. Introduction**

1.1 This report recommends the basis on which tenants should be consulted in respect of proposed rent increases for 2024/2025. 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 Current levels of inflation are an important factor in rent setting decisions. November RPI 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, RPI for October 2023, is 6.1 per cent. RPI for November is scheduled to be published on 20 December.
- 2.4 The Cost of Living (Tenant Protection) (Scotland) Act 2022 created the possibility that social housing rent levels for 2023/2024 could be frozen or capped. Following extensive consultation, a decision was taken by the Scottish Government not to freeze or cap rents.
- 2.5 The rent increase for 2024/2025 sees the expiry of the rent guarantees made at the transfer of engagements of Thistle Housing Association.

### 3. Rent setting framework

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.

- 3.1 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. Differential rent increases have increased the difference in rent levels between properties, sometimes in adjoining estates. Differing levels of rent increase have attracted the most adverse comments from tenants in previous consultation exercises. Sanctuary Scotland 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

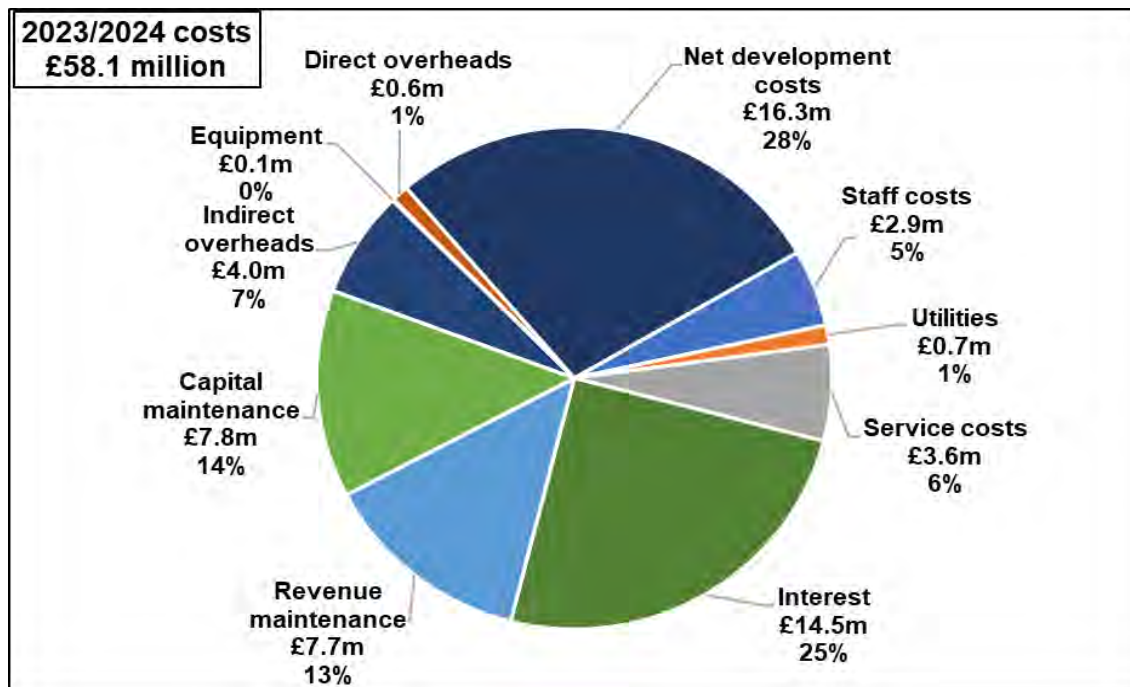
- 4.1 The base date which has in the past been used as the relevant RPI figure for rent increases is November each year. This month was specified in some of the original stock transfer contracts and some early tenancy agreements. The level of RPI over the period since October 2022 is shown at **Appendix 1**. Last year, the rent increase was set at 6 per cent when November 2022 inflation was 14 per cent. Since then, inflation has remained above the 6 per cent rent increase level, falling to 6.1 per cent in October 2023 with an average across the 12 months of 11.2 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 guaranteed rate in relation to RPI.

## 5. Consultation on proposed rent increase

5.1 Consultation on a rent increase of November RPI + 0.5 per cent is proposed. As stated above, RPI in October is 6.1 per cent and the November figure will be published on 20 December 2023.

5.2 How rental income for is spent is shown on the chart below.



5.3 This year there is again a tension between maintaining services for our customers in the face of rising costs, and ensuring rents are affordable. Feedback from the consultation exercise last year included concerns over affordability and also strong dissatisfaction over a lack of investment in our housing. Each 1.0 per cent of rent increase is equivalent to approximately £425,000 of rental income which, inflated over the next 30 years, is worth £20 million to Sanctuary Scotland. This income would be enough to:

- Replace 1,800 new bathrooms or 2,700 kitchens, thereby improving tenant satisfaction (equivalent to 60 bathrooms or 90 kitchens a year); or
- Install 900 air source heat pumps, thereby improving tenants' utility costs (30 a year).

5.3 In addition to impacting the potential reinvestment budgets, there is also a direct correlation between the rent increase and the capacity for future development.

5.4 Given the cost pressures and previous below inflation rent increases highlighted in section 4, it is recommended that the rent increase consultation

focuses on one option over a one-year period, with consideration to be given in future years for a rent setting proposal with options over a longer period of time.

- 5.5 Information on rent increases applied by other social landlords in Scotland is shown in **Appendix 3**. Further information on 2024/2025 consultation proposals of other landlords will be presented to the Board of Management in the February 2024 along with the outcomes of the consultation exercise.

## 6. **Affordability Exercise**

- 6.1 An analysis of affordability in relation to the proposed annual rent increase is provided at **Appendix 4**. The analysis shown is based on a rent increase of 7 per cent and 5 per cent. Updated analysis relating to the actual proposed rent increase will be presented to the Board of Management in February 2024 along with the outcomes of the consultation exercise.
- 6.2 The purpose of this modelling 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 2024/2025. 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 by less than Sanctuary Scotland rents, which resulted in a higher number of amber properties. The total number of amber properties for 2023/2024 is 157, compared with 65 in the previous year. This means that 98.1 per cent of our stock is categorised as affordable (green).
- 6.4 The projections shown in **Appendix 4** are based on an assumption that earnings will increase at the rate of RPI – one per cent. Applying a seven per cent rent increase results in 16 additional units falling into the margins of affordability (amber), giving a total of 173. 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 Renfrewshire. Of the 173

projected properties that are amber, 160 are one-bedroom properties. Indicative rents for example properties are also shown in **Appendix 4**.

- 6.5 Case study examples of the impact of the proposed rent increase on different household types will be presented to the Board of Management in the February 2024 along with the outcomes of the consultation exercise.

## 7. Consultation timetable

- 7.1 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.  |

- 7.2 The above timetable reflects the fact that a minimum of 28 days' notice of any rent increase must be given to tenants. This requires increase notifications to be issued to tenants by the end of May 2024.

## 8. Appraisal

### 8.1 Risk management

- 8.1.1 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.

- 8.1.2 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.

### 8.2 Value for Money

- 8.2.1 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.

## **9. Recommendation**

- 9.1 The Board of Management is asked to approve Sanctuary Scotland's approach to rent consultation for 2024/2025. It is recommended that a consultation exercise is carried out with customers in December/January, on the basis of a rent increase of November RPI + 0.5 per cent for properties where there is no restriction due to a rent guarantee, and RPI flat where there is a restriction.