

DECISION

	Board of Management of Sanctuary Scotland Housing Association Limited		
	17/12/2024	Item 9	No. of appendices: 4
Head of Housing			
Subject: Consultation on proposed rent increases for 2025			
Group Corporate Strategy - Strategic Objectives: Customers first <input checked="" type="checkbox"/> Investing in our assets <input checked="" type="checkbox"/> Growing our services <input type="checkbox"/>			
Executive Summary To seek approval for Sanctuary Scotland Housing Association Limited's approach to rent consultation for 2025/2026. Recommendation: That a consultation exercise is carried out on 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.			
Customer Considerations Sanctuary Scotland Housing Association Limited has a statutory duty to consult with customers on the level of the proposed rent increase. Customer feedback is important to allow Board members to make an informed judgement on the affordability and impact of any proposed rent increase.			
Risk Management RM 1 Political, government, regulation; conducting a consultation exercise with customers on the proposed level of increase also ensures that relevant legal and regulatory requirements are satisfied. RM 5 Cost pressures; the level of annual rent increase is of great significance to Sanctuary Scotland Housing Association Limited'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.			
Value for Money The costs of the rent consultation exercise are covered by approved budgets. Customers may make a "Value for Money" judgement on the levels of rent charged by Sanctuary Scotland Housing Association Limited.			

1. Strategic Context

- 1.1 This report recommends the basis on which tenants should be consulted in respect of proposed rent increases for 2025/2026. 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.
- 1.2 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.
- 1.3 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.
- 1.4 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 Housing Association Limited (Sanctuary Scotland Housing Association) rent increases. This month was specified in some of the original stock transfer contracts and some early tenancy agreements.
- 1.5 The most recent published rate of inflation at the time of writing, RPI for October 2024, is 3.4 per cent. RPI for November is scheduled to be published on 18 December 2024.

2. Rent setting framework

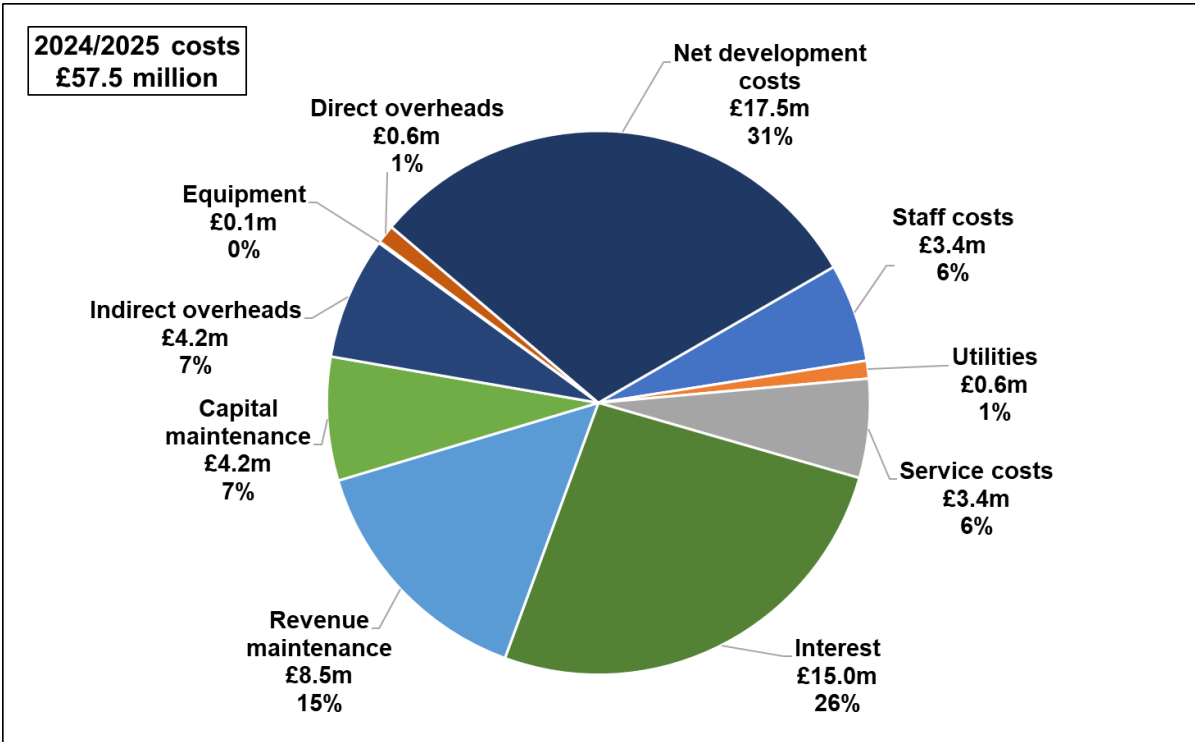
- 2.1 Members will be aware that much of Sanctuary Scotland Housing Association's housing stock has been assembled by way of various stock transfers, mergers, or other similar transactions, during which rent "guarantees" were agreed. These arrangements normally dictate maximum rent increases which can be applied and have been incorporated into contracts accepted by Sanctuary Scotland Housing Association.
- 2.2 Where there are contractual commitments restricted to RPI only, the rent increase approved by the board has normally been lower than where we do not have a contractual commitment. Differential rent increases have increased the difference in rent levels between properties, sometimes in adjoining estates. 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.

3. Considerations

- 3.1 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 2023 is shown at **Appendix 1**. Last year, the rent increase was set at 5.8 per cent when November 2023 inflation was 5.3 per cent. Since then, inflation has fluctuated, with the most recent figure in October 2024 being 3.4 per cent and the average across the 12 months being 3.9 per cent.
- 3.2 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 since 1999 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.

4. Consultation on proposed rent increase

- 4.1 Consultation on a rent increase of November RPI + 0.5 per cent is proposed. As stated above, RPI in October 2024 is 3.4 per cent and the November figure will be published on 18 December 2024.
- 4.2 How rental income is spent is shown on the chart below.



4.3 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 £500,000 of rental income which, inflated over the next 30 years, is worth £24 million to Sanctuary Scotland Housing Association. This income would be enough to:

- Replace 1,952 new bathrooms or 2,793 kitchens, thereby improving tenant satisfaction (equivalent to 65 bathrooms or 93 kitchens a year); or
- Install 977 air source heat pumps, thereby improving tenants' utility costs (32 a year).

4.4 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.

4.5 Information on rent increases applied by other social landlords in Scotland is shown in **Appendix 3**. Further information on 2025/2026 consultation proposals of other landlords will be presented to the Board of Management in the February 2025 along with the outcomes of the consultation exercise.

5. **Affordability Exercise**

5.1 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 three per cent and four per cent. Updated analysis relating to the actual proposed rent increase will be presented to the Board of Management in February 2025 along with the outcomes of the consultation exercise.

5.2 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 2025/2026. The model is based on Scottish Federation of Housing Associations (SFHA) guidance on a 'moderate approach' to rent setting based on affordability and sustainability.

5.3 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".

5.4 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.

- 5.5 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 Housing Association rents, which resulted in a higher number of amber properties. The total number of amber properties for 2024/2025 is 285, compared with 157 in the previous year. This means that 96.8 per cent of our stock is categorised as affordable (green).
- 5.6 The projections shown in **Appendix 4** assume that earnings will increase at the rate of RPI - one per cent. Applying a four per cent rent increase results in 38 additional units falling into the margins of affordability (amber), giving a total of 323. 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 323 projected properties that are amber, 292 are one-bedroom properties. Indicative rents for example properties are also shown in **Appendix 4**.
- 5.7 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.

6. Consultation timetable

- 6.1 The timetable for the proposed rent consultation and increase process is as follows:

December 2024	Board of Management approves consultation process and pamphlet issued to tenants.
January 2025	Tenants consider proposals and comment on options provided.
February 2025	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 2025	Issue rent increase notifications.
July 2025	Rent increase takes effect.

- 6.2 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 2025.

7. Recommendation

- 7.1 The Board of Management is asked to approve Sanctuary Scotland Housing Association's approach to rent consultation for 2025/2026. It is recommended that a consultation exercise is carried out with customers in December 2024 and January 2025, based on 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.