

HOUSING MANAGEMENT & MAINTENANCE REPORTS

9.1.4 – ANNUAL RENT REVIEW 2024 / 2025 – Recommendation Report to the Meeting of the Full Management Committee, Thursday the 25th of January 2024.

Tenant Consultation

Analysis of Responses for Rent Increase Consultation 2024 / 2025

Prior to making a decision concerning the level of rent increase to be applied from 1 April 2024, the Management Committee must consider the views of tenants expressed through consultation. Tenants were consulted directly by letter and asked to express their view on current rent levels and the level of rent increase which should be applied. As part of the consultation, tenants were provided with information explaining how different levels of rent increase would impact the rent they would pay from 1 April 2024. The consultation included the options for a rent increase equal to CPI and RPI, which at the time of consultation were 4.6% and 6.1% respectively. A further option of 5.0% was also included as an option within the consultation. Tenants were also given the opportunity to respond to the consultation online via Survey Monkey.

As part of the consultation process tenants were provided with a wide range of information, based on the recommendations published by the Scottish Housing Regulator in their November 2016 publication “How social landlords consult about rent increases – A thematic inquiry”. This information included details on how much different rent increase levels would cost tenants, how the Association’s rent levels compare to those charged by other landlords, direct rental costs received by the Association, tenancy sustainment rates and tenancy offer refusal rates. Furthermore, tenants were also provided with information detailing how the Association spends its rental income and how this is re-invested in its housing stock. Affordability information generated using the Scottish Federation of Housing Associations (SFHA) Rent Setting Tool was also provided to tenants. Tenants were asked to give their views on both how affordable they consider their current rent to be and also the level of rent increase that they think should be applied from 1 April 2024. Details of the responses received are provided in the tables below.

Consultation Response: Affordability	No.	%
• Very affordable	24	22.2
• Fairly affordable	61	56.5
• Neither affordable nor unaffordable	14	13.0
• Fairly unaffordable	5	4.6
• Very unaffordable	4	3.7
• Did not answer	0	0.0
• Total	108	100.0

Consultation Response: Proposed rent increase	No.	%
• Rent Increase – Equal to CPI (4.6%)	78	72.2
• Rent Increase – 5.0%	17	15.8
• Rent Increase – Equal to RPI (6.1%)	5	4.6
• No answer provided	8	7.4
• Total	108	100.0

The Association consulted with six hundred and twenty-three tenants. One hundred and eight responses were received representing a response rate of 17.3%.

With regards to current rent levels, eighty-five (78.7%) respondents considered their rent to be affordable while fourteen (13.0%) respondents considered their rent to be neither affordable nor unaffordable. Only nine (8.3%) respondents considered their rent to be unaffordable.

Regarding the level of rent increase that should be applied from 1 April 2024, one-hundred (92.3%) respondents agreed that a rent increase should be applied next year. Of the one-hundred respondents who agreed that a rent increase should be applied, a majority of seventy-eight (78.0%) respondents agreed with an increase equal to CPI (4.6%).

This was followed by seventeen (17.0%) respondents who agreed with an increase of 5.0% while five (5.0%) respondents agreed with an increase equal to RPI (6.1%).

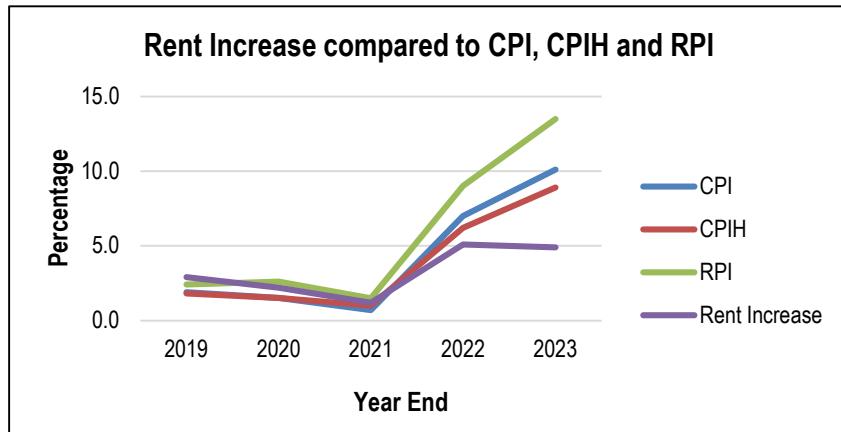
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Previous Rent Increases

When making a decision concerning the level of rent increase that should be applied from 1 April 2024, Management Committee should consider inflation levels. The information below provides a five year analysis of Consumer Price Index (CPI), Consumer Price Index including owner occupier housing costs (CPIH) and Retail Price Index (RPI) at the 31st of March compared to rent increase levels that were approved for the following financial year.

The current rates of inflation are CPI (4.0%), CPIH (4.2%) and RPI (5.2%).



The above graph indicates that the rent increase levels applied over the last five years were significantly below the lowest rate of inflation (CPIH). While increasing rents by less than inflation, business and maintenance costs incurred by the Association have increased at levels significantly above headline inflation.

Year	CPI	CPIH	RPI	Rent
2019	1.9%	1.8%	2.4%	2.9%
2020	1.5%	1.5%	2.6%	2.2%
2021	0.7%	1.0%	1.5%	1.2%
2022	7.0%	6.2%	9.0%	5.1%
2023	10.1%	8.9%	13.5%	4.9%
Total	21.2%	19.4%	29.0%	16.3%

The above table shows that the Association's long-term assumption that rents will keep pace with inflation has been seriously eroded over the last five years. An increase of at least CPIH plus 3.1% would be required to redress this imbalance.

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Maintenance Costs

The cost increase associated with the replacement kitchens and bathrooms has exceeded inflation. The table below details the level of increased expenditure over the last five years for the property components most commonly renewed by the Association:

	2018 / 2019	2022 / 2023	Increase (%)
Kitchen Replacement	£2,585	£3,724	44.1
Bathroom Replacement	£2,493	£5,640	126.2
Boiler Replacement	£2,065	£2,094	1.4

Although the cost of boiler replacements has remained relatively constant, all new boilers purchased by the Association after 1 January 2024 are subject to a “market mechanism levy” of £120.00 applied by boiler manufacturers. This levy is a direct response to the UK Government’s introduction of the Clean Heat Market Mechanism (CHMM) which aims to target the installation of 600,000 Air Source Heat Pumps by 2028 and remove the dependency on fossil fuels for heating and hot water.

Cost of Living (Tenant Protection) (Scotland) Act 2022

The Cost of Living (Tenant Protection) (Scotland) Act 2022 was passed by the Scottish Parliament on 6 October 2022. This act gave Scottish Ministers the temporary power to set a maximum permitted rate of rent increase (the cap) for private and social tenancies. This cap was set at 0% for the period to 31 March 2022 and applied to any rent increase proposed on or after 6 September 2022. Under the legislation, it was possible for the Scottish Government to vary the cap whilst the emergency measures were in force.

In response to the introduction of the emergency legislation, the Scottish Federation of Housing Associations (SFHA) entered into discussions with the Scottish Government regarding the implications of the rent cap for the sector. Following discussion, a joint Statement of Intent (the Statement) was issued which outlined the commitment of housing associations and the Scottish Government in relation to the financial year 2023 / 2024. The Statement confirmed that Scottish Ministers had decided to expire the powers resulting in no rent cap from April 2023. As part of the evidence base for the Statement, the SFHA undertook research amongst its members regarding their planned rent increase levels for 2023 / 2024. Data shared by individual housing associations indicated an average rent increase of 6.1% across the country, which was a real term cut given the rates of inflation at the time.

Between November and December 2023, the SFHA surveyed its members regarding proposed rent increase levels for 2024 / 2025 of which fifty-three responded. The survey outcome indicates that a number of landlords consider rent increase levels equivalent to those applied during 2023 / 2024 as being not sustainable without an aligned impact on service delivery and property investment.

The survey indicates that landlords were consulting on proposed rent increases of between 4% and 9% to take effect from 1 April 2024, with an average rent increase is 6.39%

Observations

One of the Association’s key strategic objectives includes the provision of affordable rented housing to those on the lowest incomes. The Association must also consider rent levels set by other local housing providers in order to ensure demand remains for its own housing stock. The affordability analysis confirms that with the exception of young people (aged 18 to 20) earning the national minimum wage, the rents charged by the Association are generally affordable for those earning the national minimum wage or the national living wage. The comparability analysis confirms that the Association’s existing rent levels compare extremely favourably to those charged by other local housing providers. The outcome to the tenant consultation also confirms that tenants generally consider the rents charged by the Association to be affordable.

The issue of financial viability must also be considered. The Association’s short-term and medium-term financial projections do not indicate any financial viability concerns. Long-term financial projections are based upon the assumption that rents will not increase in real terms but will rise in line with the general rate of inflation. The long-term financial impact of failing to increase rent levels in line with general inflation will undermine the Association’s ability to meet its repair and maintenance obligations to tenants. The Association will ultimately cease to be financially viable in the long term as a result.

The Association is operating in unprecedented times and is facing increasing business costs and expenditure associated with service delivery, property maintenance and compliance with increased resident health and safety requirements introduced by the Scottish Government. Although there are generally no affordability concerns in relation to current rent levels, any rent increase from 1 April 2024 should be appropriate to ensure that the Association achieves its aim of providing affordable rents while also being sufficient to cover rising business costs and therefore maintaining the Association’s financial viability.

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Recommendation

Given that the Management Committee has deferred full inflationary rent increases over recent years, it is recommended that a rent increase policy of CPIH plus is approved going forward until such time as rent increase levels are equalised with CPIH inflation.

A rent increase of 7.3% (CPIH plus 3.1%) would equalise with CPIH inflation this year. However this may compromise rent affordability for tenants.

It is recommended that a rent increase of at least 5.8% (equal to CPIH plus 1.6%) is applied this year for 2024/25 together with a commitment to CPIH plus at least 1.5% for 2025/26 in order to rebalance rent increases with CPIH inflation over the next two years.

Purpose of this Report

This report and policy has been prepared for a decision.

Conflicts of Interest

There is a clear conflict of interest to tenant members of the Management Committee. Those committee members should only consider the likely impact of any rent increase on the Association and tenants collectively and not on themselves as individuals.

Risk Management

The risks regarding rent levels relate to Financial Viability which is covered by risks 66 to 69 in the Association's Risk Register. The risk of applying inappropriate levels of rent increase could negatively impact on the Association's long-term viability, the Association's ability to obtain its strategic objectives and the Association's ability to obtain future private finance.

The risks regarding rent levels relate to Risk and Value for Money which is covered by risks 133 to 139 in the Association's Risk Register. The risk of applying insufficient rent increase levels could result in the Association being unable to invest in properties and development programmes. The risk of applying insufficient rent increase levels could result in the Association being unable to pay contractors and meet other financial obligations potentially resulting in the Association being subject to litigation actions.

The risks regarding rent levels relate to Arrears which is covered by risks 25 to 30 in the Association's Risk Register. The risk of applying high rent increase levels could result in rent becoming unaffordable to tenants therefore resulting in increased levels of rent arrears, loss of revenue and increased legal costs being incurred.

To mitigate these risks the Management Committee will review rents on an annual basis. As part of this review process the Management Committee will consider various tests used to measure the affordability of current rent levels while also considering the level of rent increase that would be required to ensure that the Association remains financially viable in the long-term and able to meet its financial obligations and strategic aims.

Scottish Housing Regulator – The Standards of Governance and Financial Management for RSLs

This report relates to Standard 3 – “The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay”. This report relates specifically to guidance item 3.4.