

HOUSING MANAGEMENT & MAINTENANCE REPORTS

9.2.4 – ANNUAL RENT REVIEW 2025 / 2026 – Recommendation Report to the Meeting of the Full Management Committee, Thursday the 16th of January 2025.

Tenant ConsultationAnalysis of Responses for Rent Increase Consultation 2025 / 2026

Prior to making a decision concerning the level of rent increase to be applied from 1 April 2025, the Management Committee must consider the views of tenants expressed through consultation. In order to collect feedback and opinions, the Association consulted with 630 tenants during December 2024.

As part of the consultation process, the Association explained that the individual rent increases applied between 2019 and 2023 totalled 16.3% which is 3.1% less than the lowest inflationary (CPIH) increase for the same period. The Association also explained that despite increasing rent by less than inflation, the Association's long-term assumption is that rents keep pace with inflation and therefore the Association sought to help redress this imbalance by applying a rent increase of CPIH plus 1.6% from 1 April 2024.

Tenants were advised that in order to maintain current levels of service provision, and ensure ongoing planned maintenance and investment in properties, it was necessary to continue to redress this imbalance. The Association therefore sought tenant feedback on a proposal to increase rents by of 4.7% (CPIH at the time plus 1.5%).

During the consultation tenants were also 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 a rent increase of 4.7% 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 consulted on an individual basis and were encouraged to respond by completing and returning the survey form. Tenants were also provided with an option to respond online via Survey Monkey.

Tenants were asked to provide their views on how affordable they consider their current rent to be and also confirm whether they think it is reasonable for the Association to apply a rent increase of 4.7% from 1 April 2025. Details of the responses received are provided in the tables below.

Consultation Response: Affordability	No.	%
• Very affordable	28	24.3
• Fairly affordable	60	52.2
• Neither affordable nor unaffordable	18	15.7
• Fairly unaffordable	7	6.1
• Very unaffordable	2	1.7
• Did not answer	0	0.0
• Total	115	100.0

Consultation Response: Proposed rent increase	No.	%
• Rent Increase of 4.7% considered reasonable	59	51.3
• Rent Increase of 4.7% considered too high	55	47.8
• Rent Increase of 4.7% considered too low	1	0.9
• No answer provided	0	0.0
• Total	115	100.0

The Association consulted with six hundred and thirty tenants. One hundred and fifteen responses were received representing a response rate of 18.3%.

With regards to current rent levels, eighty-eight (76.5%) respondents considered their rent to be affordable while eighteen (15.7%) respondents considered their rent to be neither affordable nor unaffordable. Only nine (7.8%) respondents considered their rent to be unaffordable.

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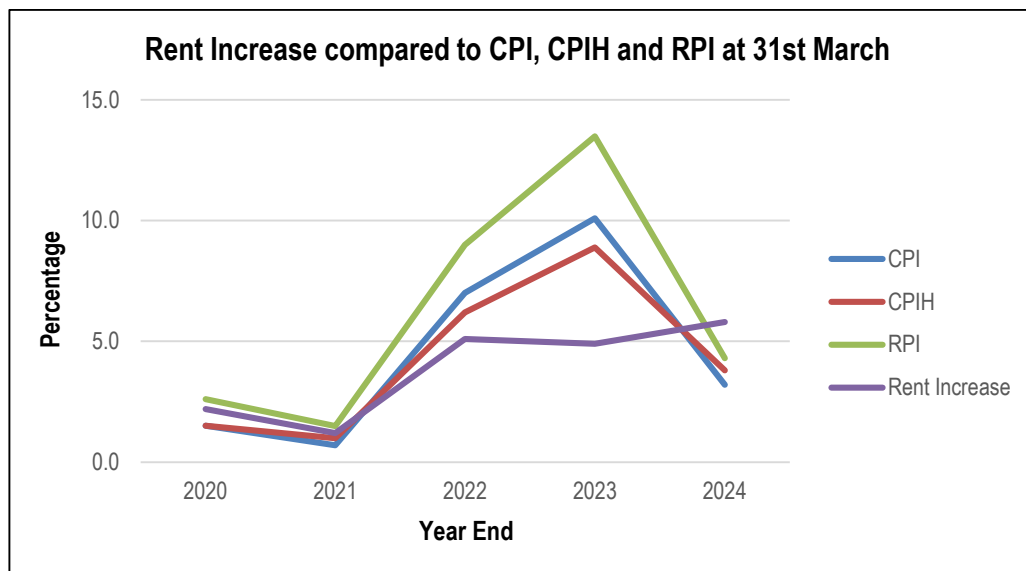
Tenant Consultation (continued)

Regarding the rent increase that should be applied from 1 April 2025, fifty-nine (51.3%) respondents agreed that a rent increase of 4.7% is reasonable and should be applied next year. This was followed by fifty-five (47.8%) respondents who considered a 4.7% to be too high. One respondent (0.9%) considered an increase of 4.7% to be too low.

Previous Rent Increases

When making a decision concerning the level of rent increase that should be applied from 1 April 2025, 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 (2.6%), CPIH (3.5%) and RPI (3.6%).



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
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%
2024	3.2%	3.8%	4.3%	5.8%
Total	22.5%	21.4%	30.9%	19.2%

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 2.2% would be required to redress this imbalance.

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Maintenance Costs

The cost increase associated with the replacement kitchens, bathrooms and boilers 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:

	2019 / 2020	2023 / 2024	Increase (%)
Kitchen Replacement	£2,716	£3,957	45.7%
Bathroom Replacement	£3,861	£5,640*	46.1%
Boiler Replacement	£1,727	£2,364	36.9%

**No bathroom replacement contract was implemented during 2023 / 2024, therefore the cost increase stated is based on the average bathroom cost for 2022 / 2023.*

In addition to the increased costs associated boiler replacement, all new boilers purchased by the Association after 1 January 2024 have been 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 2023 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.

In response to the Cost of Living (Tenant Protection) (Scotland) Act 2022, the Association's approach of applying a below inflationary rent increase during 2023 / 2024 was consistent with stance adopted by housing associations across the country. The Association's increase of 4.9% was significantly less than the lowest rate of inflation of 8.9% (CPIH) recorded at 31 March 2023.

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 earning the national minimum wage, the rents charged by the Association are generally affordable for those earning the real living 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 financial projections do not indicate any financial viability concerns. Medium and 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 medium and 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 2025 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 not applied full inflationary rent increases in two of the last three 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 5.7% (CPIH plus 2.2%) 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 5.0% (equal to CPIH plus 1.5%) is applied this year for 2025/26 together with a commitment to CPIH plus at least 0.7% for 2026/27 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.