**RENT CONSULTATION 2023/24**

1. **INTRODUCTION**

Management Committee Members will be aware that the Association has a legal obligation to consult with our tenants when considering an increase in the level of rents and service charges charged.

1.1 The tenant consultation exercise would normally be carried out between November and December each year, however following the implementation of regulation from the Scottish Government/Scottish Parliament in September 2022 brought into effect by The Cost of Living (Tenant Protection) (Scotland) Act 2022, this has been delayed.

2. **COST OF LIVING**

The Scottish Government enacted the ‘The Cost of Living (Tenant Protection) (Scotland) Act 2022’ in response to the wider macro-economic conditions prevailing within the UK, e.g. rising food and energy prices as a result of a 40 year high in the rate of inflation to 11.1% in October 2022, and to provide some short-term comfort to tenants by effectively imposing a rent *‘freeze’* or a ‘0%’ Cap and a halt to eviction actions over the winter months.

2.1 The Act prohibited any increase of rent taking place until 31 March 2023. The Act required Ministers to report recommendations to amend or rescind the regulation by 14 January 2023, therefore we decided to await confirmation from the Scottish Government of the position from 1st April 2023, the date at which any increase to our rents and/or service charges would take effect.

2.2 The Regulation was time limited to 6 months from September 2022 to 31st March 2023. In effect neither the Private Rented Sector nor the Social housing sector could raise rents, this gave rise to the common phrase of imposing a *rent freeze* by Scottish Ministers for the whole period.

2.3 The Minister has reported back to Parliament,[[1]](#endnote-1) “First Report to the Scottish Parliament on the Cost of Living (Tenant) (Protection) (Scotland) Act 2022, covering the period 28 October to 31 December 2022 as required by section 9 (1)(a)”, noting, “Inflation as measured by the Consumer Price Index ("CPI") increased from an annual 9.9% in August to 10.1% in September, and then to 11.1% in October 2022[[5]](https://www.gov.scot/publications/cost-living-tenant-protection-scotland-act-2022-first-report-scottish-parliament/pages/12/).

2.4 Although the rate eased slightly to 10.7% in November, this was still above the level in August, and not much below the level in October, which was the highest level since October 1981.[[6]](https://www.gov.scot/publications/cost-living-tenant-protection-scotland-act-2022-first-report-scottish-parliament/pages/12/) While the main driver of high inflation is the price of energy (the housing, water, electricity, gas and other fuels component rose by 26.6% in November), inflationary pressures remain broadly based, with other necessities such as food and non-alcoholic beverages (16.4%), clothing and footwear (7.5%) and transport (7.2%) showing elevated levels of inflation. This is further illustrated by CPI inflation excluding energy increasing by an annual 7.4% in November 2022, higher than the 7.0% recorded in August.

2.5 The Bank of England expects inflation to remain high in the short to medium term, with their central projection that CPI inflation will remain in double digits in the first half of 2023, before easing somewhat to 8% in Q3 2023 and 6% in Q4 2023, although this would be well above the inflation target of 2%.[[7]](https://www.gov.scot/publications/cost-living-tenant-protection-scotland-act-2022-first-report-scottish-parliament/pages/12/) More recent forecasts from the Office for Budget Responsibility[[8]](https://www.gov.scot/publications/cost-living-tenant-protection-scotland-act-2022-first-report-scottish-parliament/pages/12/) and Scottish Fiscal Commission[[9]](https://www.gov.scot/publications/cost-living-tenant-protection-scotland-act-2022-first-report-scottish-parliament/pages/12/) also expect inflation to remain close to double digits until the second half of 2023. While their forecast of 7% inflation in Q3 2023 and 4% inflation in Q4 2023 is somewhat lower than the Bank of England projection,[[10]](https://www.gov.scot/publications/cost-living-tenant-protection-scotland-act-2022-first-report-scottish-parliament/pages/12/) they similarly expect inflation to remain significantly higher than the 2% target until the end of 2023.

2.6 In their 2022 Autumn Statement, the UK Government confirmed reserved benefits will continue to be uprated by the previous September's CPI inflation rate. Disability and low-income benefits will therefore be uprated by 10.1% in 2023-24, in line with September 2022 CPI. While this increase will compensate benefit clients for the exceptionally high rate of inflation in 2022-23, they will again likely face elevated inflation in 2023-24, with the OBR forecasting inflation will average around 5.5%. Benefit clients will receive compensation for this in 2024-25.”

3. **RENT SETTING WITHIN THE SOCIAL RENTED SECTOR**

The Scottish Minister further recognised “The rent setting practice in this sector involves rents being set annually, in consultation with tenants. Aside from the annual rent setting process further rent increases do not typically take place either inter or intra tenancy.”

3.1 “It is within this context that the Social Sector Short Life Task and Finish Group has been working to develop an agreed approach on rent setting for 2023-24 – taken forward on a voluntary basis - that would see an agreement with social housing landlords that ensures that rents remain affordable but still support continued investment in the sector. The Group stressed the fine balance between affordability and investment and the need *to set* *social sector rents at a level that ensures adequate resources to support repairs and maintenance, new build programmes and energy efficiency and carbon neutral targets and to ensure they can continue to deliver the essential support services they provide for their tenants*.”

3.2 The outcome of discussions led by COSLA, in respect of local authorities, and the Scottish Federation of Housing Associations (SFHA) and Glasgow and West of Scotland Forum of Housing Associations for Registered Social Landlords, has reached an agreed position with their members that would see increases of 6.4% and 6.1% respectively, as an average across Scotland.

3.3 It is important to note that the agreement of *an average figure*, rather than a fixed cap, is essential to allow flexibility. The majority of rents will be increased at a level below the agreed 6.4% (for local authority landlords) and 6.1% (for registered social landlords) but there may be some social sector landlords who will, for specific reasons, go beyond these levels. However, all social sector rent increases will be kept below the level of inflation. This approach recognises that in some cases tenant feedback to the statutory rent consultations may be in favour of an increase higher than the overall averages agreed, for example to allow planned improvements or maintenance to proceed.

3.4 In reflection of the outcome of the work of the Social Sector Short Life Task and Finish Group, whereby an approach on rent setting for 2023-24 be taken forward on a voluntary basis has been agreed and the continued need for investment to support delivery of the Scottish Government's ambitious affordable housing targets, Scottish Ministers intend to make regulations under section 8(1) of the Act to provide for the expiry of the rent cap provisions for the social sector contained in Paragraph 3 of Schedule 1 of the Act.

3.5 *This will ensure that social sector rent levels are adequate to support repairs, maintenance, meeting energy efficiency and carbon neutral targets and to ensure social landlords can continue to deliver the essential support services they provide for their tenants.*

3.6 Scottish Ministers will bring forward regulations that will expire the rent cap measures for the social sector from 01 March 2023. This will allow social landlords to ensure they meet requirements in relation to notifying tenants of rent increases from 01 April 2023”

4. **BUSINESS CASE FOR A RENT INCREASE FROM 1 APRIL 2023**

The Association has maintained rent increases generally at the rate of inflation for a number of years in recognition that we wish our rents to remain truly affordable for all of our tenants.

4.1 However, we fully recognise that to suggest a rent increase for 2023/24 at the current rate of inflation **10.5%** at December 20222 would be incredibly challenging for some of our tenants and following discussions between the Scottish Ministers, Confederation of Scottish Local Authorities (COSLA), Scottish Federation of Housing Associations (SFHA) and Glasgow & West Of Scotland Forum (GWSF) at *3.2 above,* there has been an agreement reached whereby Registered Social Landlords (RSL’s) will agree to an average increase of 6.1% in order to maintain maintenance levels and planned improvements e.g. new kitchens, new windows etc.

4.2 The average CPI inflation rate from January – December 2022 was **9.05%3**

4.3 In considering the case for below inflation rent rises, it has to be borne in mind that for every 1% below the current rate, the cumulative effect on the Association’s cash flows would be approx. **£1.8m** over a 30-year lifecycle, that would be roughly the equivalent to 3 x window replacement contracts at 2022/23 prices not being carried out.

4.4 The average cost of reactive maintenance has increased from 2021/22 – 2022/23 by **7%** and the planned major repairs/component replacements (kitchens & window replacements) increased **48%** over the budgeted assumptions.

4.5 In respect of Management costs, there has been an agreed wage settlement of **5.25%** from 1st April 2023 however we have made some efficiency savings by reducing staff salary costs in the forthcoming budget for 2023/24 by approx. **£50k** as a result of the restructure from August 2022.

4.6 In order to continue to provide the services to our tenants and customers there is no further scope for staffing efficiencies as we are currently appropriately staffed for an organisation of our size.

4.7 We continue to seek other efficiencies by cutting waste and partnering with external agencies to fulfil our statutory and regulatory obligations.

4.8 In response to the external cost environment, I have instructed Campbell Martin Associates to conduct a full 30 year life cycle costings exercise using current costs as a baseline to inform our future budgeting requirements. In addition we will have to review our Business Plan and update/uprate the assumptions within based on the reduced predicted income from rents.

5.0 **RENT INCREASE PROPOSAL**

5.1 By way of further background, Glasgow & West of Scotland Forum (GWSF) canvassed all members to ascertain consultation proposals for the forthcoming year, *(reproduced here, the organisations have been anonymised)*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Landlord** | **Increase Apr-22** | **Proposed increase for April 2023** | **Alternate Proposal** | **Commentary/remarks** |
| 1 | 4.20% | 7.00% |  |  |
| 2 | 3.90% | 6.00% |  |  |
| 3 | 4.00% | 5.00% | 7.00% |  |
| 4 | 4.70% | 5.00% | 7.00% |  |
| 5 | 3.00% | 6.00% | 7.00% |  |
| 6 | 2.50% | 5.00% |  |  |
| 7 | 4.20% | 3.00% | 5.00% |  |
| 8 | 4.00% | 5.00% | 7.00% | or 9% |
| 9 | 3.10% | 5.00% |  |  |
| 10 | 2.50% | 5.00% | 7.00% |  |
| 11 | 1.50% | 3.00% | 4.00% | or 5% |
| 12 | 4.20% | 5.00% |  |  |
| 13 | 4.10% | 5.00% |  |  |
| 14 | 4.20% | 5.00% |  |  |
| 15 | 2.10% |  |  | tbc |
| 16 | 4.10% | 5.00% |  |  |
| 17 | 3.10% | 3.00% | 5.00% |  |
| 18 | 3.50% | 5.00% |  |  |
| 19 | 3.50% | 6.00% | 7.00% | or 9% |
| 20 | 3.60% |  |  | tbc business plan stated CPI + 1% |
| 21 | 3.20% | 5.00% |  |  |
| 22 | 4.20% | 5.00% | 7.00% |  |
| 23 | 4.20% | 5.00% | 7.00% |  |
| 24 | 3.70% | 5.00% |  |  |
| 25 | 3.60% | 5.00% | 7.00% |  |
| 26 | 3.80% | 7.00% |  | rent freeze 2020/21 |
| 27 | 3.00% | 5.00% | 6.00% |  |
| 28 | 2.70% | 5.00% |  |  |
| 29 | 2.60% | 5.00% | 7.00% |  |
| 30 | 2.50% | 4.00% |  |  |
| 31 | 2.90% | 7.00% | 9.00% |  |
| 32 | 3.10% | 5.00% |  |  |
| 33 | 3.50% | 7.00% | 8.20% |  |
| 34 | 2.50% | 5.00% | 7.00% | or 9% |
| 35 | 4.00% | 5.00% | 7.00% |  |
| 36 | 5.00% | 5.00% |  |  |
| 37 | 3.10% | 5.00% |  |  |
| 38 | 3.60% | 5.00% |  |  |
| 39 | 5.20% | 3.00% | 5.00% | or 7% |
| 40 | 2.50% | 5.00% | 6.00% |  |
| 41 | 1.90% | 3.00% | 5.00% |  |
| 42 | 3.00% | 5.50% | 6.50% |  |
| **42** | **3.42%** | **5.01%** | **6.53%** | **8** |

5.2 There were a total of 42 respondents.

* The average 1st proposal was 5.01%,
* The average 2nd proposal was 6.53% and
* The average of those stating a possible or actual 3rd proposal was 7.8%,
* a further 2 organisations were yet to consider a proposal for an increase from

1st April 2023.

5.3 The respondents were a wide range of small, medium and large RSL’s. A number of RSL’s also added comments as to whether they will have to reduce, remove or remodel services including maintenance and component replacements with one having commented:-

“*Just to confirm it looks like we are consulting on 6%/7% subject to Board approval, the downside of voluntary rent freezes during lockdown! Either figure will mean reduction in the component replacement programme, and the lower figure will likely mean the removal of our tenant hardship fund”*

Another commented:-

“*Committee have considered a number of options in rephrasing external works, and reduction in kitchen /bathroom renewal programme, some internal works such as replacing internal pass doors as well as CPI + 1.5% for three years for both increases. Anything below 7% will result in a severe cut in services. At all times we will maintain our legal obligations.”*

5.4 The five year and 30-year budget projections assumed an annual increase of at least inflation, the assumption used to be 2% per annum, however the inflation rate at December 2022 was 10.5%.

5.5 Having looked at the evidence from other RSL’s, the Scottish Government and taking note that the Bank of England predicts the inflation rate, although remaining high throughout the coming financial year, will reduce possibly to half the current rate, and set against the real cost implications for continuing to provide services, and taking full account of the current cost of living crisis affecting all of our tenants, I propose that we consult on a **5%** increase to all rents and service charges for 2023/24 which remains 5.5% lower than the inflation rate of December 2022 and 4% lower than the average of 9.05% over the year January – December 2022 as well as being 1.1% lower than the Scottish Government’s reported average increase of 6.1% for Housing Associations.

5.6 In proposing a 5% increase, I must also emphasise that the coming years may be challenging both in relation to maximising our income, reducing costs where available and appropriate, and subject to the revised 30 year life cycle component replacements and updated 5 year budget and business plan.

5.7 This year may be a once in a financial cycle event, however it would be prudent of the Association to review current spending priorities to ensure that we achieve best value for money.

1. Report published 12 January 2023

   <https://www.gov.scot/publications/cost-living-tenant-protection-scotland-act-2022-first-report-scottish-parliament/pages/12/>

   2 <https://www.ons.gov.uk/releases/consumerpriceinflationukdecember2022>

   3 <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23> [↑](#endnote-ref-1)