



Board Meeting

To: Board
From: DCEO – Finance

SUBJECT: RENT INCREASE 2021/22

DATE 24 November 2020

1.	Introduction																														
	<p>The purpose of this report is to seek approval from the Board for the Rent and Service Charge options for 2021/22 in order to ensure enough resources for the Association to:</p> <ul style="list-style-type: none"> manage the existing stock of properties carry out ongoing maintenance, repairs, modernisation and major works cover service charge increases from our suppliers and contractors service current loans for investment of £40m support future loans for investment in the stock 																														
2.	2021/22 increase																														
	<p>Last year’s business plan assumption for the rent increase for 2021/22 was 2.0%. The increase in rents in years before that was 3%, 2.0%, 2,5% and 1.2%.</p> <p>Our rent increases have been generally lower than other Housing Association’s in the surrounding area over the last four years.</p> <table border="1"> <thead> <tr> <th>ng homes</th> <th>Maryhill</th> <th>Queens X</th> <th>West of Scotland</th> <th>GHA</th> </tr> </thead> <tbody> <tr> <td>Apr 20-3.0%</td> <td>Apr 20-3.0%</td> <td>Apr 20-2.4%</td> <td>Apr 20-2.5%</td> <td>Apr 20 -3.4%</td> </tr> <tr> <td>Apr 19-2.0%</td> <td>Apr 19-3.9%</td> <td>Apr 19-3.3%</td> <td>Apr 19-3.4%</td> <td>Apr 19 -3.3%</td> </tr> <tr> <td>Apr 18-2.5%</td> <td>Apr 18-3.9%</td> <td>Apr 18-3.6%</td> <td>Apr 18-4.0%</td> <td>Apr 18 -3.2%</td> </tr> <tr> <td>Apr 17-1.2%</td> <td>Apr 17-3.0%</td> <td>Apr 17-2.0%</td> <td>Apr 17-1.9%</td> <td>Apr 17 -2.4%</td> </tr> <tr> <td style="text-align: center;">8.7%</td> <td style="text-align: center;">13.8%</td> <td style="text-align: center;">11.3%</td> <td style="text-align: center;">11.8%</td> <td style="text-align: center;">12.3%</td> </tr> </tbody> </table> <p>While considering long term viability of the Association we also need to consider the effect of the affordability of the rent increases in relation to the tenant’s income. Other associations are facing the same decision for the 21/22 consultations and some comparable Associations are shown below.</p> <ul style="list-style-type: none"> - Maryhill – 1.2% - Queens Cross – 0.7% 	ng homes	Maryhill	Queens X	West of Scotland	GHA	Apr 20-3.0%	Apr 20-3.0%	Apr 20-2.4%	Apr 20-2.5%	Apr 20 -3.4%	Apr 19-2.0%	Apr 19-3.9%	Apr 19-3.3%	Apr 19-3.4%	Apr 19 -3.3%	Apr 18-2.5%	Apr 18-3.9%	Apr 18-3.6%	Apr 18-4.0%	Apr 18 -3.2%	Apr 17-1.2%	Apr 17-3.0%	Apr 17-2.0%	Apr 17-1.9%	Apr 17 -2.4%	8.7%	13.8%	11.3%	11.8%	12.3%
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- Link – options on 2.25% and 2.5%
- GHA expected to be above 2%

The Regulator continues to advise associations to focus on review of costs and other efficiencies before resorting to above inflation rent increases.

The Association's loan portfolio had declined from the high point of £35m when the funds were drawn down from the THFC loan in April 2010. This year we drew down £13.5m to meet development costs, increased levels of planned maintenance and to fund increased levels of capital repayments on the loan portfolio in coming years. The loan portfolio at Aug 2020 was £40.0m. Actual interest costs would now be £1.51m as the new bond carried gross interest costs of £722k.

The pay award for 2021/22 may be at 1.25% but when employers NI is added to this that will equate to a 1.42% increase. To this will be added the SHAPS range of pension costs of 11.2% and 16.2%% on the employee's salary cost. The Strathclyde Pension Fund contributions are at a higher rate than the SHAPS rate with a current 27.4% contribution.

As RPI is still a recognised inflation statistic many of our suppliers still reference to it for increases in contract expenditure. Even the government uses it for increases in rail fares.

The Association has managed to achieve some efficiency savings over the past few years and is committed to driving further savings and improved value for money over 2021/22 and beyond. A significant level of areas will be procured over the next couple of years and achieving appropriate levels of monetary savings will be part of the procurement objectives.

Covid is, has and will put pressure on household incomes with reduced hours and increased unemployment. The pressure on household budgets has been a fact for many years with limited salary increases together with downward pressure on welfare spending that has reduced income in the area.

The Regulator expects that a range of rent increase options should be considered by the Board. Also the thematic report "How Social Landlords consult tenants about rent increases" highlights they also expect that the consultation with tenants will include a range of options with an explanation of the effects on spending that would arise from the proposals.

The Regulator has highlighted what they consider to be good practice but it is left to each Association to do what is appropriate in the particular status and geographical spread of the

organisation. Some Associations are widely spread across many local authority areas. NG Homes is a locally based Association so we would normally be able to arrange meetings open to all tenants who can attend together with having local focus groups. With Covid that is not possible and technology may have to take a greater role with text messaging, telephone surveys and survey monkey being utilised to spread the consultation. The suggested levels for the consultation communications are set out below:

- 2.0% increase.
- 2.25% increase with additional funding for planned maintenance of £60k
- 2.50% increase with additional funding for planned maintenance of £120k

The long term nature of the Association's plans in terms of new build costs and spending on planned maintenance means the significance of any one rent increase can be underestimated. The expenditure can only be achieved if there are the funds to finance the works. This is something that has to be recognised decades in advance as with the long lifecycles of elements such as cladding, heating systems and roofs means that the cash resources and reserves to do such have to be recognised from the point when a property is first constructed or rehabilitated.

In general, we are in a better position than some other Associations but rent increases lower than expected cost increases can only be a short term measure. The alternative is to consider the expenditure programme and consider the time period on which expenditure is incurred. If costs are advanced, then this results in greater write offs and increased interest costs. In short term loans can be drawn down but in the long term rental income must pay for all the expenditure of the Association. Grants pay for costs but anything that is a loan costs interest and the loan must be paid back.

3. Affordability

Using the rent affordability tool from the SFHA the average weekly rents produced the following results for a moderate income couple with 2 adults at full time wages.

2019/20 rents	1apt	2apt	3apt	4apt	5apt
Annual rent	£3,682	£4,117	£4,487	£4,980	£5,522
Monthly rent	£306.82	£343.10	£373.95	£414.97	£460.20
Average weekly rent:	£70.61	£78.96	£86.06	£95.50	£105.91
Percentage of income:	11.80%	13.20%	14.40%	15.90%	17.70%
Percentage of market rent:	-	58.50%	49.70%	43.60%	28.70%
Percentage of LHA rate:	74.50%	83.30%	71.70%	69.60%	49.90%
Income after rent:	£528.97	£520.62	£513.52	£504.08	£493.67

	<p>Income after rent above minimum standard: £155.95 £147.60 £140.50 £131.06 £120.65</p> <p>NG Homes is generally about just above mid table in the association comparison tables.</p>
4.	Comparability
	<p>The Association compares weekly rent levels across its stock with other housing providers as this may have some relevance in reviewing rent levels. However each Association has different stock and a different financial history. An association could appear to have lower rents but may not have completed the same level of investment that we have already done.</p> <p>As legislation changes whether on EESSH, smoke detectors or possibly sprinklers past financial projections need updated to reflect the current legislative framework. Both the Westminster and Scottish Governments are considering revised health and safety and environmental regulatory requirements following from the Grenfell inquiry and climate change.</p> <p>The latest information, for the position at end March 2020 was that</p> <ul style="list-style-type: none"> • The Association's average three apartment rent was £86.06 (+2% would be £87.78). • This figure was higher than the GHA average of £84.57 though the gap between NG Homes and others has declined in recent years. Other comparable associations were Queens Cross at £84.14, West of Scotland £85.79 and Maryhill at £81.68. All rent levels are inclusive of service charges. With the nature of ng homes stock having a high level of multi storey blocks and the additional services being provided to the tenants in such, we will generally have a higher rent.
5.	Universal Credit
	<p>Universal credit will over time increasingly become the primary benefit source for the Association. With the complexities of the system and the limitations that exist it has to be recognised that arrears levels and bad debts will rise. Collection procedures will need to recognise this and ensure payment methods such as standing order and direct debit regardless of position are put in from the first day of the tenancy. Every primary tenant will need a bank account and being without one will not be an option. Internet access whether through smart phone or other means will be a necessity. Arrears procedures will need to apply from the beginning of the tenancy. The effect of this will need to be factored into the levels of how much of the charged rent will be collected and that could have a significant effect on the future cash position of the Association.</p>
6.	Summary
	<p>The Association's general business plan rent increase assumption is as per the business plan</p>

	assumption of 2%. The Association will continue to carry out a review of rent and service charges across all its stock in 2021/22 and consult its tenants on the rates suggested in section 2 (2% or 2.25% or 2.50%).
7.	Recommendations
	The Board is asked to: <ul style="list-style-type: none">• Consider the above and agree North Glasgow HA's rent and service charges consultation options for 2021/22.