Item 5(g)

Board Meeting

For Approval

To: Board
From: Head of Finance

SUBJECT: RENT INCREASE 2020/21 **DATE 26 November 2019**

1.	**Introduction**
	The purpose of this report is to seek approval from the Board for the Rent and Service Charge options for 2020/21 in order to ensure sufficient resources for the Association to: • manage the existing stock of properties • carry out on going maintenance, repairs, modernisation and major works • cover service charge increases from our suppliers and contractors • service current loans for investment of **£25.98m** • support future loans for investment in the stock
2.	**2020/21 increase**
	The September 2019 rate of RPI inflation was 2.4%**.** Last years business plan assumption for the rent increase for 2020/21 was inflation of 2.0% with 1.0% above that and this would have implied a 3.0% rent increase. If applied to the September RPI that would have meant a 3.4% increase. This would be a significant increase so the base assumption will be capped at 3% which is 0.6% above the September RPI. The increase in rents in the previous year was 2.0% and 2.5% the year before that. These increases were much lower than increases elsewhere in the sector. The average rent increase across the sector in 2018/19 was 3.7% when we were at 2.5%. Our rent increases have been constantly lower than other Housing Association's in the surrounding area over the last 3 years.

ng homes	Maryhill	Queens X	West of Scotland	GHA
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%
6.7%	10.8%	8.9%	9.3%	8.9%

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 20/21 consultations and some comparable Associations are shown below.

- West of Scotland – 2.7%
- Queens Cross – range of options at 2.4%, 2.9% and 3.4%
- Link – options on 2.5% and 3.0%
- GHA expected to be 3.3%

Others are involved in rent restructuring and the actual monetary increase that is being applied for some tenants are significantly higher than the percentages above. 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 continues to decline from the high point of £35m when the funds were drawn down from the THFC loan in April 2010. No bank loans have been drawn down since then. The Association's cash position is healthy at this time but as already advised we will be looking to bring in additional loans to meet development costs, increased levels of planned maintenance and to fund increased levels of capital repayments on the loan portfolio in coming years. We will be looking at increasing funding in the near future by £15m and then another £15m within seven years after the first drawdown. At current bond rates of about 3.4% the first drawdown would increase interest costs by about £0.5m. This alone is equivalent to about 2% of the current annual rent charge.

The pay award for 2020/21 will be 1.6% but when employers NI is added to this that will equate to a 1.82% increase. To this will be added the range of pension cost increases arising from the SHAPS consultation. This will equate to between a 2.2% and 3.6% increase on the employees salary cost. The Strathclyde Pension Fund contributions will not change this year but are already at a much higher rate than the future 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 2020/21 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.

	The pressure on household budgets is a fact with limited salary increases over recent years together with downward pressure on welfare spending that has reduced income in the area. Benefits are expected to increase in the next year and with the triple lock state pensions will increase by 3.9%. 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 are able to arrange meetings open to all tenants who can attend together with having local focus groups. Technology has also improved with text messaging being utilised to spread the consultation more widely together with mail shots. The suggested levels for the consultation communications are set out below: - 3.0% increase capped at 0.6% over RPI. - 3.5% increase with additional funding for planned maintenance of £120k - 3.75% increase with additional funding for planned maintenance of £180k 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. We are in a better position than other Associations but rent increases lower than expected cost increases can only be a short term measure. The Association recently agreed five year planned maintenance spend of over £50m even after taking into account an expected £8m of grant. Legislation in both the short and long term has increased expected expenditure with smoke detectors and EESSH 2032 being examples of this. In short term loans can be drawn down but in the long term rental income has to pay for all the expenditure of the Association.
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.

ARC figures 2019/20 rents (Adj 2018/19)	**1apt**	**2apt**	**3apt**	**4apt**	**5apt**
Annual rent	**£3,585**	**£4,000**	**£4,366**	**£4,865**	**£5,407**
Monthly rent	**£298.74**	**£333.32**	**£363.83**	**£405.41**	**£450.56**
Average weekly rent:	**£68.75**	**£76.71**	**£83.73**	**£93.30**	**£103.69**
Percentage of income:	**12.00%**	**13.30%**	**14.70%**	**16.40%**	**18.00%**
Percentage of market rent:	**-**	**60.40%**	**52.20%**	**44.90%**	**29.50%**
Percentage of LHA rate:	**74.70%**	**83.30%**	**71.90%**	**67.90%**	**50.30%**
Income after rent:	**£507.71**	**£499.75**	**£486.85**	**£477.28**	**£472.77**
Income after rent above minimum standard:	**£136.94**	**£128.98**	**£121.96**	**£112.39**	**£102.00**

NG Homes is generally about just above mid table in the association comparison tables.

4. Comparability

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.

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.

The latest information, for the position at end March 2019 was that

- The Association’s average three apartment rent was £83.73 (+3% would be £2.51).
- This figure was higher than the GHA average of £81.84 and the Scottish average of £77.70, though the gap between NG Homes and others has declined in recent years. Other comparable associations were Queens Cross at £81.45, West of Scotland £81.36% and Maryhill at £78.55. 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 level than the Scottish average as this figure includes local authorities who have had a much lower funding cost in the past.

5.	**Universal Credit**
	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.
6.	**Summary**
	The Association's general business plan rent increase assumption is as per the business plan assumption of 2% + 1.0%. RPI figures for September 2019 were 2.4% which would have implied a 3.4% increase. The Association will continue to carry out a review of rent and service charges across all its stock in 2020/21 and consult its tenants on the rates suggested in section 2 (3% or 3.5% or 3.75%).
7.	**Recommendations**
	The Board is asked to: • Consider the above and agree North Glasgow HA's rent and service charges consultation options for 2020/21.