

# Rent Consultation – December

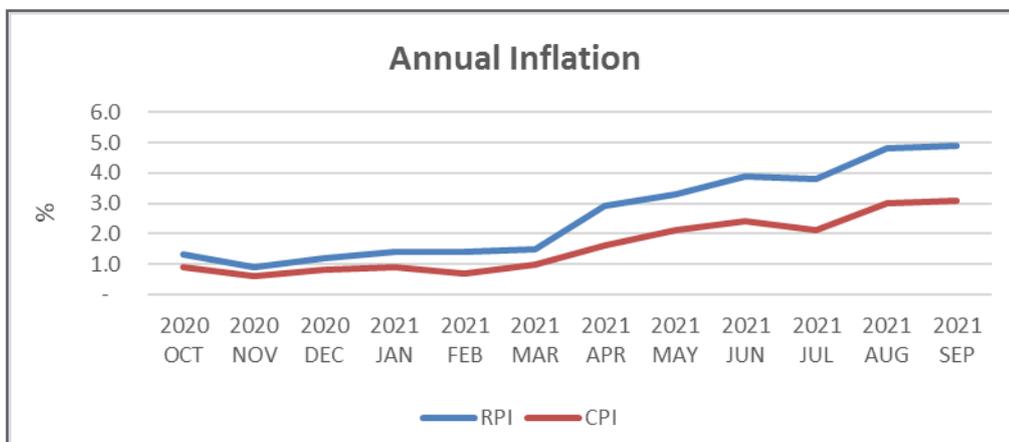


Each year, Ark must consider what level of rent increase should be applied for the following financial year and consult tenants on these proposals. The process of setting rent charges is a complex one with **many variables** influencing the final decision. Some **keys factors** that we must consider when proposing options are **noted in this report**.

## 1. Inflation

The graph below shows the movement in the Consumer Price Index (CPI) and the Retail Price Index (RPI) across the past twelve months. Inflation decreased significantly in April 2020, at the start of the pandemic, and remained relatively low for the next year. From March 2021, as economies around the world started to open up again, inflation has been on an upwards curve, with **CPI increasing from 1.6%** (March 2021) to **3.1%** in just over six months.

**RPI**, although no longer an official measure, **increased from 1.5% to 4.9%** across the same period. This larger increase reflects the inclusion of housing costs in the calculation, which are more relevant to tenants.



(Source: Office for National Statistics 21/10/21)

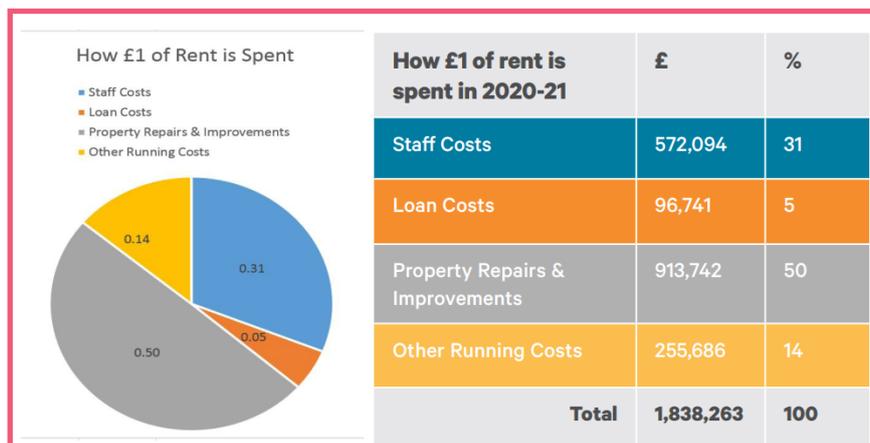
Looking forward, the Bank of England, in its November 2021 Monetary Policy Report, predicted that **CPI** inflation would continue **to increase, to 5%** by **Spring 2022**, before starting to fall back to its targeted **2%** rate by **early 2024**. RPI inflation would be expected to closely track this movement.

The **key inflationary risk to Ark** is within **repairs, maintenance, and investment**, with inflationary rises within this sector significantly higher than headline figures. The reasons for this are global in nature, with significant demand for resources resulting in higher material prices. As this demand reduces, our expectation is that inflation will return to more 'usual' levels.



## 2.0 Covering our Costs and Investing for the Future

At the end of October 2021 we sent you a copy of the Tenants Report on Ark's performance against the **Scottish Social Housing Charter** and I hope that from that report you can recognise that Ark staff are working hard to **minimise rental loss** through the **management of arrears and void properties**, whilst at the same time **re-investing substantial amounts of money back into property management**. The chart below shows how each pound is spent.



- The largest percentage of spend was on property repairs and improvements with nearly **£914K** being spent, in existing properties, for example bathroom or kitchen upgrades. It also include repairs, cyclical maintenance and work done to re-let empty properties.
- The next largest spend being on staffing costs (salaries for the Housing & Maintenance Teams) at **£572K**.
- Other running costs include staff travel expenses, training, subscriptions, computer costs, North Office rent, equipment, and other office running costs.
- Loan costs is the interest paid and the amount of loan repaid. The loans were taken to purchase properties.

Following the relaxation of restrictions surrounding the Covid-19 Pandemic, the focus for the Property Team this year has been the **installation of linked fire detection devices** to all our assets, in order to comply with the legislation changes set by the Scottish Government by **February 2022**. This work is due for completion in December 2021 at a cost of approx. **£200k**.

During this time we have also taken the opportunity to carry out a **100% stock survey**, using our own Officers, to ensure an accurate and consistent approach. This data, validated by our Senior Property Officer, is now in the process of being uploaded into our Housing Management System. This will allow us to produce a more accurate portfolio of our assets, and detail long-term levels of investment required by the end of January 2022.

In our re-forecast proposals following the pandemic, we stated we would complete the fire detection works and replace a number of gas boilers which were beyond economical repair, which we have delivered. In Year two, we committed to catching up on areas of planned maintenance in relation to some bathroom replacements, window replacements and door replacements. More information will follow in 2022,

In common with other Registered Social Landlords, we are experiencing price increases across all our trade sectors, particularly on materials. This is due to increased demand for certain building products, as we rebound from the pandemic. Many larger maintenance companies have indicated to the sector that they are planning a **10% to 20%** increase in costs to compensate for this, with many of our current contractors raising similar concerns. As noted above as nearly 50% of rental income generated is used to repair, maintain, and invest in our stock, any long-term, or sustained price increases in this sector will have a significant impact on our ability to maintain services to our tenants, without significant rent increases being required.

### 3. Comparability

In 2021/22, housing associations implemented rent increases of between 0% and 5.2% on their properties. The **Scottish Average** across all RSLs (Housing Associations and Local Authorities) in Scotland was **1.2%**, whilst **Ark** implemented a **2.6% increase**.

We compared our rent and service charge levels with some of our peers, as shown in Table 2 below. Overall, Ark **ranks fourth** out of our peer group of six, across all property types.

Table 2 – Weekly Rent Charges Within Self-Contained Property Groups

Landlord name	1 Apt No.	2 Apt No.	3 Apt No.	4 Apt No.	5+ Apt No.	Total No.	1 Apt AWR	2 Apt AWR	3 Apt AWR	4 Apt AWR	5+ Apt - AWR	Total AWR
Ark Housing Association	5	123	94	45	5	272	89.75	97.95	111.78	105.30	108.67	104.05
Blackwood Homes and Care	41	517	680	185	68	1,491	101.87	96.7	106.88	118.59	133.95	105.90
Key Housing Association	7	417	182	89	18	713	80.84	92.64	98.9	108.88	198.14	93.41
Loretto Housing Association	78	709	459	121	22	1,389	106.75	95.63	94.1	97.84	118.56	98.03
Trust Housing Association	387	2,200	710	296	25	3,618	131.31	120.9	95.09	95.59	92.53	114.68
Viewpoint Housing Association	76	974	246	16	0	1,312	99.81	116.65	117.82	133.98	null	116.10

Scottish Housing Regulator ARC Dataset 2021) (AWR=Average Weekly Rent £)

In November 2021 a survey of proposed rent and service charge increases across other RSL's was undertaken, allowing us to consider Ark's within the context of similar organisations.

Three organisations within our **peer** group are consulting on increases of between **2.5%** and **4.0%**. The other organisations are consulting on a wide range of increases between **1.5%** and **3.5%**. Therefore despite inflation levels increasing dramatically many organisations will be consulting on **below inflationary level increases**.

## 4.0 Affordability

The other key factor to consider is affordability, which is an area of scrutiny for the Scottish Housing Regulator and is at the centre of several Scottish Government strategies, such as Tackling Child Poverty Delivery Plan, and Housing to 2040. Rent is the major household expenditure item for most social housing tenants. Using information from the Office for National Statistics and the Joseph Rowntree Foundation, **65%** of tenants in the **rented sector** have a **net income of £13,000 or less** and nearly **39%** of those living **in social housing** are classed as **in poverty**.

The payment composition amongst our tenants is noted in table 4 below. We know that it is the **27%** of tenants who are partially reliant on housing benefit, universal credit housing costs, discretionary housing payments, or who have no benefit at all who may struggle with paying their rent, especially when other household costs such as gas and electricity are increasing.

Table 4 – Breakdown of Rent Payment Type

Payment type	30/09/21	30/09/20
	% of tenants	% of tenants
<b>No Benefit Entitlement</b>	<b>20%</b>	<b>20%</b>
<b>Partial HB / UC or Discretionary Housing Payments</b>	<b>7%</b>	<b>3%</b>
<b>Full Housing Benefit / Universal Credit Housing Costs</b>	<b>63%</b>	<b>64%</b>
<b>Registered Rents</b>	<b>2%</b>	<b>4%</b>
<b>Invoices / Internal Payments</b>	<b>9%</b>	<b>9%</b>

Table 5 below shows how much extra tenants on average would have to pay for the 2 options that Ark is considering.

Table 5 – Additional Payments Required

Proposed % Increase	2.5%	3.0%
<b>Average Minimum Increase</b>	<b>£1.54/week OR £6.66/month</b>	<b>£1.84/week OR £7.99/month</b>
<b>Average Maximum Increase</b>	<b>£3.32/week OR £14.40/month</b>	<b>£3.99/week OR £17.28/month</b>
<b>Additional Annual Income for Ark</b>	<b>£57,435</b>	<b>£68,992</b>

## 5.0 Consultation

Your views on these options are also an important factor. We would like you to consider the information that we have given you and give us your views on the proposed options of **2.5%** and **3%**.

Please e-mail us at [housing@arkha.org.uk](mailto:housing@arkha.org.uk) or use the enclosed feedback form/prepaid envelope before the **14<sup>th</sup> January 2022**.

A paper will be presented to the Board in **February 2022** and thereafter we will write to all tenants before the end of February notifying you of the decision.

In the meantime if you have any queries, call us on **0131 478 8146**.