



TIS
Rent setting and affordability: Getting the best from your consultations
24 October 2019

Michael Cameron
Chief Executive, Scottish Housing Regulator

Good morning and thank you for inviting me to speak with you today.

I'd like to focus today principally on rent affordability, rent increases and the tenants' voice in rent setting. I'll also touch on tenant safety.

We know that many tenants are finding it harder to afford their rent.

That's the clear message from our National Panel of Tenants and Service Users, and I suspect that will resonate with many in this room. Last month we published four reports from the Panel. The report on Rent Consultation set out that over a third of Panel members have experienced difficulties in affording their rent. More than two thirds are concerned about the future affordability of their rent. They're worried about rent increases by landlords and future changes to income, particularly through changes in benefits.

Many of the Panel members told us that they have experienced difficulties with their wider household finances. Nearly a third felt they are not managing their finances well and more than half are worried about their future financial circumstances.

As I've already said, I suspect that won't come as much of a surprise to many of you. But it is important to recognise the challenge many tenants are facing, not least as this is at a time when social landlords are increasing rent by levels above inflation.

As you'll know, every year we analyse landlords' data from their annual returns on the Social Housing Charter. That analysis shows that last year the average rent increase for all social landlords in Scotland was 3.7%. That's up on the previous year's level of 2.4%. And it's the highest level since current monitoring began in 2013.

Eighty percent of landlords increased rent at a rate above the Consumer Price Index measure of inflation.

We also know that more than four fifths of all landlords plan rent rises above inflation in the coming year. The average planned rent increase for 2019 is 3.0%. Only four landlords plan to keep rents at the same level and none plan to cut rents.

We also see that rent arrears are edging upwards.

Last year total arrears across all landlords increased to 5.7% of the rent due. The increase in arrears last year was the largest in the last five years, and the rate of increase is accelerating. This means that more tenants are getting in to debt or those in arrears are getting further into debt, or perhaps both of these are happening.

Of course, rising arrears may not be a direct consequence of rising rents. It is likely that the roll out of Universal Credit is a big factor in rising arrears.

What is an affordable rent is a complex matter. Local context and markets, the interaction with benefits and tax credits, trade-offs with fuel costs all add to that complexity. And all landlords are not starting from the same position on rent levels, so some may be able increase rents at a higher level and keep them affordable. But the simple arithmetic is that, no matter the starting point, rents that increase above inflation are likely to become less affordable.

It's important that landlords demonstrate to their tenants that their rents will remain affordable and that they are having effective dialogue with their tenants on rent levels and increases.

For our part, the level of rent increase will feature prominently in our assessment of the risk each landlord presents.

So, landlords should be asking themselves whether they are doing everything possible to be efficient and drive costs from their business before passing costs on to tenants.

The drivers of rent increases can be many and complex. I'm sure David will set out the challenges from the landlord's perspective. And the current political and economic reality is increasing volatility and uncertainty. Market pressures are intensifying and adding to more familiar pressures, such as pension affordability and reduction in local authority funding for care and support. All of this comes at a time when

there are increasing expectations on landlords from customers and government.

Some of the pressures to increase rents will be beyond the control of landlords. That only makes it all the more important for landlords to vigorously pursue cost efficiency and value for money.

We believe tenants deserve nothing less.

It's now three years since we published the outcome of our thematic inquiry on *How social landlords consult tenants about rent increases*. And there have been important developments since then, including the further roll out of Universal Credit, embedding of tenant scrutiny in many landlords, and the development of tools to help landlords determine if rents are affordable, such as that from the SFHA and HouseMark.

The key message from the thematic holds good: landlords need to know what their current and future tenants can afford to pay when considering any increase to the rents they charge. We also said that landlords should consult tenants about rent increases in ways that enable them to express informed views on options for different rent levels with clear information on what they mean for services and investment in homes.

It strikes me that the most effective way to deliver this is likely to be ongoing dialogue between tenants and landlords around what's important to tenants and what they want, and can afford, to pay for.

The safety of tenants and residents is the most important responsibility on landlords, and it is important that they are proactive in meeting these responsibilities. Most are.

But, we are engaging with a number of landlords who have been unable to demonstrate that they meet these duties, including on the management of asbestos and electrical safety.

The governing bodies of these landlords did not seek or get the necessary assurance that their organisation was meeting its legal duties on tenant and resident safety.

Earlier this week we wrote to landlords about this, and we highlighted this critical responsibility more widely in the media.

We will continue to highlight the importance of tenant and resident safety, and that landlords give tenants a clear way to raise any concerns with them.

We will be talking to landlords on how they are obtaining assurance in this area as part of our follow up work on the Annual Assurance Statements

And tenants and their families can be assured that we will act when we need to.

I believe it is also important that tenants are vigilant on safety and to report to their landlord if they have any concerns or spot anything

untoward. And of course, tenants can come to us if they are worried they are not being listened to.

Thank you.