**Tackling the Cost of Living Crisis**

**Scottish Government and Housing Associations’ Statement of Intent 2023/24**

**Context**

One in five people in Scotland live in poverty, with nearly a quarter of all Scottish children living below the poverty line. With social housing tenants representing a considerable proportion of lower income householders – 35% have a combined household income below £15,000 – social housing tenants are twice as likely to live in poverty.

While these statistics make for difficult reading, social housing plays a key role in reducing poverty levels. Research from the Joseph Rowntree Foundation suggests that continued and consistent investment in social housing has kept housing costs, and thus poverty levels, lower than in other parts of the UK[[1]](#footnote-2).

Investment in social housing, and ambitious targets and action to reduce child poverty, have seen hard-won gains in recent years. The latest modelling shows that 60,000 fewer children could be living in relative poverty in 2023 compared to 2017.

However, the current cost of living crisis poses an enormous threat to this progress, with inflation rates having a far greater impact on the poorest 10% of the population and living standards and real incomes expected to fall across the UK.

The volatility of the economic environment also has significant consequences for housing associations and the services they provide to tenants. Over the last 12 months, the cost of developing homes has increased by 17%, with the average cost now well above £200,000 per home: and rising interest rates meaning this will increase further. Similarly, the cost of maintaining homes has increased by upwards of 20% for many associations. Housing associations must work on the basis of 30-year business plans; any changes to rents in a single year are therefore compounded and have a significant long-term impact across the plan.

These challenges follow a period where housing associations have acted to protect tenants through the Covid-19 pandemic. A recent report by the Scottish Housing Regulator found that “social landlords have made significant efforts to minimise the level of rent increases, especially in the last couple of years, with many applying increases below those assumed in their business plans”.

In April 2022, average housing association rents increased by 3.3%, compared to CPI inflation of 9%, a real-terms rent cut. These continued real-terms cuts have a long-term impact on business plans and therefore the creation of new homes, and attempts to control or limit rent increases will further damage the sector’s ability to invest at a time of rapidly increasing costs.

Around 70% of social housing tenants have their rents covered by social security, paid in part or fully by the UK Government, and the Scottish Housing Regulator has estimated that those tenants who do pay full rent would save around £3 per week from a rent freeze. At the same time, we estimate that a one-year rent freeze would remove more than £170 million from the social housing sector – money that would otherwise be invested in developing new high-quality, energy-efficient homes, maintaining existing houses and providing much-needed services, including money advice, employability and other forms of support for tenants. These services are a vital part of the work housing associations undertake to sustain tenancies and keep people in their homes.

Housing associations will always put affordability at the heart of their rent setting, and working in the current context, rent increases for 2023/24 are planned to be below forecast inflation rates: which means that rents will, in real terms, be reduced. However, the voice of tenants will be critical in deciding this, and housing associations will use rent consultations, as they always do, to identify the right balance between rents which are reasonable and proportionate, and which also allow for continued ongoing investment in services and homes.

**Statement of Intent**

Housing associations and the Scottish Government have a long history of partnership working to support tenants and communities across Scotland.

Every housing association has a unique role to play in addressing the current cost crisis, investing in new and existing homes for future generations, providing targeted support to tenants, and ensuring rents remain affordable.

The Scottish Government plays an important role in enabling this, through funding and creating the right conditions for housing associations to thrive and support the wellbeing of Scotland’s people, communities and economy.

The current cost crisis is placing enormous pressure on those we support, and on our ability to deliver, and we will only be able to support those who are most affected by the current crisis by strengthening our partnership working.

This means prioritising investment in those actions that make the greatest difference, sharing risk, and providing certainty and stability for tenants. As a result, housing associations and the Scottish Government have agreed to the following principles and actions for the rent setting period 2023/24.

**Principle one:** Housing associations will always set rents with regard to a full and transparent consultation process with tenants

**Actions:**

* Data shared with us by individual housing associations on their planned rent increases indicates that the average rent increase will be around 6.1% across the country in 2023/24: a real-terms cut, given present levels of inflation. We do not anticipate rent increases at, or above, the current level of inflation, which stands at 11.1% at the time of writing.
* The exact level of rent increase will vary between associations, reflecting their varied nature, and the needs of their tenants, and depending on the outcome of consultation with tenants. A small number of associations are consulting on an above-average rent increase, due mainly to the need for ongoing, planned investment in stock and the lower rents they have historically charged.
* Rent setting will continue to be informed by consultation with tenants through a range of methods that expands year upon year, and in 2022, this has included in-person meetings, surveys, phone and text contact, social media and postal communication.
* SFHA commits to continuing to provide and update our affordability tool, in partnership with Housemark, to support members to ensure rent setting is done in an evidence-based way which supports affordability.
* We will work collaboratively with the Scottish Government to develop a shared definition and understanding of affordability, in line with the ambitions set out in *Housing to 2040*.

**Principle two:** Housing associations will seek to mitigate as much of the cost implications of inflationary price increases and interest rate rises as possible in order to protect the people we support and continue investing in our homes and communities

**Actions**:

* We estimate that an average rent increase of 6.1% in 2023/24 will result in at least £80 million of reduced income for housing associations. For many, this will mean difficult decisions over future investment in services.
* Nevertheless, housing associations will work to deliver on their commitments to tenants to maintain homes to the highest standards, provide services and support tenants.
* However, average rent increases that are below inflation at a time of rapidly increasing maintenance costs, will likely lead to planned maintenance and improvement programmes taking place over a longer period of time. Similarly, a number of associations have already taken decisions to reduce their investment in the development of new homes and carbon reduction.

**Principle three:** Housing associations will deliver targeted tenant support to those who are in the greatest need as a result of the cost of living crisis

**Actions:**

* In recognition of the cost of living crisis, and their vital role in supporting tenants, housing associations will invest at least £23 million in tenant support in 2023/24, for over half a million people who live in housing association properties.
* This support will be targeted, where appropriate, at those in the greatest need, including self-payers, families with children, and those with specific needs.
* The support available from housing associations is wide-ranging and includes advice on social security claims and energy bills, access to the food pantry network, and mental health and wellbeing programmes.

**Principle four:** The Scottish Government will commit to increase the funding available to support social housing tenants through the cost of living crisis, through targeted interventions on fuel and food

**Actions:**

* The Scottish Government will commit to invest £6.5 million in the Social Housing Fuel Support Fund as part of increased investment in the Fuel Insecurity Fund.
* This fund will be delivered by SFHA for housing associations to invest in targeted support to reduce energy bills for tenants
* The Scottish Government will work collaboratively with SFHA to explore the creation of a fund to be distributed to housing association tenants to support them with the cost of living.

**Principle five:** TheScottish Government will continue its significant capital investment in the Affordable Housing Supply Programme to ensure the development of social housing continues at pace and scale

**Actions:**

* The Scottish Government will commit to invest £751 million in the Affordable Housing Supply Programme between 2023 and 2024
* The Scottish Government will undertake an annual appraisal of the Affordable Housing Benchmarks to ensure funding is at sufficient levels to meet increased construction costs, as agreed during 2022

**Principle six:** TheScottish Government will commit to working with the sector to find long-term funding solutions to deliver on our shared net zero ambitions: not least because increased energy efficiency is a prime route to cost savings for tenants

**Actions:**

* The Scottish Government will continue to invest significantly in the Net Zero Heat Fund across the course of this Parliament.
* The Scottish Government will work with the sector to address the financial barriers to investment in net zero via the Green Heat Finance Task Force.

This statement will ensure that housing association boards retain full independence to set rents in consultation with tenants. The statement has been agreed as a recognition of the exceptional circumstances of the current cost of living crisis and will ensure that, in future years, the existing system of affordable rent setting in consultation with tenants will continue.

Scottish Ministers have decided that the powers created by the Cost of Living (Tenant Protection) Act 2022 will be expired from March 2023, and there will be no rent cap in place for social landlords from that date.

1. Joseph Rowntree Foundation, Poverty in Scotland, 2021 [↑](#footnote-ref-2)