

## **Housing Revenue Account – Rent Setting Strategy 2019/20 – 2021/22**

**Report by Allister Short, Joint Director, Health and Social Care & Gary Fairley, Head of Finance and Integrated Service Support**

### **1. Purpose of the Report**

- 1.1 This report considers the affordability of council house rents and provides feedback on consultation regarding future rental charges for council housing which will determine the level of investment and new build development in council housing beyond the Council's current programme. It recommends a three year increase in rents and related charges of 3% per annum with effect from April 2019.

### **2. Background**

- 2.1 The HRA Capital Plan, approved on 27<sup>th</sup> September 2016, provides for a total investment of £119.392 million over the period 2016/17- 2021/22 of which £74.452 million is earmarked for the New Social Housing Programme. In addition to funding investment in new housing the Council needs to invest in existing stock to ensure housing stock is maintained in compliance with the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (ESSH).
- 2.2 In December 2015, Midlothian Council agreed to increase council house rents by 5% per annum for the three year period between 2016/17 and 2018/19. Consequently all council house rents will rise by 5% from 1<sup>st</sup> April 2018. However, for the years 2019/20 and beyond a future rent setting strategy needs to be agreed. It is beneficial to agree a future rent setting strategy early in 2018 as this will directly influence site selection and investment in new build council housing. In addition, tenants of new build council homes which are now over 10 years old, require certainty of the arrangements for the convergence of their rents with that of tenants of the existing housing stock.
- 2.3 The Scottish Housing Regulator responded positively to Midlothian Council's approach to rent consultation in 2015, and highlighted positive practice in the approach taken in the publication, "*How social landlords consult tenants about rent increases*" (Scottish Housing Regulator, November 2016). The Rent Setting consultation in 2017/18 has followed the recommendations of this Report which advised that:

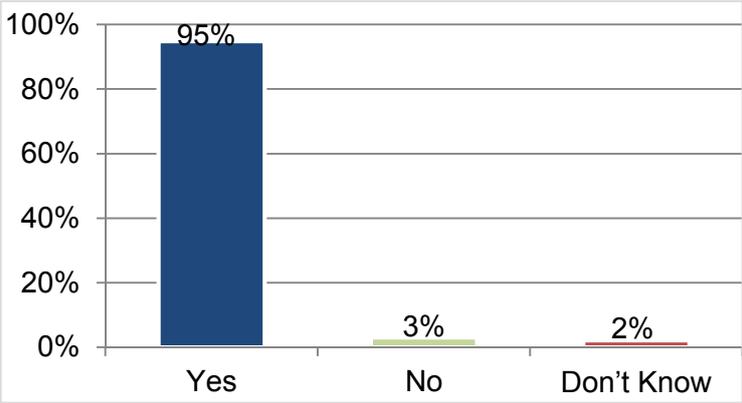
*Social landlords should consult tenants about rent increases in ways that enable them to express informed views on options for different rent levels with clear information on what they mean for services and investment in homes. Landlords should:*

- Consider their tenant profile and the best ways to engage with tenants about proposed rent increases;*
- Give tenants easy-to-understand information to help them express informed views;*
- Give tenants genuine options for proposed rent increases and spell out what they mean for levels of investment in homes and the level of services offered;*
- Discuss with tenants the level of service they want;*
- Talk to current and prospective tenants about what level of rent is affordable for them;*
- Be transparent about how they determine affordability; and*
- Show tenants how their views were taken into consideration in decisions and give them feedback on the consultation process.*

2.4 Midlothian Council's Strategic Housing Investment Plan was approved by Midlothian Council in November, 2017. It noted that the Council had reached a significant milestone in surpassing 1,000 new build council homes built since the start of the new social housing programme in 2006. The Council's new build programme has so far allocated £208.3 Million on building new council homes in Midlothian over three phases with funding committed for 475 further units (including some open market purchases). In addition to receiving grant funding from the Scottish Government, the Council has increased rental charges annually in order to support funding for investment and new council housing and currently places a 25% premium on new build homes for the first 10 years they are let.

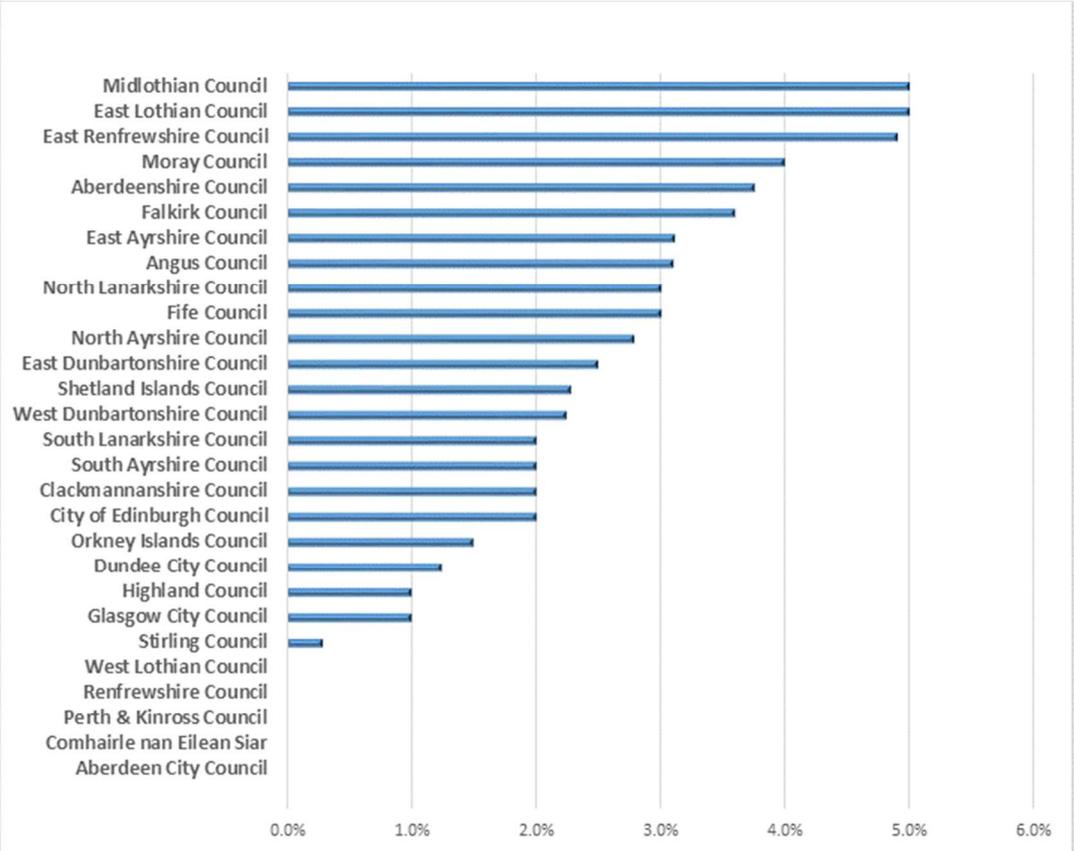
2.5 Despite the success achieved at significantly increasing the new supply of affordable housing, it is evident that the level of housing need has increased with 4,925 households currently on the Housing List – including over 1,000 homeless households. In order to address this rapid increase in housing need the supply of new affordable housing across all tenures needs to increase. Tenants and Housing Applicants consider it a priority for the Council to build new housing, Chart 1, below shows that 95% of tenants and applicants who responded to the 2018 Rent Setting Consultation support further development of new Council Housing. In order to increase the supply of new council housing increases will be required for existing council housing rent levels for future years in addition to continued grant funding from the Scottish Government to support new affordable housing development.

**Chart 1: Support for new council housing**



2.6 The Council’s most recent Tenant Satisfaction Survey, undertaken in 2016/17, recorded that the majority of respondents (82%) were satisfied their rent provided good value for money compared to 10% percent that indicated dissatisfaction. However, the average rent is now higher than the Scottish average: Midlothian Council average weekly rent is £69.40 compared to the *Scottish average for council housing* of £67.76. In addition, Chart 2 below, shows that the annual rent increase for Midlothian Council of 5% (which has been applied annually since April 2016) is the joint-highest in Scotland.

**Chart 2: Rent Increases by Scottish Council (Data from 2016/17 Annual Charter Return to the Scottish Housing Regulator)**



2.8 In terms of demonstrating the affordability of rental charges, it is suggested that when housing costs exceed 30%-35% of a household's income, the cost is judged to be unaffordable. The table below shows an average weekly 3 bedroom Midlothian Council house rent and compares this to a gross household income based on a full time employee who receives the minimum wage (£7.50 per hour). It shows in both cases that current rents are well below the 30% -35% level of households who receive either the minimum wage. Even if the current rent increase option was applied for a further 3 years (5% increase per year) a householder working full time and earning the minimum wage or living wage would still be paying less than 30% of their gross income to pay for housing costs.

**Table 1: Midlothian Council Rent Affordability**

<b>Average Weekly Rent (3 Bedroom)</b>	£65.12
<b>Minimum Wage Income</b>	£270
<b>Percentage of Income Spent on Rent</b>	24%

2.9 Council Officers undertook an extensive consultation exercise with tenants and Housing List applicants, as detailed in Appendix 1 to this Report. 10,577 Survey returns were sent out in December 2017 with the deadline for responses on 15<sup>th</sup> January 2018. A total of 1,040 Surveys were completed, with responses from 738 tenants and 302 housing list applicants.

2.11 Tenants and housing list applicants were asked to select their preferred option for annual rent increases for the next three years. They were also advised what impact each option would have for future investment in council housing in Midlothian. The options used as part of the consultation are shown in Table 2.

**Table 2: Rent Increase Options 2019/20 – 2021/22**

<b>Option</b>	<b>Annual Increase between 2019/20 to 2021/22</b>	<b>Total Number of Additional Homes</b>
Option 1	3%	1,000
Option 2	3.5%	1,190
Option 3	4%	1,385
Option 4	5%	1,770

2.12 Table 3 shows the preferences of respondents. It is evident that Option 1 (a 3% increase) was the most popular choice: 564 respondents or 56% of those who responded selected this option. Option 2 was the second highest Option, with 187 respondents (19%) choosing this Option. Option 4 was chosen by 173 respondents (17%). The least popular choice was Option 3, with 81 respondents (8%) choosing this. Option 1 was the most commonly selected choice for both tenants and housing applicants. Some responses to the consultation expressed disappointment that there weren't lower rent increase options and some tenants were dissatisfied that their rent charge was being increased to support new housing.

**Table 3: Preferred Rent Option 2019/20 – 2021/22**

Rent Option	Option 1 3%	Option 2 3.5%	Option 3 4%	Option 4 5%
Number	564	187	81	173
%	56%	19%	8%	17%

2.13 In November 2009, Midlothian Council agreed to proposals for the rent strategy for new build council housing as follows:

*“The weekly rent for new build properties is 25% higher than that of the equivalent size of existing property. Over time it is appropriate that new build and existing rents should converge and it is therefore proposed to achieve this by applying a rent increase for each new build property of 2% below the general increase starting with the first rent increase which is applied 10 years after the whole site was completed.”*

The Report to Council in November 2017 on the Strategic Housing Investment Plan 2018/19 – 2022/23 noted that this Policy would no longer be workable due to limitations of the current housing management IT system, the length of time taken for rents to converge and the difficulty in future consultation regarding rent increases with affected tenants. As a result, tenant and housing list applicants were consulted on alternative proposals for new build tenants. These proposals ensured that there is no detriment to current projected future income, in order that investment plans are not impacted.

2.14 Table 4, below, shows that 41% of survey respondents chose Option C which proposes to freeze new build rents until the older housing stock rental charges increase the same level. However, the views of tenants only shows that a significantly higher proportion support a 15 year rent premium (42%) compared to a rent freeze (36%). In addition, 22% of tenants voted to retain the premium rent charge permanently for all new build homes. It is therefore recommended that Option A is agreed by Council as the new policy for new build rents. Option A provides a slightly lower level of rental income compared to Option B (£524.3M compared to £526M during the period 2017/18 – 2032/33) but this will not be not detrimental to investment plans.

**Table 4: Preferred Option for New Build Premium**

Option	Action	Income £Million	Tenants and Housing List	Tenants Only
Option A	Retain New Build Premium for 15 Years then reduce rent to same as older homes	£524.3M	40%	42%
Option B	Retain New Build Premium Permanently	£535.4M	19%	22%
Option C	Freeze New Build Rents after 10 years until the rent charge for older homes are at a similar level.	£526M	41%	36%

### **3 Report Implications**

#### **3.1 Resource**

The Housing Revenue Account Capital Plan, approved on 27<sup>th</sup> September 2016 provides for a total investment of £119.392 million over the period 2016/17 to 2021/22, of which £74.452 million was earmarked for the New Social Housing Programme. This increased to reflect additional Scottish Government Grant received bringing the total budget for completion of 1,496 properties to £227.901 million.

The proposed 3% rent increase per annum for 2019/20 – 2021/22 and the longer term assumption of 2% thereafter would continue to support current investment in New Social Housing and also in the existing stock as well as provide additional investment of £94.050 million for a further Phase of New Social Housing, £6 million investment in Temporary Accommodation and £10 million for Environmental and Fire Safety improvements with reserves falling to a contingent level of £1.876 million in 2032/33. This additional investment would fund approximately 1000 homes as well as approximately 30 Temporary Accommodation units.

The HRA revenue model has been updated and projected forward to 2030/31 and reflects the revised Capital plan as well as the following key assumptions:

- The borrowing cost of the capital investment detailed in appendix 2 together with estimated investment in existing properties over the remaining years of the projection;
- The impact on rental income stream as a result of the implementation of Universal Credit;
- Projected provision for inflation over future years as per GDP Deflator and BCI Tender Prices Index;
- The longer-term requirement that the rents for new build properties will converge with that of the existing stock.

These together with a number of other minor adjustments to the previous financial projections confirm that the HRA can support the existing investment plans.

The proposed revenue budget for 2018/19 and indicative revenue budgets for 2019/20 – 2023/24 are detailed in appendix 3.

### 3.2 Risk

The principal risks relate to balancing the need to invest in additional housing and providing adequate resources to maintain the existing housing stock whilst taking account of the affordability of rental charges and tenant and housing list applicant's views.

The longer term financial modelling undertaken demonstrates that the current capital plan is affordable but sensitive to movement in the following variables:-

- Future years rent strategy will affect the affordability of the Capital Plan;
- The full impact of Universal Credit is still as yet unknown and may be higher than anticipated resulting in a further reduction of reserves;
- Inflation and interest rates.

Regular monitoring is in place to manage the financial and project risks. This ensures that any cost changes are identified and the implications assessed and reported promptly.

### 3.3 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:

- Reducing inequalities in the health of our population
- Reducing inequalities in the outcomes of learning in our population
- Reducing inequalities in the economic circumstances of our population

The themes addressed in this report impact on the delivery of the Single Midlothian Plan outcome particularly in terms of priorities in relation to the delivery of affordable housing, homelessness and health and social care outcomes through the provision of specialist housing.

- x Community safety
- x Adult health, care and housing
- x Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- x Sustainable growth
- x Business transformation and Best Value
- None of the above

### 3.4 Impact on Performance and Outcomes

The recommendations in this Report impact positively upon achieving the following Local Housing Strategy outcomes:

- Households have improved housing options across all tenures.
- Homeless households and those threatened with homelessness are able to access support and advice services and all unintentionally homeless households will be able to access settled accommodation.
- The condition of housing across all tenures is improved.
- The needs of households with particular needs will be addressed and all households will have equal access to housing and housing services.
- Housing in all tenures will be more energy efficient and fewer households will live in or be at risk of fuel poverty.

### **3.5 Adopting a Preventative Approach**

The proposed strategy for rent setting for a three year period ensures that the Housing Revenue Account continues to provide for investment in existing stock to ensure housing is of good quality and investment of new housing to meet housing need in Midlothian.

### **3.6 Involving Communities and Other Stakeholders**

The attached appendix provides detail on the consultation which has been undertaken which included a survey, meetings with Midlothian Tenant Panel and other Tenant Groups. In addition, the Rent Setting Strategy was discussed at the December, 2017 Local Housing Strategy and Homelessness Working Group to ensure engagement with key stakeholders such as local RSLs, Shelter and the Scottish Government.

### **3.7 Ensuring Equalities**

An equalities impact assessment has been completed in connection with this Report. This is to ensure the rent setting strategy does not impact negatively upon any equality groups.

### **3.8 Supporting Sustainable Development**

Not Applicable

### **3.9 IT Issues**

Not Applicable

## **4. Recommendation**

It is recommended that Council:

- a) Note the positive response to consultation with tenants and housing list applicants in relation to agreement on future rent setting.
- b) Agree to a 3% rent increase per annum for three years from 2019/20 – 2021/22.

- c) Note that a 3% rent increase will provide investment for a total of 1,000 additional council homes, 30 temporary accommodation units and investment in Environmental and Fire Safety Improvements.
- d) Agree to change the policy on the new build rent premium as set out in Section 2.14 of this Report.
- e) Note that all elected members will be consulted for their views on potential locations for new council housing development.
- f) Approve the resultant HRA Capital Plan for 2018/19 to 2023/24 as detailed in Appendix 2.
- g) Approve the HRA Revenue Budget for 2018/19 and note the Indicative Revenue Budget for 2019/20 to 2023/24 as detailed in Appendix 3.

**Date:** 23<sup>rd</sup> January 2018

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**Background Papers:**

Strategic Housing Investment Plan 2018/19 – 2022/23