

Housing Revenue Account – Rent Setting Strategy 2023/24-2025/26**Report by Kevin Anderson, Executive Director - Place****Report for Decision****1 Recommendations**

- 1.1 It is recommended that Council approves the Rent Setting Strategy options for 2023/24 – 2025/26 for consultation. Following approval the options will be subject to consultation with all Midlothian Council tenants and waiting list applicants during the Winter 2022 period. The consultation outcomes and a recommended option will be reported back to Council in February 2023.

2 Purpose of Report

- 2.1 This report presents rent setting strategy options for future rental charges for council housing from April 2023, which in turn will support the continuing investment in the Council's existing Housing stock and will determine the level of new build investment beyond the Council's current social housing programme commitment.

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2 Background

- 3.1 On 6 September 2022 the Scottish Government announced a social housing rent freeze until 31 March 2023. This report concerns the period from 1 April 2023.
- 3.2 As at 31 March 2022, the Council owned 7,121 houses and 858 garages. The rental income received through the Council's Housing Revenue Account (HRA) for 2021/22 was £31,259,000. Midlothian Council has carried out a new social housing programme since 2006 and continues to invest in building new social housing. The most recent Strategic Housing Investment Plan (SHIP) contains details of a further 1,413 Midlothian Council new build homes planned between 2022/23 and 2026/27. There continues to be high demand for the Council's social housing despite significantly increasing the new supply of affordable housing; there are 4,237 households on the Council's waiting list(s) – including 634 homeless households. In order to address housing need, the supply of affordable housing across all tenures needs to increase whilst investment is also made to existing housing stock in adherence with the Scottish Housing Quality Standard and the Energy Efficiency Standard for Social Housing.
- 3.3 The Energy Efficiency Standard for Social Housing (ESSH) was introduced by the Scottish Government to improve the energy efficiency of social housing by reducing energy consumption, fuel poverty and the emission of greenhouse gases. The ESSH2 has subsequently set a requirement that all social housing must meet an Energy Performance Certificate Band B rating by December 2032. The ESSH2 cost for Midlothian Council is currently estimated at £140m.
- 3.4 The Scottish Housing Quality Standard (SHQS) was introduced by the Scottish Government in 2004 to ensure that homes meet a minimum standard. The budget for the SHQS in Midlothian was secured and ring fenced for this ongoing work.
- 3.5 In 2021, Midlothian Council agreed to defer both the 2021/22 and 2022/23 rent increases of 3% following the impact of the Covid-19 pandemic. Prior to 2021 rental charges were increased annually. In November 2021 it was agreed that the next Council would consider a rent and investment strategy in order to deliver services, build new properties and carry out asset management works on existing properties.
- 3.6 The HRA reserve balance at 1 April 2022 was £28,084 million and on 1 April 2021 it amounted to £48,385 million. The HRA reserve sustained the referenced rent freezes whilst still budgeting for 17 sites in the Strategic Housing Investment Plan 2022/23-2026/27 which will result in 760 new Midlothian Council homes. Any additional, emerging sites will require additional funding beyond the current HRA reserves and Scottish Government funding.
- 3.7 Despite the success in significantly increasing the new supply of affordable housing in Midlothian, it is evident that the level of housing

need is increasing. The recent Housing Needs and Demand Assessment for the South East Scotland area projected that in order to meet existing housing need a total of 8,243 new affordable homes are required in Midlothian over the next 20 years.

- 3.8 The Town and Country Planning (Scotland) Act 1997 legislates that 25% of private housing developments should be affordable; these are often referred to as Section 75 sites. Midlothian Council officers track future Section 75 sites and are currently aware of 16 sites which will require 815 affordable housing units to be built of which approximately 500 are to be delivered in the period the emerging rent strategy covers. These are not budgeted for and will require additional funding if Midlothian Council is to further increase the number of council homes beyond those scheduled in the SHIP 2022/23 – 2026/27.
- 3.9 The Council partly funds new build sites from rental charges, including a premium of 25% on new build homes for the first 15 years they are let. Many of Midlothian Council's new build sites are approaching 15 years old, after which the rent will reduce to the level of the legacy stock homes. During the course of the rent strategy 2023/24 – 2025/26, 467 new build homes are due to have the premium removed and reduce annual rental income by £579,902. Removal of the premium will also have the added effect of reducing the average Midlothian Council rent charge.
- 3.10 Midlothian Council has undertaken a site search to review future housing land supply. An outcome of that was the selection of a number of small sites – largely garage or lock up sites – which could have potential for small scale infill affordable housing. Midlothian Council have submitted these as sites that could be taken forward through the Edinburgh & South East Scotland Housing Demonstrator Programme. This programme seeks to create a programme of housing that will be delivered to standardised typologies and performance standards with the use of offsite construction processes for a pipeline of sites across the city region. The approximately capacity of the Midlothian sites is 40 homes, with the overall regional pipeline approximately 320 homes. Midlothian Council intends to enter into a Memorandum of Understanding to embed collaborative working in advance of each City Deal local authority procuring feasibility work to their Demonstrator sites to a common specification with the same design team. The following table contains details of the proposed Housing Demonstrator sites in Midlothian.

Site name	Town	No. of homes	Build type
Eskvale Drive	Penicuik	6	Houses
Lomond Vale	Penicuik	4	Houses
Lyne Terrace	Penicuik	8	Houses
Blackcot Road	Mayfield	6	Houses
Stone Place	Mayfield	8	Houses

- 3.11 Temporary accommodation rent charges are currently in line with those of new build tenancies (plus a management fee).

4 Midlothian Council Rent Affordability

- 4.1 There is no formal guidance on how to define rent affordability. As per Scottish Government guidance, landlords should determine the balance between affordability for the tenants and costs of delivering services and property management. The Scottish Social Housing Charter defined standards and outcomes that all social landlords should aim to achieve:

- Social landlords manage all aspects of their businesses so that: tenants, owners and other customers receive services that provide continually improving value for the rent and other charges they pay
- Social landlords set rents and service charges in consultation with their tenants and other customers so that: a balance is struck between the level of services provided, the cost of the services, and how far current and prospective tenants and service users can afford them
- Tenants receive clear information on how rent and other money is spent, including details of any individual items of expenditure above thresholds agreed between landlords and tenants

- 4.2 Social rents should satisfy the national social rent benchmark assumption (More Homes Division – Scottish Government). The following table sets out relevant social rent benchmark assumptions between 2022/23 and 2025-26. Social Landlords are required to justify why a proposed rent is considered affordable if the benchmark assumption is exceeded by more than 5%. Approval of rents exceeding the suggested benchmark by more than 10% is given only in exceptional circumstances.

RSL social rent annual value assumptions for 2022-23 to 2025-26

BEDSPACES	2022-23	2023-24	2024-25	2025-26
2	£4,110	£4,192	£4,276	£4,362
3	£4,602	£4,694	£4,788	£4,884
4	£5,017	£5,117	£5,219	£5,324
5	£5,316	£5,422	£5,531	£5,641
6	£5,523	£5,633	£5,746	£5,861
7	£5,983	£6,103	£6,225	£6,349

- 4.3 In order to demonstrate the affordability of current and possible future rental charges, the tables below show an average weekly 1, 2, 3 and 4+ bedroom Midlothian Council house rent¹ and compares this to a gross household income based on a full time employee who receives the minimum wage (£9.50 per hour). It is suggested that when housing costs exceed 30%-35% of a household's income, the cost is judged to

¹ Midlothian Council statistics September 2022

be unaffordable. It shows in all cases that current rents are below 30%. The effect of different rent increases of between 2% and 5% also show that the rents would remain below 30% in this affordability test. It should be noted that the calculations do not include a national minimum wage increase beyond the current level.

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (1 bedroom)	£73.75	£75.23	£75.96	£76.70	£77.44
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	19%	20%	20%	20%	20%
Annual rent charge	£3,835	£3,912	£3,950	£3,988	£4,027

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (2 bedrooms)	£84.22	£85.90	£86.75	£87.59	£88.43
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	22%	23%	23%	23%	23%
Annual rent charge	£4,379	£4,467	£4,511	£4,555	£4,598

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (3 bedrooms)	£90.11	£91.91	£92.81	£93.71	£94.62
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	24%	24%	24%	25%	25%
Annual rent charge	£4,686	£4,779	£4,826	£4,873	£4,920

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (4+ bedrooms)	£98.51	£100.48	£101.47	£102.45	£103.44
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	26%	26%	27%	27%	27%
Annual rent charge	£5,123	£5,225	£5,276	£5,327	£5,379

- 4.4 The tables below show the same affordability test for Midlothian Council new build properties. It shows in all cases that current rents are below 30%. The effect of different rent increases of between 2% and 5% also show that the rents would remain below the 30% affordability criteria for the first year of the strategy period. A new build property with 4+ bedrooms and a 5% annual rent increase would require 32% of a household's income by the third year of the strategy.

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (1 bedroom)	£81.15	£82.77	£83.58	£84.40	£85.21
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	21%	22%	22%	22%	22%
Annual rent charge	£4,220	£4,304	£4,346	£4,389	£4,431

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (2 bedrooms)	£93.58	£95.45	£96.39	£97.32	£98.26
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	25%	25%	25%	26%	26%
Annual rent charge	£4,866	£4,963	£5,012	£5,061	£5,110

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (3 bedrooms)	£100.59	£102.60	£103.61	£104.61	£105.62
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	26%	27%	27%	28%	28%
Annual rent charge	£5,231	£5,335	£5,388	£5,440	£5,492

	Current rent level	2% increase	3% increase	4% increase	5% increase
Average weekly rent (4+ bedrooms)	£105.57	£107.68	£108.74	£109.79	£110.85
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	28%	28%	29%	29%	29%
Annual rent charge	£5,490	£5,599	£5,654	£5,709	£5,764

- 4.5 The table below compares current Midlothian Council rent levels to those of both our Local Authority peer group and the 3 largest Housing Associations operating within Midlothian². Whilst Midlothian Council rent levels are lower than neighbouring Housing Associations, they are higher than the Scottish average and the Local Authority peer group³.

² SHR figures 2021/22

³ Moray Council, Stirling Council, East Lothian Council, Perth&Kinross Council, Clackmannanshire Council, Angus Council, South Ayrshire Council, Shetland Council, East Renfrewshire Council, Orkney Council, East Dunbartonshire Council

	Midlothian Council	Melville Housing Association	Castlerock Edinvar Housing Association	Dunedin Canmore Housing Association	Local Authority Peer Group	Scotland
1 apt	76.64	N/A	73.24	107.04	61.90	75.95
2 apt	82.54	78.51	82.44	97.81	71.33	81.32
3 apt	84.87	84.95	98.84	107.53	77.33	84.18
4 apt	86.76	89.41	111.47	116.13	83.17	91.48
5 apt	91.15	98.02	127.01	123.2	92.06	100.74
Overall Average	84.39	87.72	98.6	110.34	77.16	86.73

- 4.5 As of September 2022, 2,650 Midlothian Council tenants pay full rent whilst 4,471 Midlothian Council tenants are in receipt of HB and/or Universal Credit.

5 Options for future rent setting

- 5.1 It is estimated, at present, that EESSH2 will require £140m. The following table illustrates the rent options available, the effect on the new build programme and the asset management works on existing properties e.g. a 4.1% rent increase would enable EESSH but no new build programme beyond that in the SHIP 2022/23-2025/26, whereas a 5.2% rent increase would enable EESSH and 500 new build units. The proposed rent increases are for three years: 2023/24 – 2025/26. These calculations are based on a three year new build completion rate and an eight year EESSH2 completion.

No. of new build units	Rent increase (new social housing and EESSH2)
0	4.1%
100	4.4%
200	4.6%
300	4.8%
400	5%
500	5.2%
1000	6%

- 5.2 The Scottish Housing Regulator recommends that landlords 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.

5.3 Midlothian Council intends to carry out an online rent consultation as this will be both cost effective and environmentally friendly. A clear and easy-to-understand rent options guide will be provided along with a survey. Paper copies will be available to those who request them. Council officers will also schedule a number of rent consultation drop-in sessions to enable face to face discussions with members of the public.

5.4 This report contains robust and credible data and forms a sound base on which to consult with Midlothian Council tenants and waiting list applicants on future aspirations for the new build programme whilst maintaining existing housing stock.

6 Report Implications (Resource, Digital and Risk)

6.1 Resource

None.

6.2 Digital

Midlothian Council officers will use existing digital resources. There are no digital implications.

6.3 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 prospective tenant views.

6.4 Ensuring Equalities (if required a separate IIA must be completed)

Equality is central to all housing and housing services delivery. An Integrated Impact Assessment (IIA) has been undertaken on the Local Housing Strategy 2021-26 to ensure that the needs of local communities have been fully considered. The SHIP reflects identified needs and draws on findings from the IIA when considering the implications flowing from the translation of strategic aims into housing policies.

6.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Background information/Links

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Provision of secure affordable housing will improve the quality of life for citizens and reduce the gap in health outcomes.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

A.4 Delivering Best Value

We manage all aspects of our business so that tenants and other customers receive services that provide continually improving value for the rent and other charges they pay.

A.5 Involving Communities and Other Stakeholders

A full consultation will be carried out with all Midlothian Council tenants and waiting list applicants. Stakeholders will be informed at regular Local Housing Strategy Forum meetings.

A.6 Impact on Performance and Outcomes

The proposed Rent Setting Strategy options support key objectives to keep rents affordable while improving and investing in our existing and new homes.

A.7 Adopting a Preventative Approach

The strategy for rent setting 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. Investment levels over the next five and ten years will be driven by three elements:

- Maintaining compliance with the Scottish Housing Quality Standard and Energy Efficiency Standard for Social Housing (ESSH);
- Meeting ESSH2 and the Scottish Government's carbon reduction targets;
- New supply

A.8 Supporting Sustainable Development

Good practice in relation to energy efficiency and sustainability is contained in the SHIP and Local Housing Strategy 2021/22 – 2025/26.

APPENDIX B

Background Papers/Resource Links (insert applicable papers/links)