



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 for 2023/24 – 2025/26.

2 Purpose of Report

- 2.1 This report presents the Rent Setting Strategy for Midlothian Council housing from April 2023 which will support the continuing investment in the Council's existing housing stock as well as a significant programme of refurbishment, while also determining the level of new build investment beyond the Council's current social housing programme commitment.

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3 Background

- 3.1 The Cost of Living (Tenant Protection) Scotland Bill was ratified on 6 October 2022 and legislated to temporarily restrict landlords from increasing the rent they charge on residential tenancies by capping rents and imposing a moratorium on evictions until 31 March 2023. This legislation has not been extended beyond 31 March 2023 for social landlords. This strategy concerns the rent levels from 1 April 2023 until March 2026.
- 3.2 As of 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 1,007 Midlothian Council new build homes planned between 2023/24 and 2027/28. There continues to be high demand for the Council's social housing despite significantly increasing the new supply of affordable housing; there are currently 4,627 households on the Council's waiting list(s) – including 637¹ 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, making sure homes are fit for the future with low emissions heating system and adapting and retrofitting existing homes so that the people who live in them can benefit from improved energy efficiency and decarbonised heating. The ESSH2 has subsequently set a requirement that all social housing must meet an Energy Performance Certificate Band B rating by December 2032. ESSH2 is being reviewed at present, however the cost to Midlothian Council to meet the current 2032 milestone 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 Midlothian Council subsequently 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 elected Council would consider a rent and investment strategy in order to deliver services,

¹ As of January 2023

build new properties and carry out asset management works on existing properties.

- 3.6 The HRA reserve balance on 1 April 2021 was £48,385 million and at 1 April 2022 was £28,084 million. The HRA reserve sustained the referenced rent freezes whilst still budgeting for 21 sites in the Strategic Housing Investment Plan 2023/24 - 2027/28 which will result in 1,007 new council homes. The SHIP also contains details of a further 8 sites without a confirmed developer which, once built, will result in a further 429 social homes. It should be noted that these sites are not currently funded and require additional funding beyond the present HRA reserves and Scottish Government funding.
- 3.7 Despite the success in significantly adding to 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 In October 2022, Midlothian Council agreed the Rent Consultation 2023/24 – 2025/26 which included an online survey (with paper copies available) and a number of drop-in information sessions.

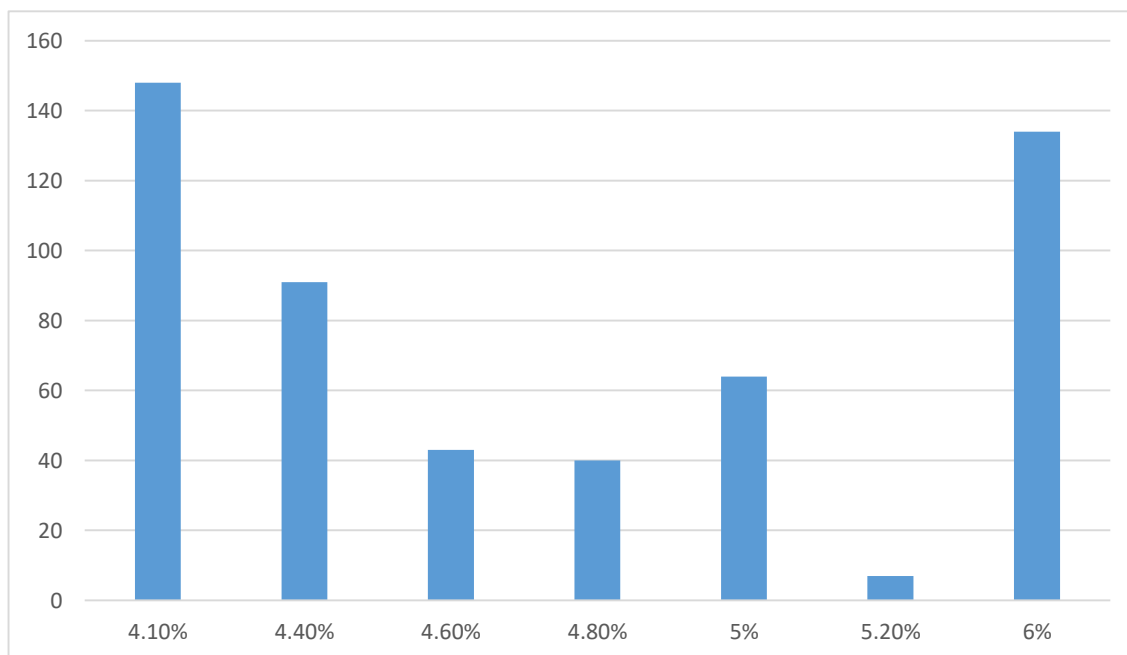
4 Midlothian Council Rent Consultation Results 2023/24 – 2025/26

- 4.1 The consultation was open to all tenants and waiting list applicants and was held between Monday 7 November 2022 and Friday 6 January 2023. 527 completed surveys were received and three residents attended the five face to face drop-in sessions that were held in libraries across Midlothian in November and December 2022. Table 1 lists the survey options and chart 1 details the results of the consultation.

Table 1: Rent consultation survey options

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

Chart 1: Summary of Consultation Responses



- 4.2 28% of respondents chose the smallest rent increase (4.1%) which would result in no further new builds beyond those already budgeted. 25% elected for a rent increase of 6%; 17% for an increase of 4.4%, 12% for a 5% rise, 8% for a 4.6% and 4.8% rise respectively and 1% opted for a 5.2% increase.
- 4.3 There are two concentrations of preferences therefore between opposite ends of the spectrum in relation to rent increases, with some support for the intermediate increases.

5 Midlothian Council Rent Affordability

- 5.1 Statutory obligations for consulting tenants on rent increases are set out in Section 25 of the Housing (Scotland) Act 2001. There is, however, 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

5.2 In December 2022, the Convention of Scottish Local Authorities (COSLA) issued a Statement of Intent confirming local authorities' commitment to keeping rent increases in April 2023 to an average of no more than £5 a week.

5.3 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 rent² 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 be unaffordable. It shows in all cases that current rents are below 30%.

5.4 The tables also show the effect of different rent increases of between 4.1% and 6% and illustrate that rents would remain below 30% in this affordability test.

5.5 Weekly price rises which contravene the COSLA Statement of Intent are shown in red font. Rises over 5% would contravene the COSLA Statement of Intent for tenants in properties with more than one bedroom e.g. a tenant in a 4+ bedroom property would pay an extra £5.12 per week if the rent rose by 5.2%.

Table 2: Impact of rent increases on one bedroom homes

	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (1 bedroom)	£73.75	£76.77	£76.99	£77.14	£77.29	£77.44	£77.59	£78.18
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380

² Midlothian Council statistics September 2022

Percentage of Income Spent on Rent	19%	20%	20%	20%	20%	20%	20%	21%
Annual rent charge	£3,835	£3,992	£4,003	£4,011	£4,019	£4,027	£4,035	£4,065
Weekly increase (£)	N/A	£3.02	£3.24	£3.39	£3.54	£3.69	£3.84	£4.43

Table 3: Impact of rent increases on two bedroom homes

	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (2 bedroom)	£84.22	£87.67	£87.93	£88.09	£88.26	£88.43	£88.60	£89.27
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	22%	23%	23%	23%	23%	23%	23%	23%
Annual rent charge	£4,379	£4,559	£4,572	£4,581	£4,590	£4,598	£4,607	£4,642
Weekly increase (£)	N/A	£3.45	£3.71	£3.87	£4.04	£4.21	£4.38	£5.05

Table 4: Impact of rent increases on three bedroom homes

	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (3 bedroom)	£90.11	£93.80	£94.07	£94.23	£94.44	£94.62	£94.80	£95.52
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	24%	25%	25%	25%	25%	25%	25%	25%
Annual rent charge	£4,686	£4,878	£4,892	£4,900	£4,911	£4,920	£4,930	£4,967
Weekly increase (£)	N/A	£3.69	£3.96	£4.12	£4.33	£4.51	£4.69	£5.41

Table 5: Impact of rent increases on four + bedroom homes

	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (4+ bedroom)	£98.51	£102.55	£102.84	£103.04	£103.24	£103.44	£103.63	£104.42
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	26%	27%	27%	27%	27%	27%	27%	27%
Annual rent charge	£5,123	£5,333	£5,348	£5,358	£5,368	£5,379	£5,389	£5,430
Weekly increase (£)	N/A	£4.04	£4.33	£4.53	£4.73	£4.93	£5.12	£5.91

Impact on Rents for New Build Homes

- 5.6 The tables below show the same affordability test for Midlothian Council new build properties as those rents are 25% higher than legacy builds. It shows in all cases that current rents are below 30%. The tables also show the effect of different rent increases of between 4.1% and 6% and illustrate that rents would remain below 30% in this affordability test. It is important to note that a new build property with 4+ bedrooms and a 4.8% annual rent increase would require 32% of a household's income by the third year of the strategy which is within the affordable range of the calculation.
- 5.7 The tables also illustrate the effects of the proposed rent increases on weekly and annual rent charges.
- 5.8 Weekly price rises which contravene the COSLA Statement of Intent are shown in red font and shaded box. Table 7 shows that a rent increase of 6% would contravene the statement for tenants in properties with two bedrooms as they would pay, on average, an additional £5.61 per week. Tables 8 and 9 illustrate that rises of 5% and over would contravene the COSLA Statement of Intent for tenants in properties with three or more bedrooms e.g. a tenant in a 3 bedroom property would pay an extra £5.03 per week if the rent rose by 5%.
- 5.9 Table 9 shows that, on average, tenants in new build properties with four or more bedrooms would pay an extra £5.07 per week if the rent rose by 4.8%. It should be noted that as this is an average calculation, in effect only those in semi-detached and detached new build properties would pay more than an extra £5 per week.

Table 6: Impact of rent increases on one bedroom homes (new builds)

	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (1 bedroom)	£81.15	£84.48	£84.72	£84.88	£85.05	£85.21	£85.37	£86.02
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	21%	22%	22%	22%	22%	22%	22%	23%
Annual rent charge	£4,220	£4,393	£4,405	£4,414	£4,423	£4,431	£4,439	£4,473
Weekly increase (£)	N/A	£3.33	£3.57	£3.73	£3.90	£4.06	£4.22	£4.87

Table 7: Impact of rent increases on two bedroom homes (new builds)

	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (2 bedroom)	£93.58	£97.42	£97.70	£97.88	£98.07	£98.26	£98.45	£99.19
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	25%	26%	26%	26%	26%	26%	26%	26%
Annual rent charge	£4,866	£5,066	£5,080	£5,090	£5,100	£5,110	£5,119	£5,158
Weekly increase (£)	N/A	£3.84	£4.12	£4.30	£4.49	£4.68	£4.87	£5.61

Table 8: Impact of rent increases on three bedroom homes (new builds)

	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (3 bedroom)	£100.59	£104.71	£105.02	£105.22	£105.42	£105.62	£105.82	£106.63
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	26%	28%	28%	28%	28%	28%	28%	28%
Annual rent charge	£5,231	£5,445	£5,461	£5,471	£5,482	£5,492	£5,503	£5,545
Weekly increase (£)	N/A	£4.12	£4.43	£4.63	£4.83	£5.03	£5.23	£6.04

Table 9: Impact of rent increases on four or more bedroom homes (new builds)

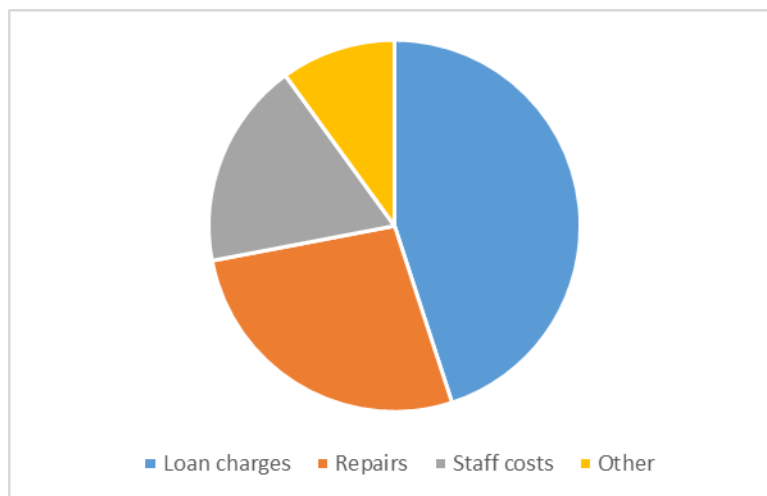
	Current rent level	4.1% increase (0 new builds)	4.4% increase (100 new builds)	4.6% increase (200 new builds)	4.8% increase (300 new builds)	5% increase (400 new builds)	5.2% increase (500 new builds)	6% increase (1000 new builds)
Average weekly rent (4+ bedroom)	£105.57	£109.90	£110.22	£110.43	£110.64	£110.85	£111.06	£111.90
Minimum Wage Income (gross) – 40 hours/week	£380	£380	£380	£380	£380	£380	£380	£380
Percentage of Income Spent on Rent	28%	29%	29%	29%	29%	29%	29%	29%
Annual rent charge	£5,490	£5,715	£5,731	£5,742	£5,753	£5,764	£5,775	£5,819
Weekly increase (£)	N/A	£4.33	£4.65	£4.86	£5.07	£5.28	£5.49	£6.33

5.10 As of January 2023, there are 7,161 Midlothian Council tenants, 4,553 of which are in receipt of Housing Benefit and/or Universal Credit.

5.11 The chart below illustrates how the income received from rent charges is disbursed. 45% of rental income is spent repaying loan charges (for new social housing, open market purchases, EESSH and SHQS), 27% is allocated to housing repair costs, 18% is towards staff costs and

10% is spent on 'other' which includes void property rental loss and insurance payments.

Chart 2: Rental Income Spent 2022/23



5.12 This report contains robust and credible data and forms a sound base to inform the recommendation for future rent setting.

6 Recommendation for future rent setting 2023/24 – 2025/26

6.1 As shown in the consultation results, 28% of respondents chose a 4.1% annual rent increase and 25% voted for a 6% annual rent increase. Midlothian Council has a growing waiting list of households in need of an affordable home. While Midlothian Council could seek to rely on its affordable housing partners such as registered social landlords to deliver all affordable homes in Midlothian, this is likely to result in a significant fall in the number of homes being delivered in Midlothian, as it is unlikely alternative developers would have the capacity to take on the volume of sites the Council would be forsaking. An additional consideration is that RSL rents are higher than those of Midlothian Council. The outcome of not funding any future affordable homes programme is therefore a decline in the development of new affordable homes in Midlothian, longer waiting lists and higher rents for those in housing need.

6.2 A 4.8% rent increase sits between the two concentrations of preferences at the upper and lower end of the spectrum. This would allow an intermediate approach which would fund EESSH2 and an additional 300 social housing units being built. This would satisfy the affordability tests demonstrated and the COSLA Statement of Intent to keep rent increases to an average of no more than £5 a week.

- 6.3 The Strategic Housing Investment Plan 2023/24 – 2027/28 contains details of eight sites which will arise as a result of the affordable housing requirement of the Town and Country Planning (Scotland) Act 1997. This act legislates that 25% of private housing developments should be affordable and are often referred to as Section 75 sites. These eight sites do not have a confirmed developer and will result in a further 429 homes, 343 of which are scheduled for completion during the period covered by this rent strategy. Allowing for project slippage beyond 2025/26, Midlothian Council is likely to have the capacity to develop these homes as a result of a 4.8% rent increase, subject to ongoing monitoring of the HRA reserve balance.

7 Report Implications (Resource, Digital and Risk)

7.1 Resource

The current approved Housing Revenue Account Capital Plan provides for investment of £177.069 million over the period 2023/24 – 2025/26, of which £110.644 million is earmarked for completion of Phase 2 – Phase 4 of the New Social Housing Programme.

The proposed 4.8% rent increase per annum for 2023/24 – 2025/26 and the longer term assumption of 4.1% to 2031/32 will continue to support our current investment in new social housing and in existing stock as well as provide additional investment of £77.640 million for a further phase of New Social Housing and £140 million for Energy Efficiency Standard for Social Housing (EESH) works for completion over the period 2023/24-2031/32. This additional investment would fund approximately 300 new homes and contribute towards reducing emissions in our current housing stock. The resultant Housing Revenue Account Revenue Budget and Capital Plan 2023/24 – 2025/26 of the proposed rent increase is presented to February Council for approval in a separate finance report.

7.2 Digital

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

7.3 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 in accordance with the views of tenants and prospective tenants.

7.4 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.

7.5 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 was undertaken with all Midlothian Council tenants and waiting list applicants invited to contribute. Stakeholders were informed at regular Local Housing Strategy Forum meetings. Council Officers briefed Community Councils, tenant organisations, community groups and the Health and Social Care Partnership.

A.6 Impact on Performance and Outcomes

The Rent Setting Strategy supports 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 (SHQS) and Energy Efficiency Standard for Social Housing (ESSH);
- Meeting ESSH2 and the Scottish Government's carbon reduction targets;
- New housing 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)