

Midlothian Strategic Housing Investment Plan 2018/19 – 2022/23

Report by Kevin Anderson, Head of Customer & Housing Services

1 Purpose of Report

This Report summarises the key points set out in Midlothian's Strategic Housing Investment Plan 2018/19 – 2022/23 which details the priorities for the investment in new affordable housing in Midlothian.

2 Background

2.1 The Scottish Government requires that all local authorities prepare a Strategic Housing Investment Plan (SHIP) that identifies the main investment priorities for affordable housing.

This was previously required every two years but is now required on an annual basis as the Scottish Government requires greater detail on the Affordable Housing Supply Programme in each area towards meeting its target of supporting the development of 50,000 new affordable homes during the period 2016/17 – 2020/21.

The SHIP sets out the Council's approach to promoting affordable housing investment and meeting housing supply targets identified in the SESplan.

2.2 The SHIP acknowledges that this year has seen a significant milestone for Midlothian Council as it surpassed 1,000 new build homes since 2006. It also completed specifically designed accommodation for Midlothian residents who have complex care needs at Teviot Court, Penicuik. It also notes a total of 2,432 homes have been built or purchased as affordable rented housing, with most of this being housing for rent.

Despite this significant investment in the previous decade, waiting list applications have doubled from 2,465 in 2007 to 4,925 in 2017 indicating increased household formations and a need for social housing as more people are unable to afford open market home rentals or purchases.

2.3 To address this need for more affordable housing the Strategic Housing Investment Plan details sites for 1,860 new affordable homes to be built between 2018/19 and 2022/23, of which

- Unit types: 1,649 are general needs homes and 211 are specialist provision homes.

- Units built form: 1,753 will be new build housing; 80 will be ‘off the shelf purchases’ and 27 will involve construction works to existing buildings.
- Tenure type: 1,574 will be social rent, 220 for Mid Market Rent (MMR) and 43 for Low Cost Home Ownership (LCHO). A further 23 are planned for unsubsidised MMR. The most common tenure is social rented housing, which reflects the fact that the affordable housing tenure with the highest demand is social rented housing.
- 371 units are expected to receive additional funding due to them meeting the ‘greener homes’ standard – this number is likely to increase as renewable technology becomes more commonplace in new housing.
- Section 5 in the SHIP shows how sites have been prioritised for development. No development is considered as a low priority and priorities may change in later years. Sites and numbers are subject to change and many are dependent on planning approval.

2.4 Section 6 shows that In order to meet the 50,000 homes target the Scottish Government has been increasing the allocation of grant funding in Midlothian.

For example in Midlothian in 2014/15 the total level of grant funding for affordable housing was £3.78 Million. In 2017/18 it will be a minimum of £5.831 Million and is set to increase to a minimum of £9.186 Million by 2020/21. A total minimum level of grant funding of £31.229 Million has been allocated between 2017/18 and 2020/21.

However, £94.812 million of Scottish Government grant funding is required by the Council and RSLs to deliver the identified number of 1,860 units over the next 5 years. The required level of grant funding to deliver this number of units greatly exceeds the stated level of grant available. Council Officers will continue to discuss resource requirements with the Scottish Government to ensure that projects receive appropriate levels of funding.

2.5 It is recognised that significant infrastructure works are required on some sites; Section 7 provides information on the Scottish Government’s Housing Infrastructure Fund which is open to funding bids by developers and landowners to support the acceleration of building new homes on sites in their ownership.

2.6 The SHIP acknowledges that the Edinburgh and South East Scotland City Region Deal will support further investment and collaboration between Councils, the Scottish Government and UK Government in the following ways:

- Supporting a 10 year affordable housing programme across the region with Scottish Government grant funding.
- Supporting local authority borrowing and share financing risk of infrastructure delivery for key development sites.
- Provision of a £50 Million housing infrastructure fund of predominantly private sector loans to be spent on projects that will unlock housing in strategic development sites across the region.
- Support for increased use of offsite construction methods.

- Prospects to establish a council-owned regional housing company to deliver mid market and private rented sector housing.

Resource Implications of future new build phase and HRA Rent Strategy

- 3.1** The SHIP highlights resource issues which impact upon the new build programme. Elected members have already approved funding for the first three phases of the new council house building programme. As noted in the Strategic Housing Investment Plan, consultation with tenants and the housing list applicants is required before a firm commitment can be made to a 4th phase which would provide a total of 2,000 new build council homes since 2006.

This is due to the need to consider the affordability of future rent increases which are required in order that a further phase of development beyond the projected 1,524 units that can currently be funded. The SHIP identifies sites for 894 units for council housing and officers are investigating further site options in order that 1,000 new build council homes could be developed during the next five years. The Housing Service has also been engaging with Planning colleagues on ways that the proposed revisions to Supplementary Guidance on Planning Obligations and Affordable Housing can better support the Council's new build programme.

- 3.2** Options will be provided to tenants during 2018 and a Report on this consultation will be provided to Elected Members before a decision is taken on future rent charges for 2019/20 and beyond. Midlothian Council house rents remain significantly below the *Scottish average for social rented housing* (£74.44). 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. This average rent charge figure is inflated by the 1,000 new build homes which have a time-limited 25% rent premium charge.

- 3.3** 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.”

- 3.4** Midlothian Council currently allows for £524.495 million in Rental Income in the Housing Revenue Account Financial Model from 2017/18 to 2032/33, this assumes that the New Social Housing Rental Premium of 25% will start to reduce after a ten year period by 2% per annum until the rental charge converges with the General Housing Stock Rental Charge, convergence takes 11 years and allows reserves to remain at the Financial Guidelines recommended balance of approximately £2 million in 2032/33.

The financial year 2018/19 will be the first year where it is proposed that rental charges for new build properties will begin to converge. This will affect properties

at Bill Russell Grove, with further estates to follow in 2019/20. By 2028 all 1,052 current new builds have their rental costs reduced, moving towards being charged an average rent charge. This poses a number of challenges for the Housing Service:

- The Council is required to consult with tenants on a regular basis with tenants on the rent charge and rent increase that they are required to pay. For tenants who live in a new build house it could be confusing for them as they will need to decide on different rent increase options. It would be a complicated administrative process to undertake rent consultation with new build tenants who may be affected by rent convergence over different time periods.
- The length of time it would take for the rental charge for a new build property to converge with existing properties is estimated at 21 years. It may be difficult to justify charging a 'new build' premium on a property over 20 years old.
- It is administratively onerous to set different rental increases for different houses built in different years and to do so would require an upgrade to the housing management system.

3.5 As a result, four options are suggested for rent charges to new build tenants:

Option A: Current policy 2% convergence

This does not address the challenges identified above.

Option B: Retain Premium for additional 5 years then cease

Based on Midlothian Council's current Rent Strategy, if the rent premium of 25% were to remain for an additional five years after the ten year period then reverts to the standard rent charge rather than converge gradually this would generate approximately the same amount of income of £524.304 million over the life of the Financial Model. Although the profiling of when the rental income received will change, reserves would still remain at the recommended level due to the very similar level of rental income being generated over a 15 year period, as shown in Chart 1 below.

Option C: Cease to operate a Rent Premium after 10 Years

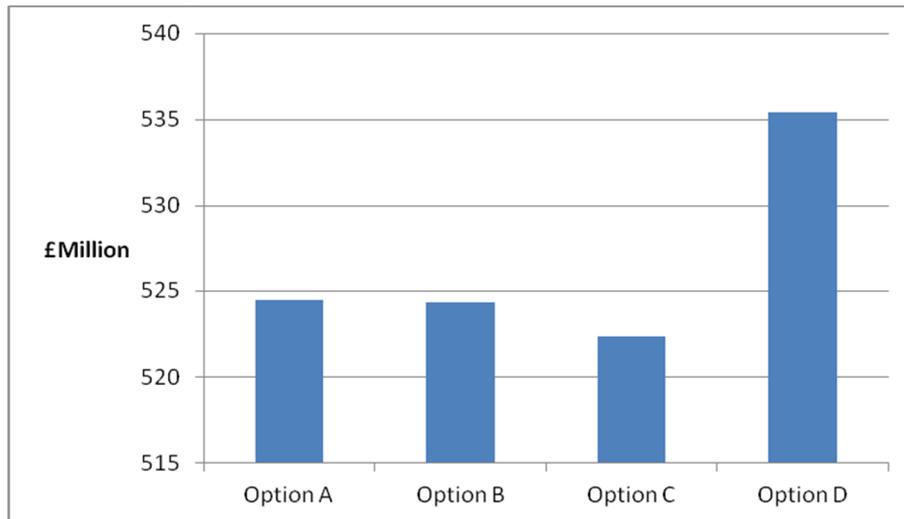
If the rent premium were to cease after the ten year period then this would reduce the rental income received by £2.127 million to £522,368 million over the life of the Financial Model which would effectively wipe out the recommended reserve position.

Option D: Retention of Rent Premium

If the rent premium of 25% were to be retained after the ten year period indefinitely then this would result in the rental income received increasing by £10.920 million to £535.415 million over the life of the Financial Model resulting in reserves far exceeding the recommended level. Whilst it is possible that the extra income could

be used for further new build development, this would result in a significant gap between rent charged for older properties compared to recent builds and potential concerns about the affordability of rent charges over the long term.

Chart 1: Projected HRA Rental Income 2017/18 – 2032/33



3.6 The Housing Service can consult on the proposals with tenants as part of the consultation on the future rental charges that are planned to take place during 2018. The preference is to recommend Option B which does not require any additional expenditure by new build tenants and ensures greater clarity in the approach to rent setting in future years for all tenants in existing and new build properties.

Report Implications

4.1 Resource

The SHIP notes the intention to undertake 80 open market purchases during the next five years. This helps to meet housing need in existing estates or in areas with a lack of development opportunities. This is an increase from 30 units which was agreed by Council in December 2016. An additional £5 Million is required to undertake these purchases. Long term financial modelling demonstrates that the Housing Revenue Account can sustain this extra investment.

4.2 Risk

If the Council does not support the development of new affordable housing, the level of housing need will continue to increase with negative consequences for the community.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

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

This Strategy aligns with Midlothian's Single Outcome Agreement and with corporate priorities in the Health & Social Care Directorate.

4.4 Impact on Performance and Outcomes

The SHIP supports the following Local Housing Strategy Outcomes, these are:

- 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.

4.5 Adopting a Preventative Approach

Setting out a programme for development in the SHIP enables the investment of affordable housing to be carried out in a balanced approach in order that any investment takes into account the needs of the community. This includes those with particular needs such as Extra Care Housing for older people or those Complex Physical or Learning Disabilities where provision of suitable housing would require less resourcing in comparison to traditional models of care. There has been a long-standing policy initiative to reduce reliance upon institutional settings including long stay learning disability hospitals, psychiatric hospitals, and long stay hospitals and care homes for frail older people. The success of this shift to community based care has been heavily dependent upon the contribution of Housing providers.

The vital role of housing was reflected in the requirement upon IJBs to include a Housing Contribution Statement (HCS) in their Strategic Plans. The HCS is to be seen as the 'bridge' between the Local Housing Strategy and the Strategic Commissioning Plan.

The Midlothian Housing Contribution Statement provides an analysis of local demographic features including the changing numbers of older people and those with disabilities and long term illness. It also explains what this analysis means for the provision of special needs housing, adaptations and supporting the objective of reducing inequalities.

Over the past 12 months the implication of the severe reductions in the Council budget has led to a further review of local models of care. This has identified the scope for delivering more cost effective services through the increased provision of specialist housing.

4.6 Involving Communities and Other Stakeholders

Extensive consultation was carried out for the LHS involving the input of key stakeholders, including local organisations such as housing associations and private landlords as well as the wider community. During consultation, it was widely recognised that investment in affordable housing was a key Local Housing Strategy priority. All developing Housing Associations have discussed their development plans with Council Officers. Private sector developers were also given the opportunity to discuss their future development plans with Council Officers.

4.7 Ensuring Equalities

An equalities impact assessment has been completed for the SHIP. No negative consequences were identified and specific actions within the SHIP are recognised as having positive outcomes for equality groups, such as those with a disability and the elderly.

4.8 Supporting Sustainable Development

An SEA Pre Screening was undertaken in respect of the Strategy, following this it is expected that a full screening will not be required. In addition, good practice in relation to energy efficiency and sustainability is highlighted in the document.

4.9 IT Issues

None

5 Recommendations

It is recommended that Council:

- a) Approves submission of the Strategic Housing Investment Plan 2018/19 – 2022/23 to the Scottish Government.

- b) Approves plans for consultation with tenants and housing list applicants during 2018 in order to agree a rent strategy for 2019/20 and beyond which could enable a 4th phase of new development for 1,000 additional new council homes.
- c) Approves the proposal to consult on an amendment to the rent convergence policy as outlined in Section 3 of this Report.
- d) Agrees to a programme of 80 open market purchases of properties for use as council housing.

Date: 7 November 2017

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Background Papers:

Appendix 1: Strategic Housing Investment Plan 2018/19 – 2022/23