

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

Report by Kevin Anderson, Executive Director - Place

1. Recommendation

It is recommended that Council considers whether to defer the planned 3% rent increase, which is the final year of the current Rent Setting Strategy 2019/20 – 2021/22, due to be implemented on 1 April 2021, for one year until 1 April 2022.

2. Purpose of the Report

This report considers the affordability of council house rents in the context of the Covid -19 pandemic impact upon households, and will determine the level of investment to the existing stock and new build development in council housing beyond the Council's current programme.

The current Rent Strategy of the 3% rent increase over the period of 2019/20 – 2021/22 has provided investment for a total of 1,000 additional council homes, 30 temporary accommodation units and investment in Environmental and Fire Safety Improvements in the resultant Housing Revenue Account (HRA) Capital Plan for 2018/19 to 2023/24.

Further to this final year's planned rent increase, a Rent Strategy consultation proposal is subsequently due to be reported to Council in March, 2021 to determine the optimum rent increase that will allow us to continue to deliver our objectives and that also allows us to model the affordability impact of different levels of increase.

The rent increase notices scheduled for despatch to tenants on 9 February are now placed on hold following members concerns in reconsidering this matter raised at the BTSG meeting of 8 February, 2021. However, one calendar months' notice is legally required to be given to tenants of any rent change, which requires a decision at this Council meeting for any deferral.

Date: 9 February 2021

Report Contact: Kevin Anderson, Executive Director

Tel No. 0131 271 3102

Email: kevin.anderson@midlothian.gov.uk

3. Background

As at 31 March 2020, the Council owned 6,919 houses and 858 garages. The rental income received through the Council's Housing Revenue Account (HRA) was £28.631m for dwelling rents for the year ended 2019/20. Midlothian Council's Strategic Housing Investment Plan (SHIP) was approved by Midlothian Council in December, 2020. It noted that the Council had surpassed 1,000 new build council homes built since the start of the new social housing programme in 2006 and the Council has continued to invest in building new social housing. Phase 1 of the Council's Housing Programme provided 864 additional houses within Midlothian over a 7 year period, Phase 2 is targeted to provide an additional 412 homes, and a further 789 homes are targeted to be built as part of Phases 3 and 4. There continues to be high demand for the Council's social housing as 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 4,088 households currently on the Housing List – including 821 homeless households. In order to address this rapid increase in housing need the supply of new affordable housing across all tenures needs to increase.

In addition to receiving grant funding from the Scottish Government, the Council has, following tenant engagement and consultation, increased rental charges annually in order to support funding for investment and new council housing from modelling of the impact of a range of options regarding rent increases on the ability to deliver the current level of services, the plans for building new properties and carrying out asset management works on existing properties.

4. Midlothian Council Rent Affordability

Due to the continuing Covid19 pandemic, and as we enter a recession, tenants will face further uncertainty and some most likely continue to struggle with financial commitments including payment of rent and there is a risk that continuing to increase rents may lead to applicants and tenants on lower incomes being unable to afford the rent charge. A recent study undertaken by The Joseph Roundtree Foundation found the level of poverty in Scotland is closely related to housing costs.

The annual rent increases are currently applicable on 1 April each year and the principal concern for the HRA is the potential for loss of income from increased rent arrears. There are at present 4159 (60%) council tenants receiving assistance from either Housing Benefit or Universal Credit towards their housing costs and a rent increase is mitigated through benefit entitlement to those households.

Rent arrears have experienced a monetary increase of £0.5 million, which is approximately 31% since the 1 April 2020, with an increase over the same period of 225 or 8% in the number of tenancies in arrears.

Engagement with tenants to help them meet their obligations, access benefit entitlements and support to sustain their tenancies continues together with recovery action short of eviction. Members will be aware that legislation has been extended to ensure no evictions can take place until March 2021 other than for cases where there is anti-social or criminal behaviour.

Taking the current climate into account whilst 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 1,2,3 and 4+ bedroom Midlothian Council house rent and compares this to a gross household income based on a full time employee who receives the minimum wage (£8.72 per hour). It shows in all cases that current rents are below the 30% -35% level of households who receive at least the minimum wage. Even if the current rent increase of 3% was applied for 2021/22 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:

Average Weekly Rent by type and size 2020/21	Minimum Wage Income	% of Income Spent on Rent
1 bedroom - £66.34	£314	21.1%
2 bedroom - £74.85	£314	23.8%
3 bedroom - £80.69	£314	25.6%
4 + bedroom - £83.45	£314	26.6%

Table 2 provides a comparison of average rents (all property sizes and types) for 2019/20, which shows rent levels comparing favourably alongside both our peer group and the 3 largest housing associations operating within Midlothian.

Table 2:

Landlord	Average weekly rent 2019/20
Midlothian Council	£74.05
Scottish Housing Regulator (local authorities and housing associations)	£80.76
All local authorities	£76.67
Small local authorities (including Midlothian)	£71.42
Housing Associations	£86.65
Melville Housing Association	£85.32
Castle Rock Housing Association	£92.95
Dundedin Canmore Housing Association	£97.04

Feedback provided via the Association of Local Authority Chief Housing Officers indicates a majority of local authorities proposing below inflation rent increases for 2021/22.

5 Resource

The recent Scottish Government's Budget funding announcement confirmed a budget of £711.6m for the 2021/22 Affordable Housing Supply Programme (AHSP); a reduction from this year, the bulk of which is a reduction in Financial Transactions, which normally supports affordable home ownership and investment in charitable bonds. The capital reduction, which is of primary interest to our Council development programme, is only of 5.6% to £667.6 million in 2021-22 and reflects the levelling of expenditure over the next five years.

The budget allocation across Scotland's local authorities is expected to be confirmed before the end of the financial year, however given that the overall AHSP budget is in line with Scottish Government expectations we do not anticipate this having a significant impact on the assumptions we have used in drafting next year's affordable housing programme.

The current rent strategy for Midlothian's Housing Capital Plan to remain sustainable is 3% in 2021/22 and 0.5% thereafter over the life of the financial model (2022/23 – 2035/36) leaving a projected reserve £1.486 million in 2035/36, the financial model currently provides for the following;

- £164.957 million for completion of Phase 2, 3 & 4 of New Social Housing, including backdated developer contribution adjustment; £128 million for the purchase of 800 new build units from private developers
- £1.631 million for the Refurbishment of Jarnac Court into temporary accommodation units;
- £15.906 million to purchase approximately 104 Buyback properties;
- £32 million for Environmental Improvements including provision for sprinkler systems;
- £1.3 million for Bonnyrigg district heating scheme meter replacement ;
- Investment of £66 million in existing properties to bring them up to Scottish Housing Quality Standard;
- Scottish Government Affordable Housing Subsidy of £38.761 million;
- Reduction in temporary accommodation rent charge to new build rate as well as a reduction in the garage rent charges.

Assuming the Council wishes to continue with the above investment, deferring the 3% increase to 2022/23 will result in the HRA reserve going into deficit of £2.510 million in 2035/36 requiring an rent increase of 0.6% over the remaining life of the model (2022/23-2035/36) for the capital plan to remain sustainable, this would result in the projected reserve remaining at a reasonable level of £1.251 million in 2035/36.

6 Report Implications (Resource, Digital and Risk)

6.1 Resource

There are no additional resource implications arising from this report.

6.2 Digital

None.

6.3 Risk

There is a risk that continuing to increase rents may lead to housing applicants and tenants on lower incomes being unable to afford the rents. However, 60% of council tenants receive housing costs contributions from either Housing Benefit or Universal Credit to mitigate against a rent increase.

If the Council does not support the development of new affordable housing, the level of housing need will increase with negative consequences for Midlothian's communities.

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. 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.

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 draft consultative 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.

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Provision of increased 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

The priority housing projects identified in the approved SHIP will deliver a combination of cost, quality and sustainability to meet future customers' requirements.

A.5 Involving Communities and Other Stakeholders

Due to Covid -1 9 restrictions and the available timescale for this decision of any rent increase deferral there has not been an opportunity to consult on this specific proposal with tenants or stakeholders.

The Rent Setting Strategy 2019/20 – 2021/22 consultation undertaken 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.

A.6 Impact on Performance and Outcomes

The SHIP supports the outcomes set out in the draft consultative Local Housing Strategy 2021-26. 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.

A.7 Adopting a Preventative Approach

The strategy for rent setting for a three year period ensured 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 (EESH);
- Meeting EESSH2 and the Scottish Government's carbon reduction targets; and
- New supply.

A.8 Supporting Sustainable Development

Good practice in relation to energy efficiency and sustainability is contained in the SHIP.

Background Papers:

Strategic Housing Investment Plan 2021 – 2026