

Housing Revenue Account – Rent Setting Strategy 2016/17 – 2018/19

**Report by Eibhlin McHugh, Joint Director, Health and Social Care &
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1. Purpose of the Report

- 1.1** This report proposes a strategy for future rental charges for council housing from 2016, which in turn will support ongoing investment in the Council's Housing stock and will determine the level of new build investment beyond the Council's current phase 2 Social Housing Programme.

2. Background

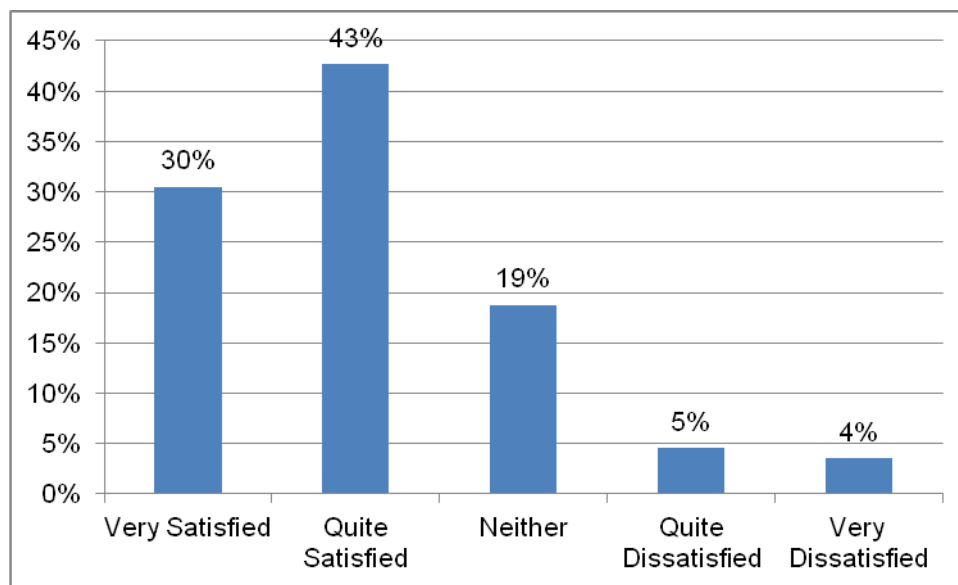
- 2.1** Phase 1 of the Social Housing Programme has provided 864 additional Council Homes within Midlothian over a period of 7 years and within the total budget of £108 million. The Phase 2 Housing Programme currently plans to deliver a further 420 Council homes by the end of 2017 within the approved total development budget of £64 million. The affordability and delivery of the new build programmes together with the ongoing investment in the existing housing stock were a direct consequence of the rent strategies adopted by Council from 2006 to 2011. In particular the borrowing costs associated with the new build programmes is funded from the rental stream from the new and existing properties.
- 2.2** In February 2011 the Council agreed a rent increase of 6% per annum from 2011/12 to 2015/16. The long term forecast incorporated in the business case to support the phase 2 new build programme assumes a minimum rent increases in future years of 4% per annum. This level of increase is required to fund the historic investment in the new build programme together with investment to ensure housing stock is maintained in at or above the Scottish Housing Quality Standard (SHQS).
- 2.3** In 2011 the Scottish Housing Regulator was critical of Midlothian Council's approach to rent consultation. It judged a five year rent setting period to be too long a duration to set rent increases and was critical of the low number of consultation responses in 2010.
- 2.4** These issues were acknowledged in the plans for 2015 consultation and officers had also taken into account the following good practice guidance from the Scottish Housing Regulator in relation to rent setting. This advises that Registered Social Landlords should:
- Demonstrate transparency on costs and a vigorous pursuit of value for money;
 - Have a mature dialogue with tenants about costs versus service levels;

- Give tenants genuine options and choices during rent consultations;
- Consider future affordability when determining annual rent increases;
- Consider tenants' ability to pay their rent over the longer term;
- Be clear on what is affordable for tenants and;
- Be clear on how tenants views are taken into account.

3. Affordable Housing

- 3.1** Midlothian Council has worked with partners to increase affordable housing provision in a variety of ways. Midlothian Council embarked on one of the most significant council house building programmes of any local authority in Scotland, with 940 units completed on 19 sites in the 8 largest settlements, with a further 8 sites planned. The Council has also supported housing association partners to develop 428 new affordable homes, with plans for 7 further sites. The Council has funded new build from rental charges, including a premium of 25% on new build homes for the first 10 years they are let, together with some grant funding from the Scottish Government.
- 3.2** 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 Need and Demand Assessment for the SESPlan area projected that in order to meet the existing housing need a total of 2,730 new affordable homes are required in Midlothian. However, the level of housing need is projected to continue to rise during the SESplan period until 2032.
- 3.3** Without continued investment in new affordable housing during this period it is anticipated that significant increases in the number of homeless households requiring temporary accommodation and higher levels of overcrowding and households being unsuitably housed for longer periods
- 3.4** The Council's most recent Tenant Satisfaction Survey, undertaken in 2014, was sent to all Council tenants and received 1,125 responses (17% of tenants). Chart 1 below shows the majority of respondents (73%) from this Survey were satisfied their rent provided good value for money compared to 9% indicating dissatisfaction.

Chart 1: Satisfaction with Value for Money



3.5 In terms of how Midlothian Council rents compare to other landlords, Chart 2 shows the average weekly rent for all Scottish Councils (and Glasgow Housing Association) with housing stock. It indicates that Midlothian Council's average weekly rent charge of £59.81 was the seventh lowest in Scotland and remained below the Scottish average of £66.08. In addition, Chart 3 shows the level of rent increases applied by Scottish Councils with housing stock in 2015. It shows that Midlothian Council's rent increase of 6% for 2015/16 was the second highest in Scotland, with only West Dunbartonshire Council having a higher rent increase (7%). The average rent increase for all RSLs (Councils and Housing Associations) in Scotland was 2.7%

3.6 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. Housing Services have calculated that a Midlothian Council tenant living in a 3 bedroom house who is a full time employee earning the living wage (£7.85 per hour) or minimum wage (£6.70 per hour) would still be paying below 30%-35% of their income. Even if the option of maximum rent increase consulted on was applied for the next 3 years (6% increase per year) a householder earning either the minimum wage or living wage would continue to pay less than 35% of their gross income to pay in rent, even if their earnings did not increase over that same period.

Chart 2: Average Rent, by Local Authority Landlord 2014/15 (Latest available)

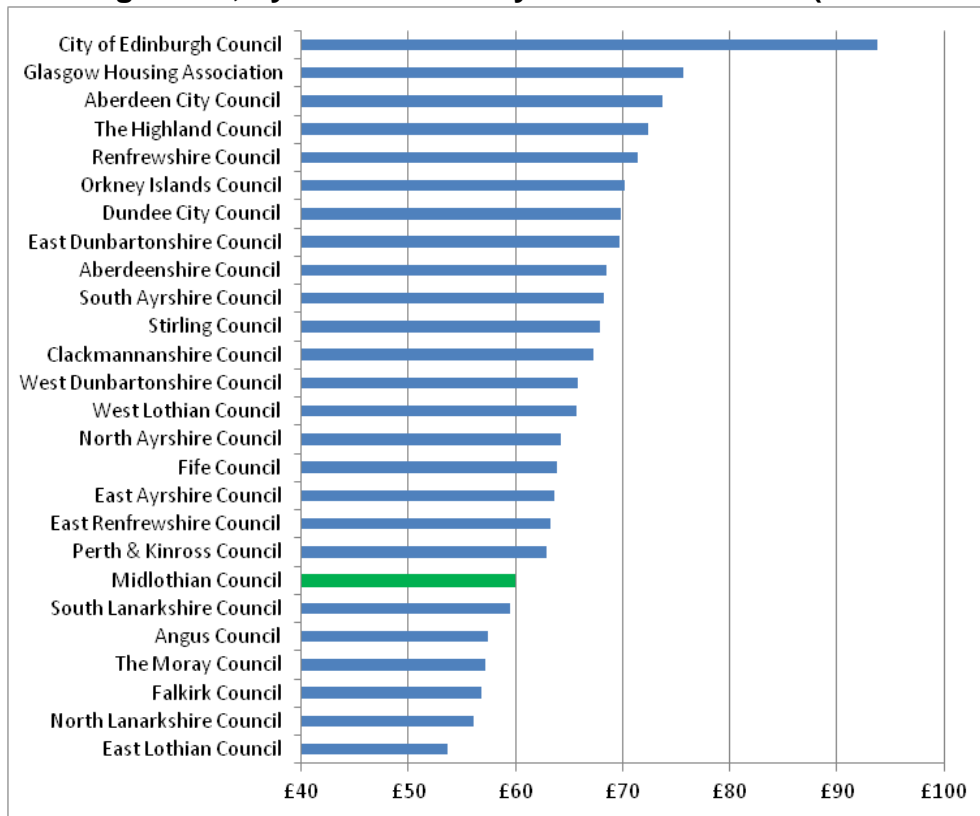
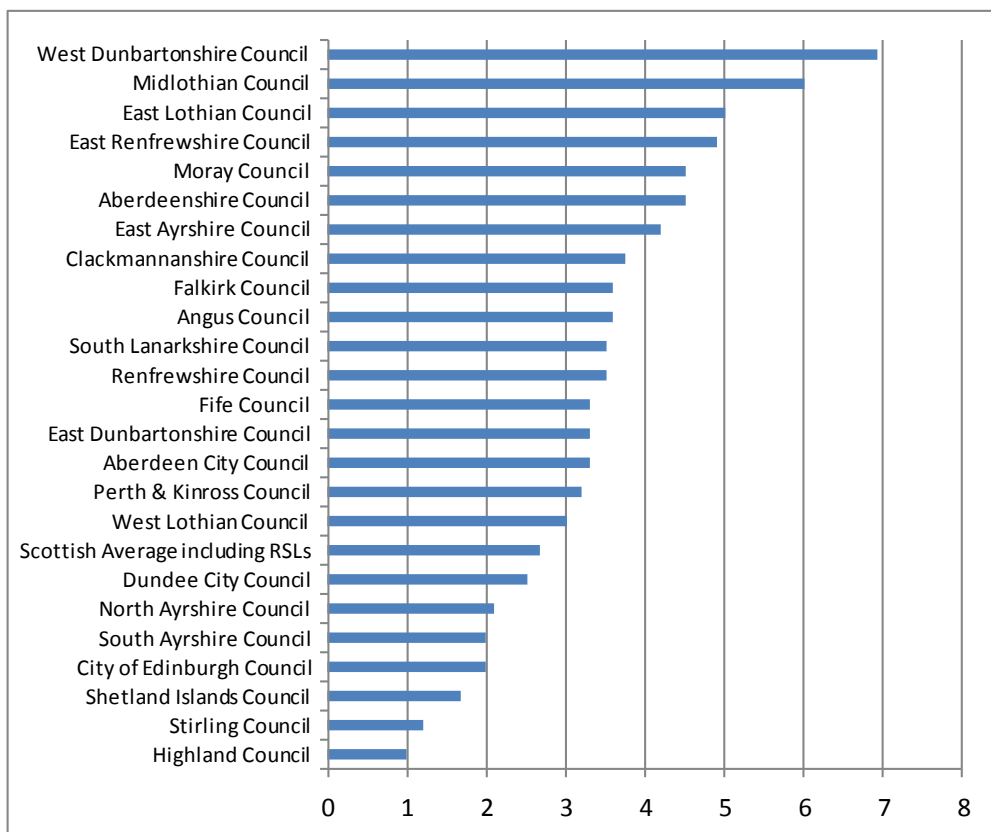


Chart 3: Annual Rent Increase (%) for Scottish Councils 2015/16



4. Engagement and Consultation

- 4.1** An extensive consultation exercise with tenants and prospective tenants (housing applicants) was carried out as detailed in Appendix 1. As part of the consultation exercise all 11,334 tenants and prospective tenants were sent a Survey asking for their views about future rent increases between 2016/17 and 2018/19. A total of 1,268 responses were received, which consisted of 836 tenants and 432 prospective tenants which is a response rate of 11%. This is a significant improvement compared to the previous consultation undertaken in 2010. During that consultation period Midlothian Council received 417 returns – therefore in 2015 a 204% increase in Survey returns has been achieved. This level of response compares well to other Registered Social Landlords (RSLs) who have undertaken consultation on rent setting.
- 4.2** Those surveyed were also asked some questions about new council housing. Respondents were asked the question “Do you agree with the Council’s commitment to building new council housing to help reduce the number of applicants on the waiting list?”. A total of 94% of respondents agreed with this. Those surveyed were also asked if they agreed with a 25% premium placed on new build houses for the initial 10 years of their letting. A total of 61% of respondents agreed with this decision, 25% disagreed and 14% were unsure.

5 Rent choice options

- 5.1** Tenants and prospective tenants were then 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 being built in Midlothian. The options were:

- Option 1: 4% - which would not provide any additional council housing.
- Option 2: 4.5% - which would result in 100 additional council homes.
- Option 3: 5% - which would result in 240 additional council homes.
- Option 4: 6% - which would result in 400 additional council homes

Under all of the options the planned SHQS investment in existing housing stock would be maintained.

- 5.2** Table 1 shows the preferences of respondents.

Option 1 was the least popular choice with 179 respondents (15%) choosing this.

Option 2 was the second most common choice with 313 respondents (27%).

Option 3 was chosen by 309 respondents (also 27%).

Option 4 was the most popular choice, with 353 respondents (31%) selecting this option.

Consequently, 85% of respondents chose an option which provides for additional investment in council housing.

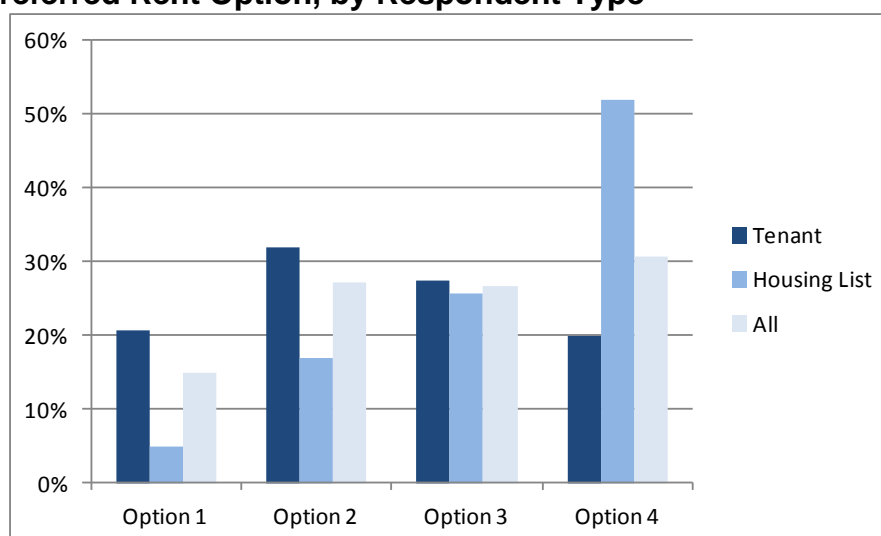
Table 1: Preferred Rent Option 2016/17 – 2018/19

Rent Option	Option 1 4%	Option 2 4.5%	Option 3 5%	Option 4 6%
Number	179	313	309	353
%	15%	27%	27%	31%

5.3 However, there are significant differences between the views of current and prospective tenants. Chart 4 shows that Option 4 was the least popular option for tenants who responded (21% of tenants) while it was the most popular choice for prospective tenants (52%). This could be attributed to prospective tenants feeling they would benefit directly from new homes being built as it would improve their chances of being allocated a home. However, the majority of current tenants recognised that additional housing was important and accepted that this would require rent increases. The most commonly selected option by tenants was Option 2, with 32% of tenants selecting this, followed by Option 3, with 27% of tenants selecting this. Option 3 was the second most commonly selected option by prospective tenants (26%).

5.4 Given the strong support for additional investment in council housing by tenants and prospective tenants, Option 1 (a 4% increase over 3 years which would not provide any new council housing) should not be considered. Option 3 would provide a compromise between investment in new housing and recognising the views of tenants in particular who are concerned about the affordability of their rent. A total of 48% of tenants who responded chose a rent increase of either 5% or 6%, while 78% of prospective tenants chose a rent increase of 5% or 6%.

Chart 4: Preferred Rent Option, by Respondent Type



6 Report Implications

6.1 Resource

The Housing Revenue Account Capital Plan, approved on 22nd September 2015 provides for a total investment of £80.439 million over the period 2015/16 to 2018/19, of which £45.495 million is earmarked for the New Social Housing Programme. This brings the total budget for completion of 1,256 properties to £171.154 million.

The proposed 5% rent increase per annum for the next three years and the longer term assumption of 4% thereafter would continue to support current investment in New Social Housing and also in existing stock as well as provide additional investment of £36 million for a further Phase of New Social Housing with reserves falling to a contingent level of £2.760 million in 2029/30. The additional investment would fund approximately 240 homes; however the exact number will be dependent on factors such as site costs, the size and type of homes constructed.

At Council on 23rd of June, an enquiry was made if funding of £2 million could be transferred from the HRA to the General fund to fund Footpath Repairs. The HRA reserve is fully committed to fund the New Social Housing project and investment in existing stock and is projected to fall to a contingent level of £2.760 million by 2029/30. Funding this project would therefore require either a reduction in continuing investment in the existing Capital Programme or future phases of the New Social Housing Programme.

6.2 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 prospective tenant views.

6.3 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:

- ☐ Early years and reducing child poverty
- ☐ Economic Growth and Business Support
- ☐ Positive destinations for young people.

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.

- ☐ Community safety
- x Adult health, care and housing

- ☒ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

6.4 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.

6.5 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.

6.6 Involving Communities and Other Stakeholders

The attached appendix provides detail on the consultation which has been undertaken. In addition, the rent setting strategy was discussed at the September Local Housing Strategy and Homelessness Working Group to ensure engagement with other stakeholders such as local RSLs, Shelter and the Scottish Government

6.7 Ensuring Equalities

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

6.8 Supporting Sustainable Development

Not Applicable

6.9 IT Issues

Not Applicable

7. Recommendation

It is recommended that Council:

- a) Note the positive response to consultation with tenants and prospective tenants in relation to agreement on future rent setting;
- b) Agree to a three year increase in rents and related charges of 5% per annum with effect from 1st April 2016 until 31st March 2019;
- c) To incorporate a provision of £36 million in the HRA Capital Plan for a phase 3 new build programme of approx 240houses;
- d) Agree to a Members Seminar to discuss potential sites for development and an appropriate housing mix for the 3rd phase of new council housing development;
- e) to consider to reprioritise to fund footpath works from the General Fund.

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