

Housing Revenue Account – Rent Setting Strategy 2022/23**Report by Kevin Anderson, Executive Director - Place****Report for Decision****1. Recommendation**

It is recommended that Council

- a) Approves the Rent Setting Strategy proposal for 2022/23 following the decision taken at the February 2021 Council meeting to defer the 3% rent increase proposed for 2021/22 until 2022/23.
- b) Approves the revision to the financing of capital expenditure as detailed in section 4 of the report

2. Purpose of the Report

This report presents a Rent Setting Strategy that will allow us to continue to deliver our objectives to keep rents affordable while improving and investing in our existing and new homes. It aims to secure governance for the change in the funding approach outlined to allow the next Council to consider a rent and investment strategy for the whole term of office post May 2022.

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3. Background

Midlothian Council's Strategic Housing Investment Plan (SHIP) was approved by Council on 16 November, 2021. 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. 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 4,296 households currently on the Housing List. In order to address this rapid increase in housing need the supply of new affordable housing across all tenures needs to increase and at the same time maintain investment in the existing housing stock particularly investment to support the shift to zero carbon.

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 deliver the current level of services and invest in the plans for building new properties and carrying out asset management works on existing properties.

In February 2021, Council decided to defer the 3% rent increase proposed for 2021/22 to 2022/23 in the context of the Covid-19 pandemic impact and its effects upon households. The current financial model allows for rent increases of 1.1% from 2023/24 to 2036/37, this ensures that our current Housing Revenue Account (HRA) Capital Plan will continue to remain sustainable. Future capital investment, such as additional zero carbon initiatives and further phases of new social housing will be addressed when reviewing the rent strategy next year.

4. Options for future rent setting

Financial modelling has recently been undertaken in respect of the Housing Revenue Account to ensure that the council continues to adequately maintain its housing stock and meet set standards including maintaining stock to the Scottish Housing Quality Standard and Energy Efficiency Standards for Social Housing and enable the development of further phase of new council houses.

The Housing Revenue Account (HRA) reserve has continued to grow year on year, mainly due to, higher than projected levels of affordable housing subsidy, favourable interest rates on debt charges and more recently the impact of Covid-19 pandemic lockdown disruption in the construction industry causing delays in the capital programme. The HRA reserve balance at 31 March 2021 was £48.385 million and is projected to increase by £5.378 million to £53.763 million by 31 March 2022, this equates to almost two years rental income and shows the HRA can comfortably sustain another rent increase deferral for 2022/23.

The financial modelling completed has also identified the opportunity to utilise a further £25m of the reserve in this financial year to directly finance the approved capital investment plans (in addition to the £17m already proposed for the direct purchase of properties).

This approach will reduce the HRA capital financing requirement, the external borrowing requirement and reduce the HRA reserve. The way in which interest is allocated across the loans fund advances does however, mean there is an adverse impact on General Fund of circa £400k in the current year. This may be partly mitigated by actual capital expenditure being less than is currently projected for General Fund, so reducing the overall loan charges. If approved the impact across both HRA and General Fund will be reflected in the Quarter 3 monitoring report to Council on 15 February 2022 and in the revised HRA Capital plan.

This action would result in a projected HRA reserve at 31/3/2022 of £28.8m, reducing further by 31/3/2024 to £22.2m. The modelling also reinforces that this reserve is required to finance the approved investment plans. There is no requirement to apply the rent increase of 3% deferred from April 2021.

The approach outlined will allow next Council to consider a rent and housing investment strategy for the whole term of office post May 2022.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

The recommended change to utilise the HRA reserve in 2021/22 to fund HRA Capital Expenditure incurred this financial year as opposed to relying on borrowing will result in the following:

- A reduction in the Council's overall capital financing requirement resulting in a reduction in external borrowing. There will also be an increase in internal debt charges of approximately £0.449 million in 2021/22 attributable to the General Fund due to the current method used for interest apportionment, financial monitoring shows the general fund can support the additional charge.; and
- The remaining HRA reserve continues to be committed to funding the exiting new build commitments and supports the sustainability of both the HRA and the affordability of tenants rents.

5.2 Digital

None.

5.3 Risk

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.

5.4 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.

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

The previous Rent Setting Strategy consultation undertaken included an in-person survey, meetings with Midlothian Tenant Panel and other Tenant Groups. In addition, the Rent Setting Strategy was discussed at the The Local Housing Strategy 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 proposed 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 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: