

## **Housing Revenue Account – Rent Setting Strategy 2026/27-2028/29**

**Report by Kevin Anderson, Executive Director Place**

### **Report for Decision**

#### **1 Recommendations**

- 1.1 It is recommended that Council;
- i. Notes the Rent Setting Strategy for 2026/27 – 2028/29 and
  - ii. Approves a rent increase of 5.42% per annum for the period 2026/27 - 2028/29

#### **2 Purpose of Report**

- 2.1 This report presents the Rent Setting Strategy for Midlothian's Council housing from April 2026 which will support the continuing investment in the Council's existing housing stock as well as a significant programme of refurbishment and the Energy Efficiency Standard programme, while also determining the level of new build investment beyond the Council's current social housing programme commitment.

**Date:** 16 January 2026

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### 3 Background

- 3.1 In April 2023 the Council last set the rent levels for the period 2023/24 – 2025/26. This strategy concerns the rent levels from 1 April 2026 until 31 March 2029.
- 3.2 As of January 2026, the Council owned 7,478 permanent homes and 1,267 garages and lock ups. The rental income received through the Council's Housing Revenue Account (HRA) for 2024/25 was £36,218,737. Midlothian Council has carried out a new social housing programme since 2006 and continues to invest in building new social housing. The most recently approved Strategic Housing Investment Plan (SHIP) contains details of a further 673 Midlothian Council new build homes planned between 2026/27 and 2030/31. There continues to be high demand for the Council's social housing despite significantly increasing the new supply of affordable housing; there are currently 6,514 households on the Council's waiting list(s) – including 736<sup>1</sup> 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 (EESH) was introduced by the Scottish Government to improve the energy efficiency of social housing and the statutory target that by 2040 no more than 5% of households in each local authority area should be in fuel poverty. Meeting EESH is a statutory requirement for all Scottish local authorities. The EESH cost for Midlothian Council is currently estimated at £169m.
- 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 with £5.652 million remaining as of January 2026.
- 3.5 There is budget of £249.275 million for completion of 925 units under phases 3-5 of new social housing, 479 of which have been completed. The Housing Revenue Account reserve was £31.910 million on 1 April 2025, which is committed to support the future years debt charges associated with completion of these phases. Additional resource is required for three sites allocated to Midlothian Council in the most recent SHIP, which will result in 184 additional properties.
- 3.6 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 most recent Housing Needs and Demand Assessment for the South East Scotland area projected that in order to

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<sup>1</sup> As of January 2026

meet existing housing need in Midlothian, 412 new affordable homes are required every year for 20 years.

- 3.7 In October 2025, Midlothian Council agreed the Rent Consultation Strategy 2026/27 – 2028/29 which included an online survey (with paper copies available) and a number of drop-in information sessions.

#### 4 Midlothian Council Rent Consultation Results 2026/27 – 2028/29

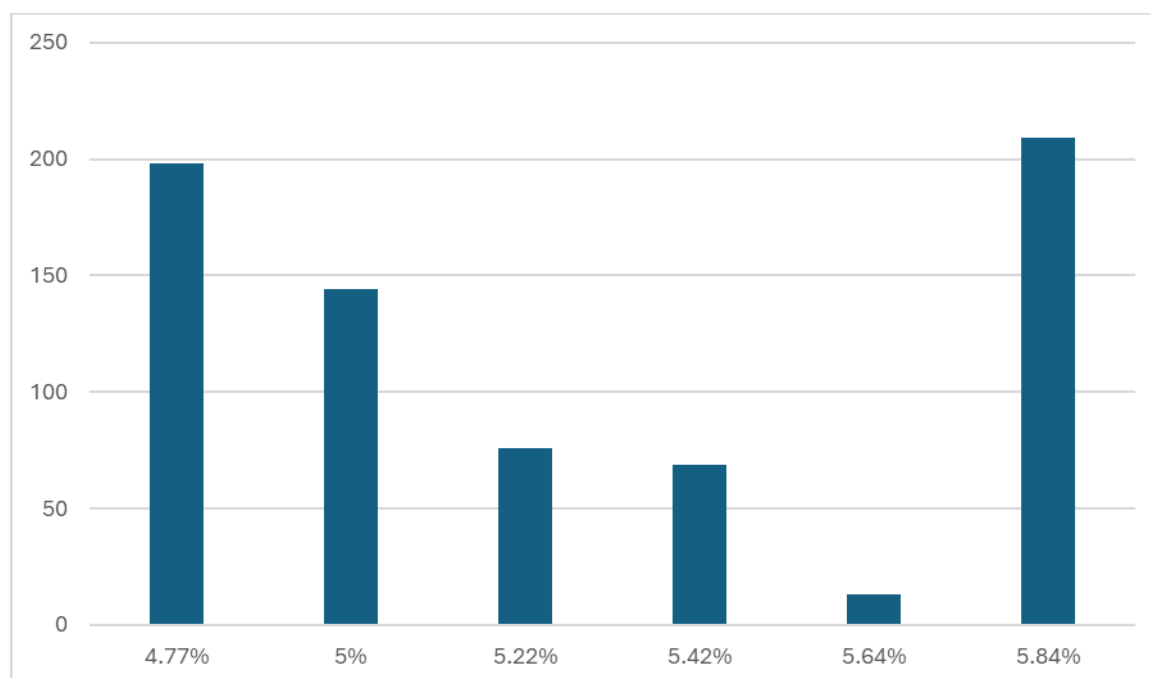
- 4.1 The consultation was open to all tenants and waiting list applicants and was held between Monday 3 November 2025 and Friday 12 December 2025. 727 surveys were completed, and three residents attended the four drop-in sessions that were held in libraries across Midlothian in November 2025. Eighteen surveys were completed by people who were neither tenants nor waiting list applicants; those choices were removed leaving 709 legitimate results.

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
4.77%	0
5%	100
5.22%	200
5.42%	300
5.64%	400
5.84%	500

**Chart 1: Summary of Consultation Responses**



4.2 The results of the Midlothian Council Rent Consultation Survey are as follows:

- 29% of respondents chose the largest rent increase (5.84%) which would result in 500 new council properties being built beyond those which are already budgeted for.
- 28% of respondents chose the smallest rent increase (4.77%) which would result in no further new builds beyond those already budgeted for.
- 20% chose a 5% rent increase which would result in 100 new council properties being built beyond those which are already budgeted for.
- 11% chose a 5.22% rent increase which would result in 200 new council properties being built beyond those which are already budgeted for.
- 10% chose a 5.42% rent increase which would result in 300 new council properties being built beyond those which are already budgeted for.
- 2% chose a 5.64% rent increase which would result in 400 new council properties being built beyond those which are already budgeted for.

4.3 There are two concentrations of preferences 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 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 rent and compares this to a gross household income based on a full-time employee working 36 hours per week who receives the national living wage (currently £12.21 per hour, rising to £12.71 in April 2026 ). 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 23%.

5.3 The tables also show the effect of different rent increases of between 4.77% and 5.84% between 2026/27 and 2028/29 and illustrate that rents would remain below 30% in this affordability test. The highest proposed rent increase of 5.84% would still be judged as affordable for a property with 4+ bedrooms in 2028/29 with 25% of income spent on rent.

**Table 2: Impact of rent increases on one-bedroom homes**

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (1 bedroom)	£76.36	£80.00	£80.18	£80.35	£80.50	£80.67	£80.82
Minimum wage income (gross) – 36 hours/week	£439.56 <sup>2</sup>	£457.56 <sup>3</sup>	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of income spent on rent	17%	17%	18%	18%	18%	18%	18%
Annual rent charge	£3970.72	£4160	£4169.36	£4178.20	£4186	£4194.84	£4202.64
Weekly increase (above current rent charge)	N/A	£3.64	£3.82	£3.99	£4.14	£4.31	£4.46
Average weekly rent in 2028/29 (final year of strategy)	N/A	£87.81	£88.40	£88.96	£89.46	£90.03	£90.54
Percentage of income spent on rent in 2028/29	N/A	19%	19%	19%	20%	20%	20%

<sup>2</sup> National Living Wage 2025/26

<sup>3</sup> National Living Wage 2026/27

**Table 3: Impact of rent increases on two-bedroom homes**

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (2 bedroom)	£86.16	£90.27	£90.47	£90.66	£90.83	£91.02	£91.19
Minimum Wage Income (gross) – 36 hours/week	£439.56	£457.56	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of Income Spent on Rent	20%	20%	20%	20%	20%	20%	20%
Annual rent charge	£4480.32	£4694.04	£4704.44	£4714.32	£4723.16	£4733.04	£4741.88
Weekly increase (above current rent charge)	N/A	£4.11	£4.31	£4.50	£4.67	£4.86	£5.03
Average weekly rent in 2028/29 (final year of strategy)	N/A	£99.09	£99.74	£100.37	£100.94	£101.58	£102.15
Percentage of income spent on rent in 2028/29	N/A	22%	22%	22%	22%	22%	22%

**Table 4: Impact of rent increases on three-bedroom homes**

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (3 bedroom)	£92.05	£96.44	£96.65	£96.86	£97.04	£97.24	£97.43
Minimum Wage Income (gross) – 36 hours/week	£439.56	£457.56	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of Income Spent on Rent	21%	21%	21%	21%	21%	21%	21%
Annual rent charge	£4786.6	£5014.88	£5025.80	£5036.72	£5046.08	£5056.48	£5066.36
Weekly increase (above current rent charge)	N/A	£4.39	£4.60	£4.81	£4.99	£5.19	£5.38
Average weekly rent in 2028/29 (final year of strategy)	N/A	£105.86	£106.56	£107.24	£107.84	£108.52	£109.14
Percentage of income spent on rent in 2028/29	N/A	23%	23%	23%	24%	24%	24%

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

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (4+ bedroom)	£96.79	£101.41	£101.63	£101.84	£102.04	£102.25	£102.44
Minimum Wage Income (gross) – 36 hours/week	£439.56	£457.56	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of Income Spent on Rent	22%	22%	22%	22%	22%	22%	22%
Annual rent charge	£5033.08	£5273.32	£5284.76	£5295.68	£5306.08	£5317	£5326.88
Weekly increase (above current rent charge)	N/A	£4.62	£4.84	£5.05	£5.25	£5.46	£5.65
Average weekly rent in 2028/29 (final year of strategy)	N/A	£111.32	£112.05	£112.75	£113.40	£114.11	£114.75
Percentage of income spent on rent in 2028/29	N/A	24%	24%	25%	25%	25%	25%

## Impact on Rents for New Build Homes

5.4 The tables below show the same affordability test for Midlothian Council new build properties as those rents are 25% higher than older builds. It shows in all cases that current rents are below 29%.

5.5 The tables also show the effect of different rent increases of between 4.77% and 5.84% between 2026/27 and 2028/29 and illustrate that rents would remain below 32% in this affordability test. A new build property with 4+ bedrooms and a 5.84% 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.

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

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (1 bedroom)	£93.40	£97.86	£98.07	£98.28	£98.46	£98.67	£98.85
Minimum Wage Income (gross) – 36 hours/week	£439.56	£457.56	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of Income Spent on Rent	21%	21%	21%	21%	22%	22%	22%
Annual rent charge	£4856.8	£5088.72	£5099.64	£5110.56	£5119.92	£5130.84	£5140.20
Weekly increase (above current rent charge)	N/A	£4.46	£4.67	£4.88	£5.06	£5.27	£5.45
Average weekly rent in 2028/29 (final year of strategy)	N/A	£107.42	£108.12	£108.81	£109.42	£110.11	£110.73
Percentage of income spent on rent in 2028/29	N/A	23%	24%	24%	24%	24%	24%

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

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (2 bedroom)	£107.70	£112.84	£113.09	£113.32	£113.54	£113.77	£113.99
Minimum Wage Income (gross) – 36 hours/week	£439.56	£457.56	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of Income Spent on Rent	25%	25%	25%	25%	25%	25%	25%
Annual rent charge	£5600.4	£5867.68	£5880.68	£5892.64	£5904.08	£5916.04	£5927.48
Weekly increase (above current rent charge)	N/A	£5.14	£5.39	£5.62	£5.84	£6.07	£6.29
Average weekly rent in 2028/29 (final year of strategy)	N/A	£123.86	£124.68	£125.46	£126.18	£126.97	£127.69
Percentage of income spent on rent in 2028/29	N/A	27%	27%	27%	28%	28%	28%

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

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (3 bedroom)	£115.78	£121.30	£121.57	£121.82	£122.06	£122.31	£122.54
Minimum Wage Income (gross) – 36 hours/week	£439.56	£457.56	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of Income Spent on Rent	26%	27%	27%	27%	27%	27%	27%
Annual rent charge	£6020.56	£6307.60	£6321.64	£6334.64	£6347.12	£6360.12	£6372.08
Weekly increase (above current rent charge)	N/A	£5.52	£5.79	£6.04	£6.28	£6.53	£6.76
Average weekly rent in 2028/29 (final year of strategy)	N/A	£133.15	£134.03	£134.87	£135.65	£136.50	£137.27
Percentage of income spent on rent in 2028/29	N/A	29%	29%	29%	30%	30%	30%

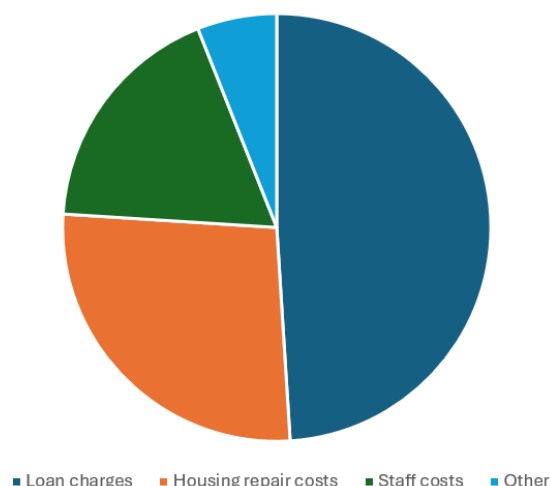
**Table 9: Impact of rent increases on four or more-bedroom homes (new builds)**

	Current rent level	4.77% increase (0 new builds)	5% increase (100 new builds)	5.22% increase (200 new builds)	5.42% increase (300 new builds)	5.64% increase (400 new builds)	5.84% increase (500 new builds)
Average weekly rent (4+ bedroom)	£121.31	£127.10	£127.38	£127.64	£127.89	£128.15	£128.39
Minimum Wage Income (gross) – 36 hours/week	£439.56	£457.56	£457.56	£457.56	£457.56	£457.56	£457.56
Percentage of Income Spent on Rent	28%	28%	28%	28%	28%	28%	28%
Annual rent charge	£6308.12	£6609.2	£6623.76	£6637.28	£6650.28	£6663.8	£6676.28
Weekly increase (above current rent charge)	N/A	£5.79	£6.07	£6.33	£6.58	£6.84	£7.08
Average weekly rent in 2028/29 (final year of strategy)	N/A	£139.51	£140.44	£141.31	£142.13	£143.01	£143.82
Percentage of income spent on rent in 2028/29	N/A	30%	31%	31%	31%	31%	31%

5.6 As of January 2026, there were 7,478 Midlothian Council tenants, 1,079 of which were in receipt of Housing Benefit assistance towards their housing costs and 3,657 tenancies were registered for Universal Credit claims.

5.7 The chart below illustrates how the income received from rent charges is disbursed. 49% 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 6% is spent on 'other' which includes void property rental loss and insurance payments.

**Chart 2: Projected Rental Income Spent 2026/27**



5.8 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 2026/27 – 2028/29**

6.1 As shown in the consultation results, 29% of respondents chose a 5.84% annual rent increase and 28% voted for a 4.77% 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. In addition, 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 Additional resource is required for three sites allocated to Midlothian Council in the most recent SHIP, which will result in 184 additional properties.

6.3 A 5.42% 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 ESSH2 and an additional 300 social housing units being built.

6.4 The Strategic Housing Investment Plan 2026/27 – 2030/31 contains details of six 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 six sites do not have a confirmed developer due to an RSL development strategy change and will result in a further 134 homes, all of which are scheduled for completion during the period covered by this rent strategy. Allowing

for project slippage beyond 2028/29, Midlothian Council will have the capacity to develop some of these homes as a result of a 5.42% rent increase.

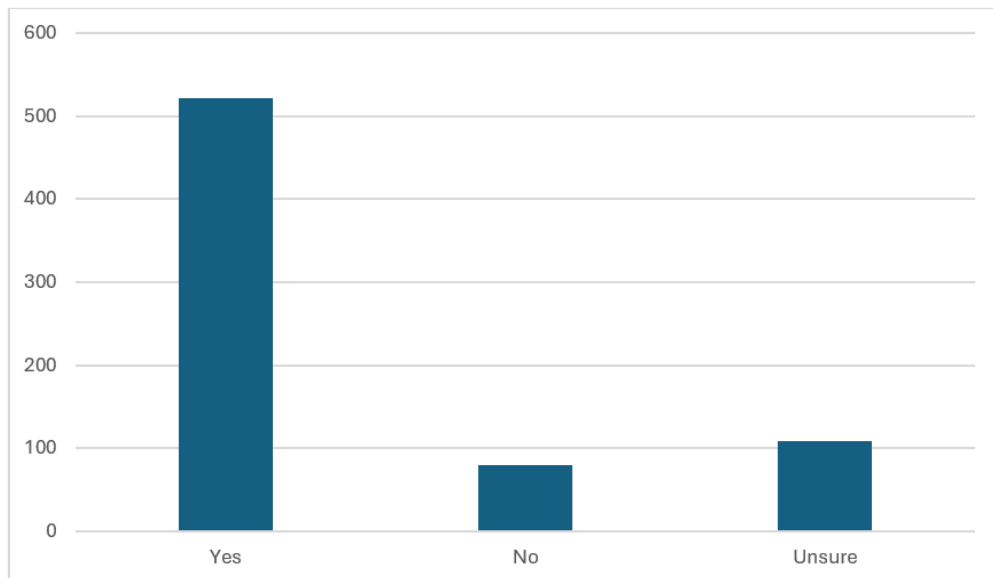
## 7 Additional Question

Elected members requested that an additional question be added to the rent consultation survey to ascertain tenant and waiting list applicant opinion on restricting council home allocations to people who live or reside in Midlothian.

709 legitimate responses were received with the results shown in chart 3 below.

521 respondents (73%) voted yes, 108 (15%) were unsure and 80 (11%) voted no.

**Chart 3: If a rent increase is implemented to fund new Council housing developments, should all subsequent Council house allocations (new builds and existing) be restricted only to applicants who reside in or have strong links with Midlothian?**



## 8 Report Implications (Resource, Digital and Risk)

### 8.1 Resource

The current approved Housing Revenue Account Capital Plan provides for investment of £142.027 million over the period 2026/27-2028/29, of which £61.810 million is earmarked for completion of Phase 3-Phase 5 of the New Social Housing Programme and £41.054 million for Energy Efficiency Standard for Social Housing (ESSH) works.

The proposed 5.42% rent increase per annum for 2026/27-2028/29 and the longer-term assumption of 4.77% to 2031/32 will continue to support

investment in new social housing and in existing stock, including Energy Efficiency Standard for Social Housing (ESSH) works. This additional investment would fund approximately 300 new homes including approximately 21 open market purchases. The resultant Housing Revenue Account Revenue Budget and Capital Plan 2026/27-2028/29 of the proposed rent increase is presented to February Council for approval in a separate report.

## **8.2 Digital**

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

## **8.3 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.

## **8.4 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.

## **8.5 Additional Report Implications (See Appendix A)**

See Appendix A

## **Appendices**

### **Appendix A – Additional Report Implications**

## 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 (EESH);
- Meeting EESH2 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.