AGENDA ITEM NO 5
REPORT NO 39/23

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 21 FEBRUARY 2023

HOUSING REVENUE ACCOUNT RENT SETTING AND BUDGET STRATEGY 2023/24-2026/27

REPORT BY
THE DIRECTOR OF VIBRANT COMMUNITIES AND SUSTAINABLE GROWTH, AND THE DIRECTOR OF FINANCE

ABSTRACT

This report sets out the Housing Revenue Account (HRA) budget strategy for the period 2023/24-2026/27 and seeks approval of rent levels and other associated charges for 2023/24. It sets out estimated income and expenditure for 2023/24, capital investment proposals, affordability assessment and recommends a continued programme of investment in new and existing stock.

1. RECOMMENDATIONS

It is recommended that the Committee:

(i) Approves the revenue budget for 2023/24 as detailed in **Appendix 1**.

(ii) Approves an average rent increase of 4.1% for Council houses and associated service charges for sheltered, retirement and dispersed accommodation as detailed in **Appendix 2**.

(iii) Approves a rent increase of 4.1% for St Christopher's Travelling People Site, garages and garage sites as also set out in **Appendix 2**.

(iv) Approves HRA Capital Plan for the financial year 2023/24 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2024/25 to 2026/27 as detailed in **Appendix 3**.

(v) Notes that based on the assumptions made and the affordability assessment undertaken, the 2023/24-2026/27 HRA Capital Plan is considered to be affordable, prudent and sustainable as required by the Prudential Code and as detailed in Section 8 and **Appendix 4**.

(vi) Approves the prudential indicators as shown in **Appendix 5** in compliance with Prudential Code requirements.

(vii) Notes that rent rises below the Consumer Price Index (CPI) are not sustainable as this will not facilitate a balanced HRA revenue budget or permit the necessary investment through the capital budget. A return to above CPI rent rises will be necessary in future budget setting exercises.

2. ALIGNMENT TO THE COUNCIL PLAN

2.1 ECONOMY
- An Inclusive and sustainable economy
- Attractive employment opportunities

PEOPLE
- To maximise inclusion and reduce inequalities
- Safe, secure, vibrant sustainable communities

PLACE

- An enhanced, protected and enjoyed natural built environment
- A reduced carbon footprint

3. BACKGROUND

3.1 The HRA manages income from tenants' rents to meet all expenditure related to the running of the Housing Service. A core objective is that it remains in surplus, paying for staffing and overheads, whilst still having ample funds for repairs and maintenance. In order to build new homes and invest in existing stock, the HRA must also support any capital financing charges. The HRA does receive some Government capital support from specific funding sources, most notably the Affordable Housing Supply Programme.

3.2 In line with previous years, the HRA 30-year Business Plan has been reviewed to reflect the HRA Capital Plan. This process is undertaken annually based on a range of assumptions and is expanded on as part of the affordability analysis at section 8 below.

3.3 The Council must comply with the self-regulating Prudential Code, which requires the Council to consider the affordability and sustainability of its capital spending plans. This applies equally to the HRA as it does to the General Fund.

4. CURRENT POSITION

4.1 The Local Housing Strategy (LHS) sets out the strategic vision for the delivery of housing and related services. It covers the whole housing system including how and where we live, and the support people might need to access the type of housing they require. The LHS therefore plays an important role in setting priorities for the Council's housing service. Its next iteration which covers the period 2023-27, is currently being developed. Set against a backdrop of increasing pressures for households and tor the Council, this LHS provides an opportunity to maximise the role our housing service can play in improving the lives of people living in our communities, ensuring Angus is a 'great place to live, work and visit'.

4.2 Good quality housing can help regenerate the places we live, as well as reduce inequalities and help ensure that everyone has a home which meets their needs. The pandemic and cost of living crisis have further highlighted the role good quality housing can play in delivering positive outcomes for our communities. Whilst the challenges being faced cannot be underestimated, there are still considerable opportunities for the Council's housing service to help improve social equality for people and our places via housing initiatives.

4.3 It is more important than ever that the climate agenda is central to our decision making, so improving the energy efficiency of our stock and reducing domestic carbon emissions remains our focus. As the county's largest landlord we want to lead by example, making best use of existing stock and future-proofing our homes to meet the needs of tenants. That is why we remain fully committed to achieving zero carbon by 2045. Plans are in place for achieving the energy efficiency improvements required, so our homes are resilient to extreme weather, and so we can reduce the carbon impact which comes from heating and running our homes. A considerable sustained investment is planned, which allows a targeted but flexible approach to capital improvements, and which provides local employment and training opportunities in the required trades over the long term.

4.4 The climate agenda also requires us to think more strategically about making best use of the existing housing stock in Angus, as it is generally accepted that converting and retrofitting property has a lower carbon footprint than building new. While we remain committed to increasing the supply of good quality affordable housing, we will increasingly be looking at how we achieve this in the most sustainable way possible.

4.5 The continued high rate of inflation and its impact on the cost of living for households, is a critical factor in how we manage the financial position of the HRA. Every year it is imperative that a balance is struck between maintaining rents at an affordable level, whilst also being able to invest in stock improvements, and increase the supply of new housing, whilst at the same time being able to meet increasing operating costs. However as inflationary pressures increasingly impact on all areas of business, it is becoming harder to balance these priorities. This means that difficult decisions are needed on how we use our resources. Encouragingly however, our customer satisfaction levels remain high.

5. COUNCIL HOUSE RENTS AND SERVICE CHARGES

5.1 As noted above, the current economic climate presents a significant challenge when it comes to rent setting for 2023/24. The Council is supportive of commitments made by COSLA to show restraint when it comes to increasing rents, recognising that tenants are already struggling because of the costs of heating and food. However, the HRA Business Plan must also be sustainable and affordable, and analysis shows that any rent increase below the Consumer Price Index (CPI) has a significant impact on the financial position, effectively removing circa £1m in capital spend for every 1% below CPI – this is covered further at section 8 of this report.

5.2 As always, the Council's Tenants Steering Group have an important role in scrutinising performance and expenditure decisions. Following consideration of the difficult decisions that need to be made, the Tenants Steering Group proposed three rent increase options for wider tenant consultation through an online survey. These options departed from the previous approach followed for several years, of increasing rents by 1% above CPI (with a notable exception of 0.5% in 2022/23 as cost of living pressures began to emerge) as a way of ensuring the Council can continue to invest in the existing stock as well as deliver new homes. This year the consultation proposed 4.1%, 5.1% and 6.1%[1]. A total of 220 tenants responded to the consultation, representing 2.8% of all tenants. The results of the survey are detailed below, showing that the vast majority (59%) voted for an increase of 4.1%. At the time of the consultation (July 2022) CPI stood at 10.1% and has remained above 10% since then

Option	Proposed Increase	Votes	% of Votes
1	4.1%	129	58.64%
2	5.1%	63	28.64%
3	6.1%	28	12.72%
		220	

5.3 A 4.1% increase is therefore recommended for approval by Committee. The proposed rent increase will have the effect of increasing the average rent rise to £75.91, an increase of £3.00 from £72.91 in 2022/23. This increase is well within the commitment made by COSLA leaders not to increase rents by more than £5 per week and will mean our rents will remain some of the lowest and most affordable in the country. The full impact on rents for each property size is detailed in **Appendix 2**.

5.4 Service charges for sheltered, retirement and dispersed accommodation are set annually based on the actual costs incurred in the previous full financial year. Details of the proposed charges are provided in **Appendix 2**.

5.5 Whilst the outcome from the consultation with tenants of a proposed rent rise significantly below CPI will be of benefit to tenants in these straitened times, the affordability assessment indicates – based on the current assumptions – that this would not be a situation the HRA could sustain beyond the short-term. There will therefore be a need to return to above inflation increases in future years as part of a strategic approach to ensuring deliverability of investment in the housing stock and the longer-term sustainability of the HRA. This is also referred to at section 7.7 and expanded on in more detail at section 8.

5.6 The Council is required to give tenants 28 days' notice of any change in the level of rent. Furthermore, the Housing (Scotland) Act 2001 requires the Council to consult with tenants on any proposed rent increase. Emergency legislation passed in October 2022 through the Cost of Living (Tenant Protection) (Scotland) Act 2022, brought additional restrictions for all landlords in terms of increasing or consulting on rent increases while the legislation is in place. However, on 12 January 2023 the Scottish Government provided a report to the Scottish Parliament on the operation of the Act, in which it confirmed that the rent cap will be removed for social landlords, in favour of an agreement regarding average rent increases across the sector. Scottish Ministers will bring forward regulations that will expire the rent cap measures for the social sector from 1 March 2023. This will allow the Council to ensure we meet requirements in relation to notifying tenants of rent increases from 1 April 2023.

6. OTHER RENTS

It is proposed that a rent increase of 4.1% is applied to: St Christopher's Travelling People Site; garages; garage sites; and stores adjacent to garages. The full impact on rents is detailed in **Appendix 2**.

7. CAPITAL PLAN

7.1 The five-year HRA Capital Plan (set out in **Appendix 3**) includes an ongoing commitment to building new homes and improving our existing stock. It will enable significant investment in the homes and communities of Angus, but the profile of the Capital Plan will continue to shift towards a zero-carbon focus. In the next five-year period, the emphasis will be on delivering improvements to existing stock.

IMPROVEMENTS IN EXISTING STOCK

7.2 The Council has delivered a comprehensive programme of improvements to existing homes over the last five years with a significant focus being to meet the Energy Efficiency Standard for Social Housing (EESSH). EESSH2, the next significant milestone, will require all social housing to meet EPC Band B (Energy Efficiency rating), or as energy efficient as practically possible, by the end of December 2032 (within the limits of cost, technology and necessary consent). Although the detail of EESSH2 is currently being reviewed, social landlords are encouraged to continue to invest in energy efficiency measures to help reduce running costs. The plans to achieve the 2032 target include large scale programmes of internal and external wall insulation, decarbonisation of heating systems, and window replacements. Contracts continue to progress well with 620 energy saving interventions being carried out across tenanted homes in the last 12 months. Members should note that although there is overspend in this category this financial year, this is an advancement of future spend and the overall cost of the project remains broadly on track, subject to volatility in market conditions. Allowance for the overall cost is already included within the energy upgrades section of the Capital Plan and can be rephased to accommodate this change.

7.3 Whilst the termination of the bulk bathroom contract and subsequent adjudication have resulted in delays to a large portion of bathroom installs through the last 12 months, 94 bath and shower rooms have been delivered through the aids and adaptations contract. The adjudication found in Angus Council's favour, requiring the terminated contractor to cover any tender variance in delivery of those not carried out. A tender process has been commenced to deliver the outstanding 776 bathrooms. An internal upgrade contract is also about to commence delivering the kitchens and bathrooms most in need of replacement. The learning points from these tender exercises will help inform a review of the bathroom programme, taking into account the ongoing supply issues, material cost increases and labour shortages caused by global factors.

NEW BUILD

7.4. In 2021/22, the Council delivered 79 affordable homes, this included 22 homes for shared equity. This demonstrates a significant achievement considering the disruption and continuing challenging operating environment caused by the pandemic and supply chain issues.

7.5 In November 2022 the Strategic Housing Investment Plan (SHIP) 2023/24 – 2027/28 was presented to Committee (report 384/22 refers). The Council acts in its capacity as Strategic Housing Authority in preparing and approving the SHIP, setting out the strategic priorities for the delivery of affordable housing over a 5 year period. While the SHIP proposes projects which will require Scottish Government funding via the Affordable Housing Supply Programme (AHSP), it is a live document which requires ongoing development to reflect the status of individual projects. Any changes to the projects within the SHIP are managed through our regular engagement with Registered Social Landlord (RSL) partners and the Scottish Government.

7.6 For the reasons outlined in Section 5 above, and explored in more detail in Section 8 below, difficult decisions have had to be made this year in order to ensure the HRA capital spending plans remain affordable and sustainable. Due to the continued commitment to deliver the net zero target, this has primarily affected the new build programme with a number of projects pushed back to later years. Projects previously included in the current capital plan will continue to be worked on, to ensure that as soon as the financial position allows, these can be reprioritised within spending plans. In addition, other ways of increasing supply will be progressed including fast tracking of conversions and utilising empty homes, both of which support the emerging priorities of the new LHS to consider environmentally sustainable alternatives to new build and making best use of existing stock.

7.7 Delivery of the medium to long term priorities within the SHIP will require the HRA to have the ongoing ability to invest in both new and existing housing stock. As noted at 5.5 above, the affordability assessment – based on the current assumptions – indicates that this would be a challenge in later years. There will therefore be a need to return to above inflation rent increases in future years as part of a strategic approach to ensuring deliverability of investment in the housing stock and the longer-term sustainability of the HRA. This is expanded on in more detail at section 8.

LOCAL ECONOMY

7.8 The construction activity generated by the HRA Capital Programme has a significant positive impact on the local economy so it is important that the HRA business plan remains sustainable over the long term. Positive benefits include opportunities for local contractors, sustaining local employment and apprenticeships.

ENVIRONMENT

7.9 Environmental considerations play an increasingly important role in the investment decisions taken by the HRA. This includes improving energy efficiency in order to meet zero carbon emission targets, as well as considering the environmental impact of building new homes.

7.10 Whilst there are a number of funds available to assist individuals in managing escalating energy costs, the energy crisis continues to impact social housing tenants in less energy efficient homes. By prioritising improvements to the poorest performing housing stock, our investment in energy efficiency measures plays a significant role in mitigating poverty and cost of living increases.

7.11 The Scottish Government's Strategy, Housing to 2040, gives a clear statement of intent in relation to the need to move away from developing on greenfield land in favour of more brownfield development and policies which ensure the best use of existing stock. It is recognised however that this change will not be easy, and the nature of housing development means that it will take some time for these principles to be fully imbedded in Planning and Housing policy. The LHS 2023-28 will build on the momentum already created by the Council in this area through redevelopment projects such as Damacre (Brechin), Cliffburn, (Arbroath) and Dunarn (Newtyle), to ensure that we are leading the way in what will be quite a significant transition for the housing sector.

8. AFFORDABILITY ANALYSIS

8.1 As noted in section 3 above, the Council must comply with the self-regulating Prudential Code, which requires the Council to consider the affordability and sustainability of its capital spending plans. This applies equally to the HRA as it does to the General Fund.

8.2 The Prudential Code only requires that affordability and sustainability of Capital Plans are considered over a 3-year time period. This is however considered insufficient to robustly assess the longer-term impact of Capital Plans and therefore the HRA Business Plan looks at a 30-year horizon as a more robust basis for this assessment.

8.3 A detailed update of the HRA Business Plan has been undertaken and thereafter assessed against the affordability and sustainability requirement. Details of this assessment are included at **Appendix 4**.

8.4 By necessity the affordability assessment is based on several assumptions, particularly regarding future interest rates on borrowing, capital expenditure levels and the effects of inflation, receipts levels and capital projects being delivered in line with expected timescales and costs. The assessment therefore carries a risk that some or all assumptions will be inaccurate over time.

8.5 As noted at paragraph 5.2 above, normal practice in recent years has been to increase rents based on July CPI + 1%. CPI has however been significantly higher than normal over the last year (July CPI was 10.1%) and this has led to the well-publicised cost of living crisis. The increased levels of inflation have also had a significant impact on the cost projections in the HRA Business Plan.

8.6 As also noted earlier in the report, it is important that a balance is struck between maintaining rents at an affordable level, whilst also being able to invest in new stock and existing stock improvements. Following consideration of the difficult decisions that therefore need to be made at this time, the Tenants Steering Group proposed three rent increase options for wider tenant consultation which were significantly below CPI. The consultation outcome was the 4.1% rent increase recommended in this report.

8.7 CPI for December was 10.5% and this is not expected to reduce significantly in the short term. A rent rise in line with the 4.1% recommended would therefore mean costs rising at a higher rate than income levels in 2023/24, which would consequently reduce the level of CFCR available for capital funding. This has though been factored into the affordability assessment with the projected levels of future capital investment kept at prudent levels such that the affordability indicator is maintained well below the 25% parameter.

8.8 Members will though note from the affordability table in Appendix 4, that based on the current assumptions outlined in Appendix 4, the later years of the assessment indicate insufficient revenue resources to support indicative and minimal capital spends. This largely arises as a result of the prudent approach to assumptions on the percentage uplift for future rent rises, which in this assessment are assumed to return to the UK Government's 2% CPI target by 2025/26 but with no additional increase above that target at any point in the assessment period.

8.9 Whilst this later years position does not directly impact the setting of the budget and rent levels for 2023/24, it does indicate a need to adopt a strategic approach to addressing the position over the next few years to ensure that a balanced HRA budget can continue to be set in the future and to ensure sufficient resources are available for later years to allow the necessary capital plans to be implemented that will allow carbon reduction commitments to be delivered as well as allowing ongoing investment in new and existing stock.

8.10 This will require a return in due course to rent increases that are above CPI levels, although it is considered that a phased approach to the reintroduction of above CPI rent increases can be taken in order to manage the impact on tenants. This approach also does not necessarily need to be reintroduced for 2024/25 rent levels if the cost of living crisis is still having a significant impact at that time, although it is considered that above CPI rent increases will need to be reintroduced within the next 3 years in order to mitigate the later years position highlighted above.

8.11 Despite the later years position indicated by the current assumptions in the affordability assessment, the Director of Finance believes that the assumptions made are robust and reasonable for the purposes of informing the Council's decisions, and the assessment confirms that the HRA Business Plan can be regarded as affordable, prudent and sustainable provided the strategic approach to future rent increases is adopted over the next 3 years. This affordability assessment will continue to be reviewed in full as part of each HRA rent and budget setting process.

9. PRUDENTIAL INDICATORS

9.1 Under the terms of the Prudential Code, borrowing levels must be prudent, affordable and sustainable and there is therefore a requirement to set certain prudential indicators.

9.2 These are shown in **Appendix 5** for members' consideration and approval.

9.3 The Prudential Code also requires performance against forward looking indicators to be monitored with any significant deviations from expectations needing to be reported to members. This monitoring happens throughout the year as part of ongoing capital and treasury management monitoring and reporting processes. No significant deviations have required to be reported in the past year.

10. FINANCIAL IMPLICATIONS

10.1 There are no additional financial implication beyond those covered elsewhere in this report.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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Appendix 1: Proposed 2023/24 Revenue Budget
Appendix 2: 2023/24 Proposed Rent and Service Charges
Appendix 3: Capital Plan 2022-27
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Appendix 5: Prudential Indicators