

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 11 FEBRUARY 2020

HOUSING REVENUE ACCOUNT RENT SETTING AND BUDGET STRATEGY 2020/21-2023/24

JOINT REPORT BY THE DIRECTOR OF COMMUNITIES AND THE DIRECTOR OF FINANCE

ABSTRACT

This report sets out the Housing Revenue Account (HRA) budget strategy for the period 2020/21-2023/24 and seeks approval of rent levels and other associated charges for 2020/21. It sets out estimated income and expenditure for 2020/21, capital investment proposals, affordability assessment and recommends a continued programme of investment in new and existing stock.

1. RECOMMENDATION

It is recommended that the Committee:

- (i) Approves the revenue budget for 2020/21 as detailed in **Appendix 1**.
- (ii) Approves an average rent increase of 3.1% for Council houses and associated service charges for sheltered, retirement and dispersed accommodation as detailed in **Appendix 2**.
- (iii) Approves a rent increase of 3.1% for St Christopher's Travelling People Site, garages and garage sites as also set out in **Appendix 2**.
- (iv) Set a HRA Financial Plan for the financial year 2020/21 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2021/22 to 2023/24 as detailed in **Appendix 3**.
- (v) Notes that based on the assumptions made and the affordability assessment undertaken, the 2019/20 – 2023/24 HRA Financial 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 the plans being put in place to maintain a prudent and affordable investment programme for future years.

2. ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN/CORPORATE PLAN

This report contributes to the following local outcomes contained within the Angus Local Outcomes Improvement Plan and Locality Plans:

- Improved physical, mental and emotional health and well-being
- An enhanced, protected and enjoyed natural and built environment
- Safe, secure, vibrant and sustainable communities

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 profitable, 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 February 2017 members approved the HRA 30 year Business Plan (Report 71/17). The Business Plan set out to significantly expand the Council's new build development programme and investment in existing stock. This was based on additional borrowing, supported in part by a rent increase assumption of CPI+1% (subject to tenant consultation).
- 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.
- 3.4 The rent and service charges associated with St Christopher's Travelling People Site at Tayock are recorded within the Other Housing account which forms part of the overall General Fund revenue budget, due to be considered at a special budget setting meeting of Angus Council.

4. CURRENT POSITION

- 4.1 The vision for the Council's housing service is 'creating places that people are proud to call home'. Delivering the vision in a holistic way brings much wider benefits, as it is widely recognised that delivering good quality affordable housing is at the bedrock of many of the outcomes sought for our communities including reducing child poverty, improving health and wellbeing, supporting older people to live independently, reducing carbon emissions and ensuring Angus is a 'great place to live, work and visit'.
- 4.2 Increases to the Capital Programme in the last three years have enabled the Council to deliver significant improvements in existing stock as well as many new houses since 2017/18. However, it has become clear that concentrating large increases in capital spend into a short delivery period is difficult to achieve within the context of available staff resources. It also puts increased pressure on rent levels and our local contractor base.
- 4.3 Over this current Parliamentary term there has been a clear focus from the Scottish Government on increasing the supply of affordable housing, with a target to deliver 50,000 affordable homes. This has been backed by considerable levels of grant funding through the Affordable Housing Supply Programme. However, whilst the importance of increasing supply of affordable housing remains (not least to address housing need and deliver the Rapid Rehousing Transition Plans), our priorities have shifted somewhat, as our understanding of the implications of the Climate Change Emergency has evolved. In September last year, the Government announced plans for Scotland to be a net zero society by 2045 which the Council is fully supportive of.
- 4.4 The significant investment in existing homes required to achieve this should not be underestimated. Planning is therefore now underway to allow the HRA Capital Programme to take a long term view on achieving the energy efficiency improvements required, while continuing a modest programme of new supply to help meet housing need. This will ensure our homes are resilient to extreme weather. It will also ensure we reduce the carbon impact which comes from heating and running our homes, and has the added benefit of reducing the cost for tenants which will help to mitigate child poverty. This long term approach will enable both the Council and its contractors to plan for a period of sustained investment. It will also allow a more targeted and flexible approach to capital improvements which will ensure less disruption for tenants.

- 4.5 In recent years (including this one) the Council's Tenant Steering Group have remained supportive of the broad policy of increasing rents by 1% above inflation. Whilst there is no doubt that this has facilitated a more buoyant Capital Programme than would otherwise have been the case, it does raise a question about how long this approach can continue, before affordability becomes a significant factor. We know that many of our customers have very limited resources, and whilst in many cases there is eligibility for Housing Benefit or Universal Credit, we know that people still struggle at times to pay rent. Clearly we need to sustain income so that we can fund the levels of investment required to meet the challenges described above, but at the same time we should have an eye on the ability of our customers to afford our product on offer. The provision of good quality and affordable accommodation remains as our core principle, so it may now be appropriate to review our approach going forward, to ensure our offer remains within reach of all in society.

5. COUNCIL HOUSE RENTS AND SERVICE CHARGES

- 5.1 The Tenants Steering Group play an important role in scrutinising performance and expenditure decisions, helping to monitor the quality of service and accommodation that they receive. This year they once again agreed that rents should be increased in order to ensure the Council can continue to invest in its existing homes as well as build new affordable housing for Angus. Three rent increase options proposed by the Tenants Steering Group were taken to a wider tenant consultation through an online survey and views obtained at various tenants meeting across the county. A total of 88 tenants responded to the consultation, representing around 1% of all tenants. The majority of respondents (69%) supported an increase of Consumer Price Index (CPI) +1% which equates to a 3.1% increase based on July 2019 CPI of 2.1%.
- 5.2 The proposed rent increase will have the effect of increasing the average rent to £70.79 per week. This will mean that our rents will remain as some of the most affordable in the country. The full impact on rents for each property size is detailed in **Appendix 2**.
- 5.3 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**.
- 5.4 The Council is required to give its 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.

6. OTHER RENTS

It is proposed that a rent increase of 3.1% is applied to: St Christophers Travelling People Site; garages; garage sites and stores adjacent to garages. This is based on the CPI figure (2.1%) for July 2019 and an uplift of 1%. The full impact on rents is detailed in **Appendix 2**.

7. FINANCIAL PLAN

- 7.1 The five year HRA Financial Plan (set out in **Appendix 3**) includes an ongoing commitment to building new homes and improving our existing stock. The HRA Financial Plan will enable significant investment in the homes and communities of Angus.
- 7.2 From 2022/23 onwards, the profile of the Capital Investment Programme will begin a shift towards a zero carbon focus. The emphasis will be on delivering the twin track priorities of improvements to existing stock and increasing the supply of new affordable housing.

Improvements in Existing Stock

- 7.3. The Council has delivered a comprehensive programme of improvements to existing homes over the last three years. This will ensure we meet the Energy Efficiency Standard for Social Housing (EESH) by 31 December 2020. At present around 85% of homes meet the standard.

- 7.4 Not all improvement works have been focused on energy efficiency, with the kitchen and bathroom programme delivering the following upgrades between 2020 & 2022. The Kitchen contract currently in place completes in June 2022 and will have delivered 570 upgrades over the 24 month contract period. The bulk bathroom replacement programme will provide upgrades to the majority of the Council's housing stock and will therefore run into the foreseeable future. The first phase of the contract will provide 1344 upgrades over the 24 month contract period to April 2022.
- 7.5 EESSH2 is the next significant milestone for energy efficiency improvements in social housing and will provide a major contribution to reducing carbon emissions. EESSH2 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). The 2032 milestone will be supported by a formal review in 2025 and it has been agreed that no social housing should be re-let below EPC Band D from December 2025, subject to temporary specified exemptions.
- 7.6 Less than 3% of the Council's stock is below EPC Band D which indicates progress towards the December 2025 intermediate milestone. However, 97% of the stock does not meet the 2032 standard indicating the scale of challenge.
- 7.7 The long term programme of improvements to achieve the 2032 target will include large scale programmes of internal and external wall insulation, decarbonisation of heating systems, and window replacements. Over the next 12-24 months this programme will be developed with a range of short, medium and long term objectives to ensure a clear roadmap towards meeting the standard. There is clearly also a more challenging target, to achieve zero carbon by 2045, so EESSH 2 should be considered as merely a stepping stone on the longer journey of carbon reduction.

New Build

- 7.8. This year the Council will deliver around 80 social rented homes in addition to 55 delivered in the previous two years. It is anticipated the Council will deliver around 275 units during the five year planning period from 2017/18.
- 7.9 The Strategic Housing Investment Plan (SHIP) 2020/21 to 2024/25 was approved in November 2019 (Report 370/19 refers) and prioritised investment in 292 Council homes over the next five years. The review of the Capital Programme has reduced this to around 232 units which will be delivered through the new build programme. It is anticipated that further units could be added to this programme through stock acquisition including the ongoing Open Market Acquisition Scheme (see 7.11 below).
- 7.10 Although the SHIP prioritises investment in the Council new build programme for the period 2020/21 to 2024/25, the Scottish Government funding position beyond 2021/22 (the current parliamentary term) is much less clear and therefore the programme could be subject to change.
- 7.11 Delivering a new build programme remains a priority, however it is anticipated this will be supplemented through other mechanisms for increasing the Council's stock in the future, building on the Open Market Acquisition Scheme and the recent purchase of new build units from a private developer. A further report will be brought before Members later this year with recommendations for taking a more proactive approach to working in partnership with developers and purchasing units 'off the shelf'.
- 7.12 Opportunities to acquire sites are also being explored to ensure the Council can continue to deliver more affordable homes beyond the current planning period. This will ensure a future programme of new affordable housing delivery.

Local Economy

- 7.13 Construction activity has a significant impact on the local economy and every £1.00 spent can generate £2.84 in indirect and direct economic stimulus¹. It is estimated that the proposed HRA Capital Programme could:
- Generate economic benefit of £244m over the next five years
 - Create and sustain jobs in the building and construction sectors as well as other aspects of the local economy
 - Support at least 12 apprenticeship places

Environment

- 7.14 The vision to 'create places that people are proud to call home' drives the HRA investment decisions. Over the coming years, the need to improve energy efficiency in order to respond to the Scottish Government's net zero carbon emissions targets will be a major factor in how investment is prioritised. This will include improvements to existing stock as well as continuing to deliver new build homes to a high energy efficiency standard.
- 7.15 As well as improving the housing stock, the capital programme seeks opportunities to improve the quality of amenity space and active travel connectivity, increasing safer routes to school and cycling routes.

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 financial plans are considered over a 3 year time period. This is however considered insufficient to robustly assess the longer term impact of financial 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 a number of assumptions, particularly with regard to future interest rates, capital expenditure levels, receipts levels and capital projects being delivered in line with expected timescales and costs. The assessment therefore carries some risk that some or all of these assumptions may prove to be inaccurate through time.
- 8.5 Despite this risk, 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.

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.

¹ Civil Engineering Contractors Association, 2013 (<https://www.ceca.co.uk/wp-content/uploads/2018/05/Securing-our-economy-The-Case-For-Infrastructure.pdf>)

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.

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.

**REPORT AUTHORS: JOHN MORROW, SERVICE LEADER – HOUSING
KEVIN LUMSDEN, MANAGER - FINANCE**

EMAIL DETAILS: communities@angus.gov.uk

List of Appendices:

Appendix 1: Proposed 2020/21 Revenue Budget

Appendix 2: 2020/21 Proposed Rent and Service Charges

Appendix 3: Financial Plan 2019-24

Appendix 4: Capital Affordability Assessment

Appendix 5: Prudential Indicators