

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 9 FEBRUARY 2021

HOUSING REVENUE ACCOUNT RENT SETTING AND BUDGET STRATEGY 2021/22-2024/25

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 2021/22-2024/25 and seeks approval of rent levels and other associated charges for 2021/22. It sets out estimated income and expenditure for 2021/22, 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 2021/22 as detailed in **Appendix 1**.
- (ii) Approves an average rent increase of 2% for Council houses and associated service charges for sheltered, retirement and dispersed accommodation as detailed in **Appendix 2**.
- (iii) Approves a rent increase of 2% for St Christopher's Travelling People Site, garages and garage sites as also set out in **Appendix 2**.
- (iv) Set a HRA Capital Plan for the financial year 2021/22 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2022/23 to 2024/25 as detailed in **Appendix 3**.
- (v) Notes that based on the assumptions made and the affordability assessment undertaken, the 2020/21 – 2024/25 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 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 Policy and Resources Committee recently approved the transfer of St Christopher's Travelling People site at Tayock, from the General Fund to the HRA (report (317/20 refers). From 3 April 2021 all associated income and charges in relation to the site will appear within the HRA. This change will allow any capital investment required in the site to be prioritised within the HRA Capital Plan.

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 The importance of having safe and secure affordable homes that meet current needs has been brought into sharp focus in the last year by the COVID-19 emergency. We have all spent much longer periods in our homes than usual, so the improvements to our homes delivered through our Capital Programmes in recent years have helped mitigate some of the negative aspects. Unfortunately however, as a result of the pandemic, some tenants have experienced a significant drop in household income due to reduced working hours or loss of employment, which means it is more important than ever for us to direct our efforts in the coming years to improving the energy efficiency of our housing stock to meet zero carbon targets, not only so that we can help mitigate climate change, but also so that we can reduce fuel bills and combat fuel poverty.
- 4.3 This means that a balance has to be struck between maintaining rents at an affordable level, whilst also being able to continue significant investment in stock improvements and continue increasing new supply housing. Because of the prudent financial planning approach adopted in previous years, the HRA is relatively well placed to ride out the worst impacts of the Pandemic. A large proportion of the Capital Programme has been funded from Current Revenue, and loans have been re-paid from balances when possible. This approach helps maintain borrowing at low levels and helps to keep loan repayments affordable. So, Angus Council rents are still amongst the very lowest in Scotland, whilst our customer satisfaction ratings are above the Scottish average for all aspects of our services and our homes. Nevertheless, the Pandemic has impacted on the HRA in 2020/21 in a number of ways, some of which are detailed below in section 7, and others in the Capital and Revenue Monitoring report also at this committee.

4.4 The continuing uncertainty means that the impacts will continue to be felt in the remainder of 2020/21, and into 2021/22. However, we remain supportive of the Scottish Government's efforts to increase the supply of affordable housing, to address housing need and so that we can deliver the Rapid Rehousing Transition Plan.

4.5 And we remain committed to achieving zero carbon by 2045. Plans are being put 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.

5. COUNCIL HOUSE RENTS AND SERVICE CHARGES

5.1 The Council's 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. In recent years (including this one) the Steering Group have remained supportive of the broad policy of increasing rents by 1% above inflation. 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 225 tenants responded to the consultation, representing around 3% of all tenants. The majority of respondents (53%) supported an increase of Consumer Price Index (CPI) +1% which equates to a 2% increase based on July 2020 CPI of 1%.

5.2 The proposed rent increase will have the effect of increasing the average rent to £72.28 per week. This will mean that our rents will remain as some of the lowest and most affordable in the country. The full impact on rents for each property size is detailed in **Appendix 2**.

5.3 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 2% is applied to: St Christophers Travelling People Site; garages; garage sites; and stores adjacent to garages. This is based on the CPI figure (1%) for July 2020 and an uplift of 1%. 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. The HRA Capital Plan will enable significant investment in the homes and communities of Angus.

7.2 From 2022/23 onwards, the profile of the Capital Plan 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 with a significant focus being to meet the Energy Efficiency Standard for Social Housing (ESSH) by 31 December 2020 for all stock. Whilst improvements continue in to 2021, 100% of the non-compliant stock has been surveyed and required works agreed prior to the deadline of 31 December 2020. This has allowed us to meet the ESSH requirements in advance of the deadline.
- 7.4 Not all improvement works have been focused on energy efficiency, with the kitchen and bathroom replacement programmes delivering the following upgrades between 2020 & 2022. The Kitchen contract currently in place completes in November 2021 and aims to deliver 570 upgrades over the 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 aimed to provide 700 upgrades over the 24 month contract period to June 2021. However, both these programmes are being impacted by COVID-19 restrictions.
- 7.5 ESSH2 is the next significant milestone for energy efficiency improvements in social housing and will provide a major contribution to reducing carbon emissions. ESSH2 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 (almost 7,500 properties) do 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. This programme is being 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 ESSH 2 should be considered as merely a stepping stone on the longer journey of carbon reduction.

NEW BUILD

- 7.8. New build development was significantly affected by the COVID-19 lockdown with construction activity halted from the end of March until July 2020. This impacted on a number of projects within the HRA capital programme. Good progress has been made since construction restarted albeit some challenges for the sector remain in terms of physically distancing and supply chains. This year the Council will deliver around 62 new social rented homes and a small number of open market purchases.
- 7.9 The Strategic Housing Investment Plan (SHIP) 2021/22 to 2025/26 was approved in January 2021 (Report 1/21 refers) and prioritises investment in 312 Council homes over the next five years. This year's SHIP is intended to be a light touch review due to the Government's recognition of the difficulties associated with forward planning at this time. Development opportunities will continue to be explored throughout the year and it is anticipated that the 2022/23 SHIP will provide a better opportunity to further strengthen the Council's ambitions in relation to new build development.

- 7.10 At the time of writing the SHIP and the Rent Setting and Budget Strategy reports, Scottish Government funding for 2021/22 onwards had not been announced although early indications suggest that housing will continue to be prioritised. Prior to the COVID-19 pandemic, high level discussions had also been ongoing regarding the funding regime for affordable housing which could alter the direction of social housing development in the coming years with the potential for an even greater focus on quality over quantity. It is hoped that this will become clearer during 2021 as we enter a new parliamentary term.
- 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 through the Housing Development Framework Policy (Report 134/20 refers). Opportunities to work in partnership with developers or purchase units 'off the shelf' will continue to be explored subject to available funding.
- 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 Plan could over the next 5 years:
- Generate economic benefit of £295 million (based on £104 million gross expenditure)
 - 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. The need to improve energy efficiency in order to respond to the Scottish Government's net zero carbon emissions targets is now a major factor in how our investment is prioritised. This includes 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 Plan seeks opportunities to improve the quality of amenity space and active travel connectivity, increasing safer routes to school and cycling routes. The importance of this has been highlighted by the Pandemic.

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**.

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

- 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.
- 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 2021/22 Revenue Budget
- Appendix 2: 2021/22 Proposed Rent and Service Charges
- Appendix 3: Capital Plan 2020-25
- Appendix 4: Capital Affordability Assessment
- Appendix 5: Prudential Indicators