

ANGUS COUNCIL

SPECIAL COMMUNITIES COMMITTEE – 8 FEBRUARY 2022

HOUSING REVENUE ACCOUNT RENT SETTING AND BUDGET STRATEGY 2022/23-2025/26

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

ABSTRACT

This report sets out the Housing Revenue Account (HRA) budget strategy for the period 2022/23-2025/26 and seeks approval of rent levels and other associated charges for 2022/23. It sets out estimated income and expenditure for 2022/23, 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 2022/23 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) Approves the HRA Capital Plan for the financial year 2022/23 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2023/24 to 2025/26 as detailed in **Appendix 3**.
- (v) Notes that based on the assumptions made and the affordability assessment undertaken, the 2022/23-2025/26 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 COUNCIL PLAN

This report contributes to the following local outcomes contained within the Angus Community Plan 2017-2030

- Angus is a good place to live in, work in and visit
- Safe, secure, vibrant and sustainable communities
- Improved physical, mental and emotional health and well-being

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 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 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 two years by the COVID-19 pandemic. 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 impacts. Unfortunately, however, as the pandemic has continued, some tenants' household incomes continue to be impacted by rising living costs 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. Angus Council rents are 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.
- 4.4 The operating environment remains challenging due to the ongoing pandemic plus there are supply chain issues which are presenting difficulties for contractors. Additionally, the Scottish Government has recently carried out a review of affordable housing subsidy benchmark levels. We will continue to seek to work with partners flexibly to address any issues that arise from the increased benchmark levels and are committed to delivering the projects already agreed in the Strategic Housing Investment Plan 2022/23-2026/27.
- 4.5 And we remain 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.

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 the Steering Group have remained supportive of the broad policy of increasing rents by 1% above inflation. However, given the economic impacts of the pandemic and rising living costs experienced by tenants, this year they recommended that rents should be increased by 0.5% above inflation. Four 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 153 tenants responded to the consultation, representing around 2% of all tenants. It was a very close vote however the majority of respondents (36%) chose the lowest option and supported an increase of Consumer Price Index (CPI) +0% which equates to a 2% increase based on July 2021 CPI of 2%. The table below shows the result of the survey.

Option	Proposed Increase	Votes	% of Votes
1	2% (CPI + 0%)	55	35.95
2	2.5% (CPI + 0.5%)	38	24.84
3	2.75% (CPI + 0.75%)	7	4.58
4	3% (CPI + 1%)	53	34.64
	Total votes	153	

- 5.2 The proposed rent increase will have the effect of increasing the average rent from £72.28 per week to £73.58 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 Christopher's Travelling People Site; garages; garage sites; and stores adjacent to garages. This is based on the CPI figure (2%) for July 2021. 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 continue the 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 five years with a significant focus being to meet the Energy Efficiency Standard for Social Housing (ESSH). 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. The long term programme of improvements to achieve the 2032 target 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. Works are progressing well on the energy savings works which has allowed an acceleration of the programme. This has resulted in a much higher than anticipated spend profile, contributing to the projected overspend on original budget. However, this is considered to be a sensible acceleration of the 25 year programme to improve the energy efficiency of tenants' homes and achieve zero carbon across the housing stock by 2045.
- 7.4 Not all improvement works have been focused on energy efficiency, with the kitchen and bathroom replacement programmes progressing. The Bulk Kitchen contract has recently concluded and has completed 238 installs in the last 12 months. A rolling annual programme providing approximately 50 upgrades a year will commence in 2022-23. There have been significant global issues resulting in disruption to the original programme for both the Kitchen and Bathroom contracts. This has resulted in the bathroom replacement programme delivering 403 upgrades in the last 12 months. An options appraisal is currently underway to consider the lessons learned from works to date with the intent begin to upgrade approximately 500 bathrooms annually going forward.

NEW BUILD

- 7.5. In 2020/21, the Council delivered 62 affordable homes. This is a significant achievement considering the disruption and continuing challenging operating environment caused by the pandemic and supply chain issues. This year the Council will deliver around 75 new social rented homes.
- 7.6 The Strategic Housing Investment Plan (SHIP) 2022/23 – 2026/27 was approved in November 2021 (Report 352/21 refers) and prioritises investment in 228 Council homes over the next five years. This year the Council has confirmed five-year Resource Planning Assumptions to year 2025/26 of this SHIP which has enabled certainty in terms of forward planning. The return of provision of multi-year funding agreements is to be welcomed and is a major step forward in enabling the Council to forward plan large investment in affordable housing, particularly as many projects often take a number of years between inception and completion.
- 7.7 Delivering a new build programme remains a priority and is supplemented through other mechanisms for increasing the Council's stock through the Housing Development Framework Policy (Report 134/20 refers). The Council has worked in partnership with developers to purchase 22 units 'off the shelf' as shared-equity in the South Angus area and aims to complete the purchase of a further six units as shared-equity in North Angus by the end of March 2022. The Council will continue to explore opportunities to supplement the new build programme and increase affordable homes through 'off the shelf purchases'.
- 7.8 Further 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

- 7.9 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 £307 million (based on £108 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

- 7.10 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.
- 7.11 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.
- 7.12 As part of the Tay Cities Deal, we will look to bring additionality to council projects through implementing enhanced design features which will be tested to support and inform the Council's transition towards net zero carbon emissions. Tay Cities funding will be drawn down where appropriate and a number of projects are being considered in terms of the best fit with the funding criteria and programme profile.

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 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. In particular it should be noted that CPI based on July 2021 (2%) was used to estimate the proposed increase in rental charges in line with normal practice. CPI has however subsequently increased significantly over the last few months and this has had a significant impact on the cost projections in the HRA Business Plan, with costs rising more than the rental income rises. Whilst this reduces Capital From Current Revenue (CFCR) available for capital funding, this has been factored into the affordability assessment with the projected levels of future capital investment kept at prudent levels such that the affordability criteria is maintained well below the 25% parameter. The

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

assessment therefore carries some risk that some or all 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.

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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List of Appendices:

- Appendix 1: Proposed 2022/23 Revenue Budget
- Appendix 2: 2022/23 Proposed Rent and Service Charges
- Appendix 3: Capital Plan 2021-26
- Appendix 4: Capital Affordability Assessment
- Appendix 5: Prudential Indicators