AGENDA ITEM NO 4

REPORT NO 30/24

ANGUS COUNCIL

SPECIAL COMMUNITIES COMMITTEE – 13 FEBRUARY 2024

HOUSING REVENUE ACCOUNT RENT SETTING AND BUDGET STRATEGY 2024/25-2027/28

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

1. ABSTRACT

1.1 This report sets out the Housing Revenue Account (HRA) budget strategy for the period 2024/25 to 2027/28 and seeks approval of rent levels and other associated charges for 2024/25. It sets out estimated income and expenditure for 2024/25, capital investment proposals, affordability assessment and recommends a continued programme of investment in new and existing stock.

2. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES

2.1 Caring for our people

- Reduce inequalities in all our communities.
- Provide the best start in life for children.
- Create more opportunities for people to live well and achieve their personal goals.
- Improve physical, mental health and wellbeing.

2.2 Caring for our place

- Protect and enhance our natural and built environment
- Enable inclusive, empowered, resilient and safe communities across Angus

3. RECOMMENDATIONS

3.1 It is recommended that the Committee:

(i) Approves the revenue budget for 2024/25 as detailed in **Appendix 1**.

(ii) Approves an average rent increase of 6.7% for Council houses and associated service charges for sheltered, retirement and dispersed accommodation as detailed in **Appendix 2**.

(iii) Approves a rent increase of 6.7% 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 2024/25 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2025/26 to 2027/28 as detailed in **Appendix 3**.

(v) Notes that based on the assumptions made and the affordability assessment undertaken, the 2024/25-2027/28 HRA Capital Plan is affordable, prudent and sustainable as required by the Prudential Code and as detailed in Section 9 and **Appendix 4**; and

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

4. BACKGROUND

4.1 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.

4.2 In line with previous years, the HRA 30-year Business Plan has been reviewed to reflect the proposed 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 9 below.

4.3 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.

5. CURRENT POSITION

5.1 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. The LHS 2023-27 vision is that ''everyone in Angus has a good quality, safe, secure and warm home that they can afford'. It seeks 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'.

5.2 Good quality housing is the cornerstone to successful and resilient communities, it helps to reduce inequalities and improve people's health and wellbeing. The housing service faces continued challenges as it seeks to continue to improve the quality of homes and ensure excellent services to tenants and other customers. Inflationary pressures affecting repair and construction costs remain high, alongside significant cost of living pressures being faced by our tenants which draws sharply into focus the need to demonstrate value for money in every pound of rental income. However, there are still considerable opportunities for the service to help improve outcomes for people and our places.

5.3 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. Recent flooding events in Brechin have demonstrated the devastating impact that adverse weather can have on our communities. 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. We remain fully committed to achieving zero carbon by 2045 however we recognise the challenge of delivering the level of investment needed through rental income alone. 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.

5.4 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.

5.5 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. Recent years have seen below inflation rent increases as we sought to cushion the impact of other cost increases being experienced by households however Members will recall that it is not sustainable to continue this as a long-term strategy and this is further covered in section 8 below.

6. COUNCIL HOUSE RENTS AND SERVICE CHARGES

6.1 As noted above, the current economic climate presents a significant challenge when it comes to rent setting for 2024/25.

6.2 As always, the Council's Tenants Steering Group have an important role in scrutinising performance and expenditure decisions. In previous years, July's CPI rate was used to inform rent increases however this year August's was used. Given the significant financial risks associated with not returning to inflation level increases, the Tenants Steering Group proposed that returning to CPI increases should be the minimum level of increase and set out four rent increase options for wider tenant consultation through an online survey.

6.3 This year the consultation proposed 6.7%, 7.2%, 7.7% and 8.2%. A total of 232 tenants responded to the consultation, representing 3% of all tenants. The results of the survey are detailed below, showing that the vast majority (82%) voted for an increase of 6.7%.

Option	Proposed Increase	Votes	% of Votes
1	6.7%	190	81.9%
2	7.2%	17	7.33%
3	7.7%	8	3.45%
4	8.2%	17	7.33%
		232	

6.4 A 6.7% increase is therefore recommended for approval by Committee. The proposed rent increase will have the effect of increasing the average rent to £80.75, an increase of £4.84 from the average rent level of £75.91 in 2023/24. The full impact on rents for each property size is detailed in **Appendix 2**.

6.5 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**.

7. OTHER RENTS

7.1 It is proposed that a rent increase of 6.7% 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**.

8. CAPITAL PLAN

8.1 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

8.2 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). The detail of EESSH2 is currently being reviewed by the Scottish Government, however, social landlords are encouraged to continue to invest in energy efficiency measures to help reduce running costs. The plans to achieve the targets include large scale programmes of internal and external wall insulation, decarbonisation of heating systems, and window replacements. Contracts continued to progress well with a large number of energy saving interventions being carried out across tenanted homes in the last 12 months. Members should note that although there is an underspend in this category this financial year, this relates to a focus on homes in more rural areas with the lesser density reducing spend. 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 this has been rephased to accommodate anticipated changes going forward in this area.

8.3 A contract has been awarded to deliver the outstanding 776 bathrooms following the termination of the bulk bathroom contract and subsequent adjudication. In addition to this, 68 bath and shower rooms have been delivered through the aids and adaptations contract. An internal upgrade contract was also completed in 2023 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

8.4 2022/23 was a transition year between the previous and the new LHS 2023-28. The Council delivered 43 affordable homes, this included 19 open market acquisitions. The lower number of new builds and the higher number of open market acquisitions than in recent years is as a direct consequence from the ongoing economic conditions nationwide which is impacting the construction and wider housing industry.

8.5 In November 2023 the Strategic Housing Investment Plan (SHIP) 2024/25 – 2028/29 was approved by Committee (report 316/23 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.

8.6 Whilst finalising the SHIP, storm Babet hit communities across Angus with Brechin particularly badly affected. It was too early to say what impact the storm would have on the new build programme at that time. Since the storm our focus has been responding to the immediate needs of our customers. However, as a Council we are moving through the next phase of recovery considering what the future may look like for River Street, Brechin and the surrounding affected areas. At this time the Scottish Government has indicated there will be no additional money to fund new housing development in Brechin if it is not possible to reinstate flood affected properties. This means that difficult decisions may need to be made about priorities for new build housing investment to deal with the medium and longer-term implications of the storm and the future impacts of climate change. An Options Appraisal is to be commissioned early in 2024 to inform the decisions that will need to be made.

8.7 Additionally, the Scottish Government's 2024-25 budget included a significant reduction (22%) to the AHSP for 2024/25, a review of the impact and implications are underway. The budget announcement signals the need for the Council to be cautious about future years new build programming and levels of slippage. Hard decisions will need to be made about how the reduced grant allocation will be accommodated within the SHIP. As many existing Council projects had previously been pushed back to later years in the SHIP it is not anticipated that there will be any significant impact in 2024/25 to the Council programme. However, it is highly likely that the effect of this reduction and storm Babet decisions will impact the Council's new build programme within the period of the proposed Capital Plan.

8.8 Below inflation rent increases in recent years have had an impact on HRA capital spending. New build projects which were previously pushed back but are in the current capital plan continue to be worked on. Notwithstanding the Scottish Government's budget announcement, the Council plans to ensure that as soon as the financial position allows, these projects can be reprioritised within spending plans. As making best use of existing stock is a priority of the new LHS a prioritization framework for conversions was developed and approved conversions are being progressed with an annual programme planned. Additionally, an Options Appraisal for the delivery of the empty homes service is nearing completion and will be considered early in 2024.

8.9 Delivery of the medium to long term priorities within the LHS and SHIP will require the HRA to have the ongoing ability to invest in both new and existing housing stock. The affordability assessment – based on the current assumptions – indicates this will not be possible without a return to above inflation rent increases. This will set the basis for 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 9.

LOCAL ECONOMY

8.10 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.

9. AFFORDABILITY ANALYSIS

9.1 As noted in section 4 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.

9.2 The Prudential Code only requires that affordability and sustainability of Capital Plans are considered over a 3-year 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.

9.3 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**.

9.4 By necessity the affordability assessment is based on several assumptions, particularly regarding future interest rates on borrowing, capital expenditure levels, 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.

9.5 Until recently, normal practice was to increase rents based on July CPI + 1%. CPI has however been significantly higher than normal over the last couple of years. As a result, rent rises in the last couple of years have been set below prevailing CPI levels to help our tenants in the face of the cost-of-living crisis. The increased levels of inflation have though also had a significant impact on the cost projections in the HRA Business Plan.

9.6 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 meet our running costs, invest in new stock and invest in existing stock improvements. Following consideration of the difficult decisions that therefore need to be made at this time, the Tenants Steering Group proposed four rent increase options for wider tenant consultation which were based on August CPI. The consultation outcome was the 6.7% rent increase recommended in this report.

9.7 CPI for December was 4.0% and this is not expected to reduce significantly in the short term. A rent rise in line with the 6.7% recommended would therefore mean a return to income levels rising at a rate above the rate at which costs are rising. This allows a positive level of CFCR to be available for capital funding. Combined with the assumption of returning to future rent rises also being above prevailing inflation, a positive CFCR level is maintained throughout the 30-year period of the affordability assessment. This means that a package of funding predominantly comprised of CFCR and borrowing is available for future capital investment in our housing stock throughout the assessment period.

9.8 If the recommended 6.7% increase is approved, members will note from the affordability table in Appendix 4, that based on the current assumptions outlined in Appendix 4, the capital plans proposed in this report are affordable and sustainable.

9.9 For information, a scenario was tested where future rent rises for 2027/28 onwards were kept at the assumed CPI level (2% per the government target rate), rather than at CPI + 1%. With all other assumptions and plans kept the same as the main affordability assessment, rent rises of 2% (rather than 3%) in those later years gives the following outcomes:

- The revenue budget is significantly in deficit from year 11 onwards; and
- The affordability parameter is above 25% from year 13 onwards.

Based on the above outcomes, rent rises at assumed CPI rather than CPI + 1% are demonstrably unaffordable.

9.10 Given the movements in inflation levels since the point at which the tenant consultation took place, a scenario has also been examined to determine the impact of a rent rise for 2024/25 at 4% in line with the recently published December 2023 CPI rate. With all other assumptions and plans kept the same as the main affordability assessment, a rent rise of 4% in 2024/25 gives the following outcomes:

- The revenue budget is significantly in deficit for 12 years from year 15; and
- The affordability parameter is above 25% for 14 years from year 14.

Based on the above outcomes, a rent rise of 4% in 2024/25 is demonstrably unaffordable.

9.11 The outcome from the above scenario, emphasises the need to return to and maintain rent rises at a rate above prevailing CPI inflation levels to ensure the overall financial sustainability of the HRA over the longer term.

9.12 The Director of Finance believes that the assumptions made within the business plan and affordability assessment, are robust and reasonable for the purposes of informing the Council's decisions. The assessment confirms that the HRA Business Plan is affordable, prudent and sustainable. This affordability assessment will continue to be reviewed in full as part of each HRA rent and budget setting process.

10. PRUDENTIAL INDICATORS

10.1 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.

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

10.3 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.

11. FINANCIAL IMPLICATIONS

11.1 There are no additional financial implications beyond those covered elsewhere in this report.

12. ENVIRONMENTAL IMPLICATIONS

12.1 Environmental considerations play an important role in the investment in housing stock undertaken by the HRA. This includes improving energy efficiency to meet zero carbon emission targets, as well as considering the overall environmental impact of building new homes.

12.2 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. These homes are also more detrimental to the environment and the ability of the Council to meet zero carbon targets. By prioritising our improvements to the poorest performing housing stock, our investment in energy efficiency measures plays a significant role in mitigating poverty, cost of living increases and the environmental impact of our housing.

12.3 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. The LHS 2023-28 will build on the momentum already created by the Council in this area through redevelopment projects such as Damacre Road (Brechin), Cliffburn (Arbroath) and Dunarn (Newtyle).

12.4 Forthcoming new housing projects also expand this approach with developments at Fraser Path and Newton Crescent (both in Arbroath) and the Invertay House site (Monifieth) all involving brownfield sites. The Invertay House project also presents an opportunity to convert and preserve an existing Category B listed former school building. The aspiration is to achieve an Enerphit standard for this building and this is the equivalent of Passivhaus but for existing buildings rather than new build.

12.5 An ongoing programme of conversions is underway, typically these deliver larger properties with multiple bedrooms by combining two properties into one. These help to satisfy an increasing demand for such homes from tenants. These benefit from 35 percent funding from the Scottish Government and create opportunities to provide upgraded homes which benefit from energy efficiency works including wall, roof and floor insulation upgrades as well as new triple-glazed windows and doors. Photovoltaic panels with battery and Air-Source Heat Pumps can also be included where appropriate.

12.6 It is also 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 are looking at how we achieve this in the most sustainable and environmentally friendly way possible.

13. EQUALITY IMPACT ASSESSMENT, HUMAN RIGHTS AND FAIRER SCOTLAND DUTY

13.1 A screening assessment has been undertaken and a full Equality Impact Assessment is not required for the following reason(s):

- It is a percentage increase in fees which has no differential impact on protected characteristics

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: **CATHERINE JOHNSON, SERVICE LEADER – HOUSING**
KEVIN LUMSDEN, MANAGER - FINANCE
EMAIL DETAILS: communities@angus.gov.uk

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Appendix 1: Proposed 2024/25 Revenue Budget
Appendix 2: 2024/25 Proposed Rent and Service Charges
Appendix 3: Capital Plan 2023-28
Appendix 4: Capital Affordability Assessment
Appendix 5: Prudential Indicators