The City of Edinburgh Council

9.45am, Thursday 22 February 2024

Housing Revenue Account (HRA) Budget Strategy 2024/2025 to 2028/2029 – referral from the Finance and Resources Committee

Executive/routine
Wards

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Housing Revenue Account (HRA) Budget Strategy 2024/2025 to 2028/2029 to the City of Edinburgh Council on 22 February 2024 as part of the budget-setting process.

Dr Deborah Smart
Executive Director of Corporate Services

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Referral Report

Housing Revenue Account (HRA) Budget Strategy 2024/2025 to 2028/2029 – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 6 February 2024, the Finance and Resources Committee considered a report on the Housing Revenue Account (HRA) Budget Strategy 2024/2025 to 2028/2029.

2.2 The 30-year Housing Revenue Account (HRA) Business Plan was reviewed annually and following rent consultation with tenants, officers had recommend that rents be increased by 8.4% p.a. for five years from 2024/25 onwards to make financial provision for delivery of day-to-day services to tenants, including the continuation of the Tenant Hardship Fund and the pre-COVID investment plan to deliver more social rented homes, and make all existing homes as modern and energy efficient as new homes.

2.3 The Finance and Resources Committee agreed:

2.3.1 To note that officers recommended that rents be increased by 8.4% in 2024/25 (year one of a five-year rent strategy; requiring annual increases of 8.4% for the subsequent four years) to deliver the pre-Covid investment plan and ensure the HRA remains in a healthy financial position.

2.3.2 To note the outcome of the annual review of the Housing Revenue Account (HRA) Business Plan and the annual rent consultation with tenants; where two thirds of tenants (66%) voted for a 4.1% p.a. rent increase for five years, a quarter (25%) for a 5.0% p.a. increase for five years and 9% for an 8.4% p.a. increase for five years.

2.3.3 To note that officers recommended that the Tenant Hardship Fund be continued in 2024/25 and inflated in line with any rent increase.

2.3.4 To note that nearly 60% of tenants agreed newly built and/or newly modernised homes should be charged higher rents. Further consultation would be carried out in the next year on the implementation of this from 2025/26 onwards.

2.3.5 To note the key risks to deliver the HRA budget strategy and capital investment plan, including inflation on expenditure rising higher than rental income, collection of that income, market capacity to deliver the capital investment plan and limited government subsidy to fund the plan.

6) To refer the 2024/25 budget, draft 10-year capital investment programme, and the rent levels for 2024/25 (set out in Appendices 3 and 4 of the report by the Executive Director of Corporate Services) to the Council meeting on 22 February 2024 for approval.

3. Background Reading/ External References

3.1 Finance and Resources Committee – 6 February 2024 - Webcast

3.2 Minute of the Finance and Resources Committee – 6 February 2024

4. Appendices

Appendix 1 – Report by the Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Tuesday, 6 February 2024

Housing Revenue Account (HRA) Budget Strategy 2024/2025 to 2028/2029

Executive/routine	**Executive**
Wards	**All**

1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 Notes that officers recommend that rents be increased by 8.4% in 2024/25 (year one of a five-year rent strategy; requiring annual increases of 8.4% for the subsequent four years) to deliver the pre-Covid investment plan and ensure the HRA remains in a healthy financial position;

1.1.2 Notes the outcome of the annual review of the Housing Revenue Account (HRA) Business Plan and the annual rent consultation with tenants; where two thirds of tenants (66%) voted for a 4.1% p.a. rent increase for five years, a quarter (25%) for a 5.0% p.a. increase for five years and 9% for an 8.4% p.a. increase for five years;

1.1.3 Notes that officers recommend that the Tenant Hardship Fund be continued in 2024/25 and inflated in line with any rent increase;

1.1.4 Notes nearly 60% of tenants agreed newly built and/or newly modernised homes should be charged higher rents. Further consultation will be carried out in the next year on the implementation of this from 2025/26 onwards;

1.1.5 Notes the key risks to deliver the HRA budget strategy and capital investment plan, including inflation on expenditure rising higher than rental income, collection of that income, market capacity to deliver the capital investment plan and limited government subsidy to fund the plan; and

Paul Lawrence

Executive Director of Place

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1.1.6 Agrees to refer the 2024/25 budget, draft 10-year capital investment programme, and the rent levels for 2024/25 (set out in Appendices 3 and 4) to the Council meeting on 22 February 2024 for approval.

Report

Housing Revenue Account (HRA) Budget Strategy 2024/2025 to 2028/2029

2. Executive Summary

2.1 Following the annual review of the 30-year Housing Revenue Account (HRA) Business Plan and rent consultation with tenants, officers recommend that rents be increased by 8.4% p.a. for five years from 2024/25 onwards to make financial provision for delivery of day-to-day services to tenants, including the continuation of the Tenant Hardship Fund and the pre-COVID investment plan to deliver more social rented homes, and make all existing homes as modern and energy efficient as new homes.

2.2 The challenging economic climate including inflation on expenditure rising higher than rental income, collection of that income, increasing construction costs, higher interest rates and limited government subsidy to fund the capital investment plan has had a significant effect on capacity. This has impacted on the pace and scale of capital investment that can now be delivered.

2.3 The 8.4% rent increase can still deliver at pace and scale and see all homes brought up to Energy Efficiency Standard for Social Housing 2 (EESSH2) standards and 4,300 new social rented homes over the lifetime of the business plan. The 4.1% and 5.0% rent increase requires the medium-term capital investment plan to be elongated from 10 to 15 years, but still deliver to previously consulted levels over 30 years.

3. Background

3.1 On 23 February 2023, the Council agreed a 3% rent increase in 2023/24 and noted that, based on a 3% annual rent increases over the next 10 years (2% p.a. thereafter), around 86% of existing homes could be brought up to EESSH2 over the 30-year business plan and c.2,400 social rented homes could be delivered.

3.2 The approved budget would support a 10-year £1.7 billion capital programme and £1.1 billion revenue programme to help deliver the overarching strategy to:

3.2.1 Continue to deliver and improve housing management and maintenance services and support tenants to sustain tenancies;

3.2.2 Continue the programme to build new social rented Council homes to meet housing need;

3.2.3 Deliver the Scottish Government's requirement for social housing to meet the EESSH2 standard and contribute to the city's ambition to be net zero carbon;

3.2.4 Deliver improvements to mixed tenure blocks to make all blocks with Council tenancies warm, energy efficient, modern and secure; and

3.2.5 Deliver an area-based approach to design and management of our wider estates aligned to investment in new and existing homes and enabling large scale regeneration is areas such as Granton and Fountainbridge.

3.3 As part of the 2023/24 budget, the Council also agreed to set up to a Tenant Hardship Fund (THF) to support tenants facing financial hardship, including those who cannot access benefits. The THF is administered by a team that has specialist expertise in relation to rent collection and the benefits system, who can support tenants to access benefits where appropriate.

3.4 On 3 October 2023, Housing, Homelessness and Fair Work Committee considered the Housing Revenue Account Budget Strategy 2024/2025 report in advance of the annual rent consultation with tenants. The report highlighted the significant increase in HRA expenditure since the 2023/24 budget was approved, reducing the financial capacity of the HRA substantially to fund long-term investment.

3.5 The report set out three annual rent increase options for each of the following five years: 4.1% p.a. to deliver the 2023/24 approved investment plan; 5.0% p.a. to align to an inflationary increase; and 8.4% p.a. to deliver the pre-COVID investment plan. Housing, Homelessness and Fair Work Committee also agreed to consult with tenants on whether higher rents should be charged to newly built and/or newly modernised homes that have been upgraded to EESSH2.

3.6 Most tenants who took part in last year's rent consultation agreed with setting up a longer-term plan for rent charges. A five-year rent strategy was included in this year's consultation. If approved, it would give both tenants and officers certainty on what the rent increase would be and enable officers to better plan investment in existing and new homes. Previously, the Council did have agreement on a rent structure (inflation + 2.7%) to meet statutory commitment of bringing homes up to meet the Scottish Housing Quality Standard.

3.7 On 2 November 2023, Council declared a Housing Emergency due to the acute nature of Edinburgh's homelessness crisis, coupled with the severe shortage of social rented homes and the increasing pressure within the private rental market.

3.8 On 5 December 2023, Housing Homelessness and Fair Work Committee approved the Strategic Housing Investment Plan 2024-2029. The Plan set out a potential affordable housing development pipeline of over 11,000 homes. This is predicated on grant funding being available. Based on current Resource Planning Assumptions (RPAs) there is an estimated grant funding gap of over £660m over the next five years.

3.9 In December 2023, the Scottish Government draft budget included a reduction in the Affordable Housing Supply Programme funding of £196m (26%) for 2024/25 from the 2023/24 budget figure of £712m. This is a 37% reduction in the past two years. Edinburgh's RPA is made up of a combination of Transfer of the Management of Development Funding (TMDF) and More Homes Fund. More Homes funding is allocated using the Strategic Housing Investment Framework formula. TMDF remains unaffected in 2024/25 but that only accounts for c.60% of Edinburgh's budget (£27m). The impact of the cut on Edinburgh's final RPA is currently unknown.

4. Main report

4.1 The HRA Business Plan 2024/25-2053/54 is the financial framework that underpins the Housing service. The budget is prepared annually following consultation with tenants and regular review of the 30-year HRA Business Plan and the 10-year Capital Investment Programme. It is informed by statutory compliance and government targets, tenants' priorities, and Council commitments, as well as major component replacement and health and safety.

4.2 The assumptions used in the Business Plan have been reviewed and updated to reflect the latest operating environment. Although inflation has started to slow down/stabilise, with Consumer Prices Index (CPI) reducing from 10.4% in February 2023 to 3.9% in November 2023, it is still significantly higher than the 1.7% in 2019 (pre-COVID) and the 2% Bank of England inflation target. The impact of two rent freezes and a 3% rent increase implemented in 2023/24, has resulted in the costs of delivering service increasing at a faster rate than the rental income expected for the HRA.

4.3 Capital investment is funded through a combination of prudential borrowing, Scottish Government grant funding, capital receipts, in-year revenue surplus and/or sinking fund built up in previous years. Capital investment costs, and associated borrowing re-payments, are expected to increase based on the draft 10-year capital investment programme set out in appendix 4.

4.4 The financial capacity of the HRA to fund the long-term delivery has deteriorated significantly. The two rent freezes (2021/22 and 2022/23) have meant a £6m reduction in income per annum (£179m over the Business Plan). Every £1m revenue can fund around £16m in capital borrowing. Many projects for improving existing homes and building new homes have seen tender prices from prospective contractors considerably higher than the estimated costs at design/cost plan stage. Borrowing rates have also increased significantly from 2023/24 to 2024/25 (as an example of this, repayments have increased by £2.6 million and interest has increased by £4 million). Future borrowing requirements have been modelled on an interest rate of 4.25%.

4.5 The proposals set out in the consultation took into account the increases in costs that were known at that time (October 2023) and set out an option to maintain the previous year's budget, increase rents in line with inflation estimates or to restore the investment plan to pre-pandemic levels. Following an up-to-date assessment of all expenditure and income drivers, and associated assumptions for 2024/25, this has resulted in changes to the position reflected in the consultation. The 8.4% rent increase over five years can still ensure 12,400 homes can be brought up to EESSH2 and 3,560 new social rented homes build over the next 10 years. The 4.1% and 5.0% rent increases now require the capital investment programmes to be elongated from 10 to 15 years to be able to bring 5,200 or 5,800 homes respectively up to EESSH2 and the delivery of 2,300 or 2,000 new social rent homes. The detail of the changes are set out in the financial impact section below.

4.6 The report includes a detailed one-year budget and a five-to-10-year capital programme based on the officer recommendation of 8.4% (as set out in Appendices 3 and 4). Appendix 4 also highlights the level of capital investment that could be delivered over the next 10 years based on 8.4% (£3.8bn). A 4.1% rent increase would enable £1.3bn of capital investment over 10 years and 5.0% increase of £1.8bn. The programme will be revised depending on the final rent increase agreed for 2024/25.

Tenant Consultation

4.7 This year's consultation ran between 9 October and 17 December 2023. It received a total of 1,159 postal and online responses. This was the highest number of responses ever received and was a 160% increase from the previous high of 445 received for the 2022/23 budget.

4.8 The rent consultation was complimented by a phone survey with 1,000 tenants, carried out by an independent research company. After the removal of duplicated entries from tenants who responded through the online/postal survey as well as the commissioned phone survey, just under 2,100 (c.10% of all tenants) responses were considered. It should, however, be noted that not all tenants answered all of the questions.

4.9 Of the three rent increase options consulted on, around two thirds of respondents (66%) voted for a 4.1% p.a. rent increase for five years, with 25% of respondents voting for a 5.0% p.a. and 9% voting for 8.4% p.a. for five years.

4.10 Comments from tenants showed that there was understanding of the need to increase rents to pay for the increased costs. However, financial pressure from the cost-of-living crisis and affordability remained a concern to some tenants. Some tenants felt that rent should only be increased if the standards of homes, repairs and services were improved.

4.11 Nearly 60% of the respondents agreed that the Council should consider charging a higher rent for new built homes (26%), newly modernised homes (3%) or both new built and newly modernised homes (29%). While there was general support for continuing investment on building new homes, tenants believed investment priority should be given to improving existing homes.

Help with Rent

4.12 Many tenants have been experiencing increased financial pressures as a result of the pandemic and recent cost-of-living crisis. The rent consultation found that just over a third (34%) of the respondents had found it more difficult to pay their rent over the last 12 months, but only 42% of them had sought advice or help to assist with paying the rents. For those who had sought advice or help, the majority (55%) were very or fairly satisfied that the assistance they received met their needs, compared to 24% who were very or fairly dissatisfied. The remaining 21% were neither satisfied nor dissatisfied. Tenants commented that it was important to promote the advice and support available regularly and that the information needed to be more accessible.

4.13 Between 70% and 80% of tenants get help to pay their rent through Housing Benefit (HB) or the housing element of Universal Credit (UC). These tenants, including those on partial benefits, are usually not affected by any proposed rent increase as their HB/UC entitlement will increase to cover the rent rise, assuming there are no other changes in the household circumstances, and they are not affected by a benefits cap and/or under-occupation reduction.

4.14 For those who do not receive help with their rent; the Scottish Government's 'Rent affordability in the affordable housing sector' report highlights that *'The oldest and most commonly used measure of rent affordability internationally, because of its simple formula, is based on the ratio of house prices (in terms of rents) relative to income/earnings (affordability ratio = rent / income), which measures the proportion of a household's income that is spent on rent.'* It goes on to say there are a variety of different opinions on the percentage that is deemed affordable, but *'Based on research, a rent can be considered affordable when housing costs do not consume more than 30-40% of households' incomes'.* Taking into account the three rent options and increases over the next five years and basing income on full time minimum wage (with 2% annual uplifts), all three rent options would be less than 35% (two bed average rent) of income.

4.15 As noted in the background to this report, a THF was set up as part of the 2023/24 housing budget to support tenants facing financial hardship (including those who cannot access benefits). The THF is administered by a team with specialist expertise in relation to rent collection and the benefits system, who can support tenants to access benefits and/or refer tenants to Income Maximisation Service where appropriate.

4.16 In the first nine months (April to December 2023) of introduction, the THF received a total of 2,180 applications. Over £394,000 (c.60% of the budget) fund has been paid to tenants of approved applications. In addition, 36 cases were referred to the Income Maximisation Service to help tenants maximising access to benefits. In addition to helping to alleviating financial pressure for tenants, the availability of THF seems to have helped Housing Officers strengthen their relationships with tenants.

4.17 The current version of the Business Plan assumes that the THF will continue to operate in 2024/25. The starting budget will be uplifted in line with the agreed rent increase and based on full year take up. This will be reviewed annually in line with budget preparations.

4.18 Fees and charges for additional services provided as part of tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) have been frozen for seven years prior to the increase in 2023/24. The majority of these charges cannot be covered by benefits and therefore provide a direct financial saving to tenants. Fees and charges, except for the communal heating and heat with rent charges, will be increased at the same rate as the rent increase agreed by Council, but capped at 5.0%, which is the default increase for Council's general fund service charges. Heating charges will be frozen in 2024/25 while a detailed review is being carried out.

4.19 The Scotland's Housing Network surveyed its members on the rent increase options for consultation with tenants. Among the 19 local authority landlords who provided a response to the survey, including the City of Edinburgh Council, the most common option being consulted on was within the range of 6.0% to 6.4% and 6.5 to 6.9% (with eight landlords having rent increase options of this two ranges). The highest rent increase being considered was 11%. Of the 45 Registered Social Landlords (RSLs) who responded to the survey, the most common option being consulted on was around 6.5% to 6.9%, with 14 landlords proposing rent increase options within this range.

4.20 For the last five years, Council rents have increased by an average of 1.4% a year, compared to the average of 2.6% increase for local authority landlords and average CPI of 4.3% (five years to November 2023). In order to mitigate the impact of the previous rent freezes and the below inflationary increase in 2023/24, officers recommended rent to be increased by 8.4% p.a. in the next five years in order to provide HRA the financial capacity needed to deliver the pre-COVID investment plan.

5. Next Steps

5.1 It is recommended that this report be referred to the Council for consideration.

5.2 Depending on the decision of the Council on 22 February 2024, officers will work through the impact of the agreed rent strategy on the capital investment programme.

5.3 The detailed 2024/25 Capital Investment Programme will be reported to Housing, Homelessness and Fair Work Committee for approval in May 2024.

5.4 Officers will continue to work with Scottish Government to maximise grant funding for both the new build programme and the transition to net zero carbon. Any reduction in funding could have an impact on programme delivery. Any changes will be reflected in the detailed capital investment programme report and regular monitoring update reports to Finance and Resources Committee.

6. Financial impact

6.1 The last HRA Budget Strategy, approved by the Council in February 2023, included a 10-year £1.7 billion capital programme and £1.1 billion revenue programme. Following a review of the Business Plan assumptions (as set out in the HRA budget strategy report 2024/25 to Housing, Homelessness and Fair Work Committee on 3 October 2023), in order to deliver the same outcomes over the next 10 years it was projected rent would need to be increased by 4.1% a year for the next five years (followed by 3% p.a. for four years, then 2% p.a. from 2033/34 onwards).

6.2 The report in October highlighted the increased in costs of delivering the services due to inflationary increases and staff costs rises; and to fund the capital investment for both new build housing and bringing existing homes up to EESSH2.

6.3 Recent tender prices from prospective contractors are significantly higher than estimated costs at design/cost plan stage, which could further increase the uncertainty of the delivery in future years. Further changes on the key assumptions have been made since then. Most of changes have exacerbated the financial stability of the HRA, which include:

6.3.1 **Cost of delivering services (inflationary increases and staff cost increases).** Although inflation has started to slow down/stabilise, with CPI reducing from 10.4% in February 2023 to 3.9% in November 2023, it is still higher than the 3.0% inflation assumed in last year's Business Plan;

6.3.2 This is also the case for the employee costs, where the inflation rates assumed in this year's Business Plan are higher than those last year. Additional costs for the newly established Dampness team and the fleet review have now been assumed as part of the recharges to the HRA;

6.3.3 Much of the projected year-end expenditure is now higher than allowed for in the budget, resulting in less in-year surplus to be used to reduce borrowing to fund capital investment. This also results in higher assumed 2024/25 starting position being used for modelling future years' expenditure;

6.3.4 **Capital receipts from private developers** is an important funding resource for the new build programme along with prudential borrowing and Scottish Government grant funding. Following the review of the phasing of the wider programme there has been a prudent reduction in overall developer contributions;

6.3.5 **Long term target for void rent lost.** As part of the Housing Emergency Action Plan, detailed work has been carried out in relation to the nature and status of the empty Council properties and the realistic timescale to bring these properties back into use to create rental income has been factored into the plan;

6.3.6 **Debt servicing costs for borrowing against existing homes and estates**. Debt servicing expenditure accounted for 37% of the HRA net income in 2022/23. Due to the scale of the planned investment, the debt servicing cost is projected to increase. The level of increase is dependent on the scale of capital investment in the relevant plan.

6.3.7 A review has been carried out on how each component of HRA expenditure is funded, including isolating the capital investment and corresponding borrowing requirement for the new build programme and existing homes and estates. The debt servicing costs for the improvement programme have been revised as a result; increasing the debt servicing liability in the early years of the business plan.

6.4 These changes have created significant financial pressures to the HRA Business Plan, especially in the early years, where the plan is most ambitious. The proposed rent increases that formed part of the consultation are no longer viable if the assumed capital investment continues as planned, with the HRA falling into in-year deficits and the reserve being exhausted within the first ten years of the business plan. Revising long term income assumptions and rephasing of investment is required to bring the plan into a healthy position:

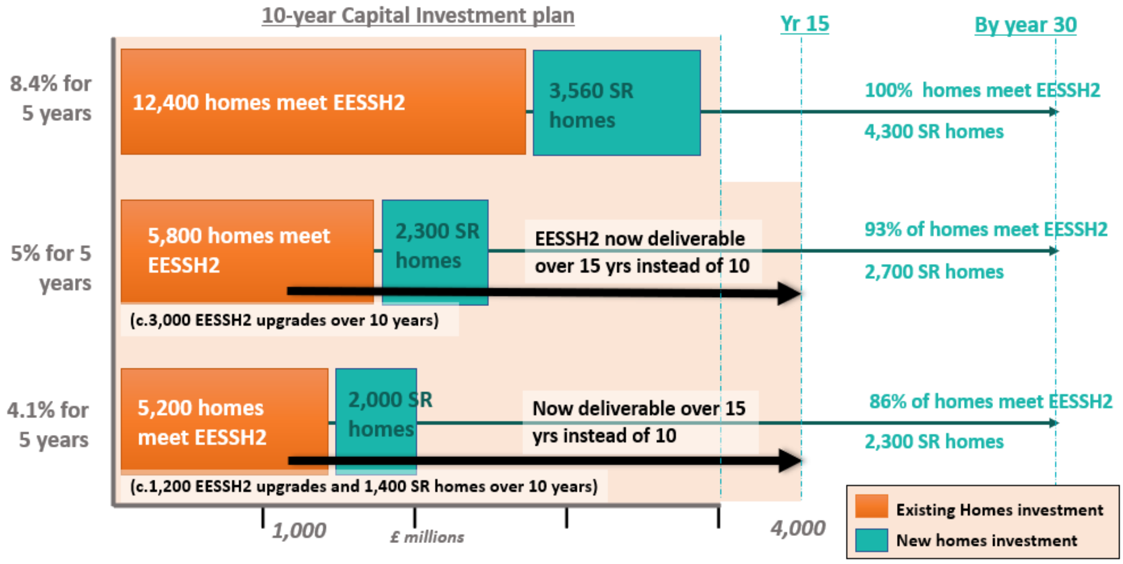
6.4.1 **Long-term income assumptions:** It was previously assumed that rent would be increased by 3% p.a. for four years after the consulted five-year strategy has been implemented, followed by 2% p.a. rent increase thereafter. Due to the changes of business planning assumptions stated above, the investment plans associated with all three rent options are no longer viable. Rent would need to increase by 4.25% p.a. in year 6 to year 10 of the business plan (followed by 3% p.a. thereafter). This is to align with borrowing for future capital investment, as repaying borrowing is projected to account for half of the HRA revenue expenditures.

6.4.2 **Rephasing EESSH2 delivery**: The HRA is projected to be under the greatest financial pressure during the first 10 years of the business plan, when there is an ambitious plan for both delivering more new build homes and upgrading homes to EESSH2. Once the new homes are completed (majority completed in the first ten years) and bringing in rental income, the HRA is projected to be in a healthier position to support a larger improvement programme. For the 5.0% and 4.1% rent options (followed by 4.25% p.a. rent increase for five years), the investment plan would remain viable if c.50% of the 10-year EESSH2 investment is rephased to year 11 to year 15, while still delivering the original 30-year investment within the timescale.

6.4.3 **Alternatively**, the 5% and 4.1% rent increase options could still deliver the original 10-year investment plan if £170 million additional grant funding for EESSH2 is available for the 5% rent option during the first ten years or £279 million additional grant for EESSH2 and new build for the 4.1% rent option. This is on top of the £4 million a year Social Housing Net Zero Heat Fund (SHNZHF) already assumed in the business plan.

6.5 The diagram below sets out the impact on the delivery of the proposed investment programmes included in the rent consultation.

Figure 1: impact on the 10-year capital investment programme



**Based on the three rent scenarios (4.1%, 5.0% and 8.4% increases for five years), then 4.25% p.a. for the following five years (in line with the interest rate assumption) and 3% p.a. thereafter. If the rent increases were less than this then the investment would have to be scaled back. The 4.1% and 5% rent options now require the capital investment programmes to be elongated from 10 to 15 years.*

6.6 Business plan financial assumptions have been made on the basis that new properties planned for Edinburgh Living will transfer to them at the timescales currently assumed. Financial viability for Edinburgh Living is carried out at three stages, with the final assessment being on the date of the proposed sale. Should the final test not be met, the properties cannot be sold to Edinburgh Living. In this event the HRA would require to review its own financial viability and, if appropriate, identify appropriate contingency plans.

7. Equality and Poverty Impact

7.1 As set out in the HRA Budget Strategy 2024/25 report to Housing, Homelessness and Fair Work Committee on 3 October 2023, the current strategic investment approach for existing homes is to target investment in areas that fall within the 20% most deprived areas as per the Scottish Index of Multiple Deprivation (SIMD), in line with a climate justice approach and those who are most at risk of fuel poverty.

7.2 Investment in new homes and partnership working as part of Health and Social Care integration will help increase the supply of homes built specifically for older people or people with complex health needs.

7.3 It is acknowledged that the proposed rent increase may have a disproportionate impact on tenants not receiving assistance with their rent, increasing the financial challenge faced by the tenants. The Council will continue working with advice agencies within the city to provide appropriate advice and support for tenants facing financial hardship. The continuation of the THF will help tenants experiencing financial hardship; including those who cannot access benefits.

7.4 The expanded Energy Advice Service continues to help tackle fuel poverty, by providing advice and information to Council tenants on operating heating systems efficiently, applying grants and loans, accessing suitable tariff, and referring tenants to Income Maximisation Service where appropriate.

8. Climate and Nature Emergency Implications

8.1 The Council led house-building programme prioritises delivery of homes on brownfield sites, reducing pressure on Edinburgh's green belt. Building more homes will inevitably produce more carbon, however, the Council aims to build homes as energy efficiency and sustainable as possible. Since November 2020 all new build Council homes have been designed to achieve net zero carbon.

8.2 The Mixed Tenure Improvement Service aims to improve the common area of mixed tenure blocks, including the external fabric which helps to improve the energy efficiency of the buildings benefiting both Council tenants and other residents within the blocks.

8.3 The Whole House Retrofit programme will ensure all existing homes achieve high energy efficiency standards (e.g. EESSH2) by adopting a fabric first approach, helping to meet the Council's net zero commitment. During the design stage, designers are required to undertake an energy options appraisal to determine the best low carbon/renewable heating option for the development concerned, taking into account of the cost for tenants to run and the costs for the Council cost to install and maintain.

8.4 The Energy Advice Service provides advice and information to Council tenants to operate heating systems efficiently, applying for grants and loans which help to alleviate fuel poverty and reduce carbon emissions.

9. Risk, policy, compliance, governance and community impact

9.1 Every year the Council asks tenants for their views on the HRA budget strategy, investment plan, services and associated rent levels. This year's consultation ran between 9 October and 17 December 2023.

9.2 A consultation booklet was posted to every tenant as part of the Tenants' Courier newsletter, where the tenant could respond to the postal survey printed on the back of the booklet using the freepost return envelope provided. Tenants could also respond to the consultation survey online through the Council's Consultation and Engagement Hub. The consultation was promoted by Housing Officers (in person and via email footers), targeted social media posts, press releases and leaflets in localities. Where an email address is available, tenants were sent an email reminder to complete the online consultation survey in the last week of the consultation period.

9.3 This year's consultation received a total of 1,159 postal and online responses. This was the highest number of responses ever received and was a 160% increase from the previous high of 445 responses received for the 2022/23 rent consultation.

9.4 The rent consultation was complemented by a phone survey with 1,000 tenants, carried out by an independent research company commissioned by the Council. The Council provided a random sample of tenants contact details to the research company, weighted by locality and property type to be an accurate representation of our tenant group.

9.5 After the removal of duplicated entries from tenants who responded through the online/ postal survey as well as the commissioned phone survey, just under 2,100 (c.10% of all tenants) responses were considered.

9.6 On 11 January 2024, officers met with members of the Edinburgh Tenants Federation (ETF) Executive Committee to present the budget consultation and initial findings of the consultation outcomes. ETF members provided similar feedback as those found in the consultation survey, while expressing concerns that a five-year strategy was too long to be committed to and that the consulted rent increase options were too high.

10. Background reading/external references

10.1 Housing Revenue Account (HRA) Budget Strategy 2023/24 – 2032/33 - City of Edinburgh Council, 23 February 2023.

10.2 Mixed Tenure Improvement Service Progress – Housing, Homelessness and Fair Work Committee, 9 March 2023.

10.3 2023/24 Housing Revenue Account (HRA) Capital Programme - Housing Homeless and Fair Work Committee, 9 March 2023.

10.4 Housing Service Improvement Plan – Six Monthly Update - Housing Homeless and Fair Work Committee, 3 October 2023.

11. Appendices

11.1 Appendix 1: Core Business Plan Assumptions

11.2 Appendix 2: 2024/25 Council Rent Consultation Results

11.3 Appendix 3: Housing Revenue Account Budget 2024/25 (Draft)

11.4 Appendix 4: Draft 5 Year & 10 Year HRA Capital Investment Programme

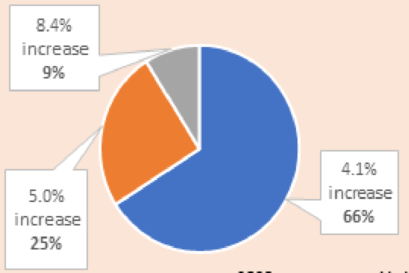
11.5 Appendix 5: Key risks to the Budget Strategy

Appendix 1: Core Business Plan Assumptions

Input	2024/25	Note
Inflation **(Operating Costs)**	**3.9%**	This assumption aligns to the latest published inflation figure available (November 2023), and the Council's General Fund business plan for the following four years, before returning to the Bank of England inflation target of 2%.
Inflation **(Employee Costs)**	**3%**	This assumption mirrors that of the Council's General Fund business plan. The HRA does not benefit from any Scottish Government grant for local government pay deal, as it is self-financed and ringfenced from the General Fund.
Rent Increase	**4.1%, 5% or 8.4%**	Tenants were consulted on a five-year rent strategy with three options in 2024/25: 4.1%, 5.0% and 8.4%. Officers recommend the 8.4% in order to ensure long term financial stability and deliver the pre-Covid investment plan.
Net Rental income	**96.58%**	Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes.
Former tenant arrears write off and bad debt provision	**1.52%**	Any rental debt outstanding for over 3 months, where there have been no payments received or there is no agreed repayment arrangement, is written off annually. The write off assumed in 2024/25 is expected to be similar to that in 2023/24. The bad debt provision assumed in the business plan is slightly lower than that in 2023/24 as the increase of current tenancy arrears started to stabilise.
Rent lost on empty homes	**1.90%**	This assumption is based on the long-term average estimated performance and is applied over the 30-year business plan period. A slightly higher percentage is assumed in 2024/25 for the current backlog of empty homes due to the pandemic. A work plan as part of the Housing Emergency action plan is now in place to bring down the number of empty homes and turnaround time back to the long-term average.
Fees and charges increase	**Increase in line with rent but capped at 5.0%; except for heating charges, which will be frozen**	Fees and charges for additional services provided with tenancies (e.g. communal heating, furnished tenancies, etc) has been frozen for seven years in a row previously before some of them were increased in 2023/24. Fees and charges, except for the communal heating and heat with rent charges, will be increased at the same rate as the rent increase agreed by Council, but capped at 5.0%, which is the default increase for Council's general fund service charges. A 5.0% assumption has been applied to the draft one-year revenue budget set out in appendix 3. Heating charges will be frozen in 2024/25 while a detailed review is being carried out.
Debt level (projected for March 2024)	**£512m**	Increased from £446 million at 31 March 2023. This was due to an increased borrowing requirement to support the capital investment programme in 2023/24.
Interest on new debt	**4.25%**	All future borrowing requirements have been calculated assuming a 4.25% interest rate.

Appendix 2: 2024/25 Council Rent Consultation Results

Rent increase options

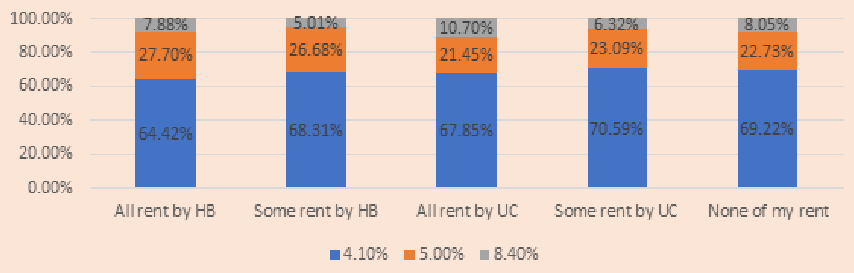


2039 responses provided

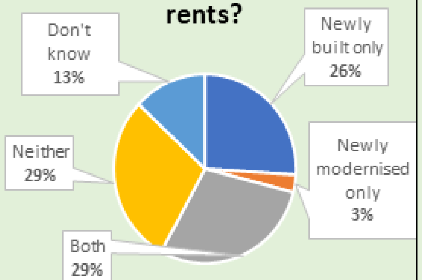
Summary:
- Two thirds of respondents selected the 4.1% increase
- One quarter selected 5% increase
- 41 (or 1.9%) of tenants did not respond this question, several of who commented that they wanted a rent freeze or rent reduction

Tenant comment trends:
- Tenants understood costs have risen and rent needs to rise
- Financial pressures remain a concern
- Improve current standard of homes / repairs / services

How tenants voted based on rent support



Who should pay higher rents?



2076 responses provided

Summary:
- Majority of tenants who responded agree that higher rates should be charged for either newly built, newly modernised or both types of council homes
- Over a quarter thought an additional premium should not be charged

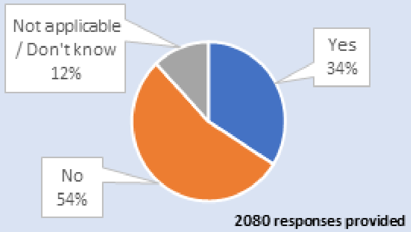
Tenant comment trends:
- Support for newer/more energy efficient homes paying more
- Support for building more homes/improving existing homes
- Support for prioritising investment on existing homes over building new homes

Ways rent consultation was promoted
- Tenant's courier / booklet to all tenants
- Email reminder sent to over 10k tenants
- Use of various social media platforms
- Leaflets and advertising in localities
- E-signatures on housing officer emails
- Notes to press

Response Rate
- Highest number of responses ever received
- 160% increase on previous high of 455 responses received in 2022/23 rent consultation (excluding phone survey).

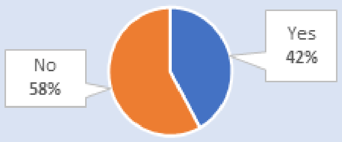
943 Online responses (via CEC Consultation Hub)
216 Postal responses (sent out with Tenants Courier)
1000 Telephone responses (as part of Tenant survey)

Have you found it harder to pay your rent?



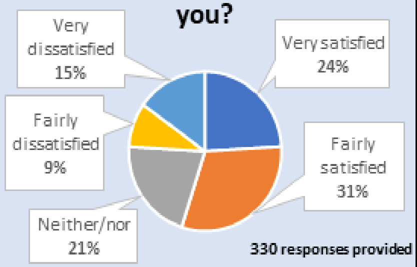
2080 responses provided

Have you sought advice or help with paying your rent in the last 12 months?



746 responses provided

If Yes, how satisfied were you?



330 responses provided

Summary:
- Just over a third of tenants had found it more difficult to pay rent, compared to over half who hadn't
- Of those who had, less than half had sought advice / help in the last 12 months – most of which were very or fairly satisfied with the assistance they got

Initial tenant comment trends:
- Keep tenants informed in terms of rent and make it more accessible
- Tenants have received good help already

Appendix 3: Housing Revenue Account Budget 2024/25 (Draft)

	Projected Outturn 2023/24 (£m)	Proposed Budget 2024/25 with 8.4% rent increase (£m)	Movement (£m)	Note
Net Income	**105.627**	**117.811**	**12.184**	1
Expenditure				
Housing Services	39.945	41.444	1.499	2
Property Maintenance	26.282	28.129	1.847	3
Debt Charges	36.676	44.589	7.913	4
Strategic Housing Investment	2.724	3.649	0.925	5
Total Expenditure	**105.627**	**117.811**	**12.184**	

Note 1.

"Net Income" is the total rent due to be collected, less written off former tenant arrears and rent loss due to empty homes. It also includes income from interest, service charges and costs recovered in relation to communal heating schemes and owner occupiers. The net income is expected to be increased by just over 10.2% compared last year's budget if the proposed rent increase of 8.4% is approved. An assumption has been made that the void rent loss rate will improve in 2024/25 because of the work plan and project team that have been put in place to reduce the turnaround time of void properties. The average weekly rent would increase by £9.23 under an 8.4% rent increase. If a 4.1% rent increase was implemented Net Income would be £113.294m or £114.274m for a 5% increase. The average weekly rent would increase by £4.51 or £5.50 respectively.

Note 2.

"Housing Services" includes core housing management services and tenant and community services like energy advice and community gardens. It includes employee costs, central support costs and recharges, premises and other expenditure linked to service delivery and their corresponding inflationary increases. The employee costs have been reviewed to reflect the expected pay awards and spinal column point changes. Staff cost inflation is assumed to be 3% for 2024/25. For non-staff costs, an inflation rate of 3.9% has been assumed for all costs apart from electricity, where inflation is expected to be higher (8%). The draft budget also includes £0.6 million for the continued development of the Housing Service Improvement Plan (HSIP) and £1.3 million for the enabling work of large-scale regeneration. This will be monitored along with the capital programme and, where appropriate, relevant expenditure will be capitalised in year.

Note 3.

"Property Maintenance" includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. The repairs budget has been increased compared to 2023/24 to allow for "additional" repairs and maintenance for new homes; additional spend required to reduce the number of empty homes and the associated increase in costs for external sub-contractors which are used to support this workstream. There is inflationary increase on estate management/maintenance expenditure. Savings from external charges are expected to be achieved through careful management of the contractor providing external land maintenance services.

Note 4.

The HRA borrows to finance the planned housing investment and house building capital programmes. "Debt Charges" are capital financing costs (principal repayments and interest). The increase is in line with the capital investment plan set out in the report. This sets out the borrowing required to fund historic borrowing and 2024/25 *capital investment programme. Year one of the capital investment programme is fixed and therefore debt service charges would remain the same for all rent levels.*

Note 5.

"Strategic Housing Investment" relates to income in excess of annual operating expenditure. It can be used within the same year to fund new capital investment (CFCR), repay old HRA debt or mitigate unforeseen risks. It can also be transferred to the Repairs and Renewals fund to support the new build programme in future years. The main reason for any reduction is the result of a higher rate of increase in expenditures than incomes. The Strategic Housing Investment Fund is an amalgam of the Repairs and Renewals Fund and the Council Tax Discount Fund.

This is based on a 8.4% rent increase. The 5% rent increase this would create a £0.112million contribution to the reserves. However, if the 4.1% rent increase was implemented this would require a drawdown from SHIF reserves of £0.869m to deliver a balanced budget.

It is important to note that all scenarios considered for the 2024/25 HRA Business Plan assume that no in year surpluses or reserves (sinking funds) have been applied to the capital investment programme and will be fully funded by borrowing in current and next five to ten years. However, this will be kept under review so that the reintroduction of CFCR to support investment will form part of the funding plan.

Appendix 4: Draft 5 Year & 10 Year HRA Capital Investment Programme

The 2024/25 Draft Budget and business plan are based on the assumptions set out in Appendix 1. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy (£3.8bn) based on annual rent increases of 8.4%. Inflation has been included in the figures where appropriate. A 4.1% rent increase would enable £1.3bn of capital investment over 10 years and 5% increase £1.8bn. The programme will be revised depending on the final rent increase agreed for 2024/25.

The resources may be revised through the year as officers seek to make the best use of any existing and new resources and use the most appropriate funding to generate the best return to the HRA.

Programme Heading	1	2	3	4	5	***5 Year***	6 to 10	***10 Year***
	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	***Total***	2029/30 to 33/34 £m	***Total***
Programme Expenditure								
New Homes Development*	74.069	210.628	172.152	300.597	287.632	*1,045.078*	1,256.513	***2,301.591***
New Home Land Costs	0.000	0.000	17.150	17.150	17.150	*51.450*	85.950	***137.400***
Tenant's Homes & Services & Maintenance	11.790	26.821	26.460	27.331	26.998	*119.400*	134.170	***253.570***
External Fabric and Estates & Acquisitions	50.334	114.247	107.768	116.491	115.360	*504.200*	575.249	***1,079.449***
Total Expenditure	**136.193**	**351.696**	**323.530**	**461.569**	**447.140**	**1,720.128**	**2,051.882**	***3,772.010***
Programme Resources								
Prudential Borrowing	71.293	237.496	202.468	211.526	198.641	*921.424*	1,094.431	***2,015.855***
Council Tax Discount Fund	3.300	3.300	3.300	3.300	3.300	*16.500*	15.300	***31.800***
Capital Receipts and Other Incomes	4.567	0.830	24.075	21.176	24.326	*74.974*	54.398	***129.372***
Receipts from LLPs*	36.818	57.376	50.392	130.664	153.935	*429.185*	586.095	***1,015.280***
Scottish Govt. Grant (affordable housing)	16.215	48.694	39.295	90.903	62.938	*258.045*	281.658	***539.703***
Scottish Govt. Grant (WHR)	4.000	4.000	4.000	4.000	4.000	*20.000*	20.000	***40.000***
Total Funding	**136.193**	**351.696**	**323.530**	**461.569**	**447.140**	***1,720.128***	**2,051.882**	***3,772.010***

**The budget for new build housing includes the upfront capital costs for the Council led development of all affordable homes, including homes for mid market and affordable market that will be purchased by the Council's LLP (Edinburgh Living). This has no impact on the HRA as interest payments are deferred until the homes are purchased. Please note these receipts go beyond current approved levels of on-lending, approval will be sought to expand the programme in future years.*

Appendix 5: Keys risks to the HRA Budget Strategy

Risk	Mitigation
Income increasing at a slower pace than expenditure: With the costs of delivering the day-to-day service and capital investment increasing at a much faster rate than rental income (materials, inflation, borrowing rates, labour costs etc.), the HRA may not be able to sustain the current level of service and/or investment in medium to long term. Limited increases in income due to rent freezes & below inflationary increases. Also, the amount of rent collected falls below the assumed level in the Business Plan, due to ongoing migration of tenants on to Universal Credit (UC) and financial hardship due to the pandemic and cost-of-living crisis. Reduction in income collected due to the number of homes currently void.	Officers recommend an 8.4% p.a. rent increase for the next five years to deliver the pre-Covid investment plan. With the inflation rate started to slow down/stabilise, the proposed rent increase could potentially help to limited increase of rental income in the last three years. The business plan has made assumption on the potential loss of income due to tenants migrating to Universal Credit, to minimise the negative impact on income. Rent processes have been improved to monitor and track landlord payment from the DWP and early intervention continues to be sought for all tenants moving onto UC. A new early intervention contact system has been implemented to alert housing officers on tenants who are having difficulty managing their rent account, to avoid build-up of rent arrears. The introduction of the Tenant Hardship Fund has helped alleviating financial pressures for tenants and allowed tenants to access appropriate advice and support. A work plan as part of the Housing Emergency action plan is now in place to bring down the number of empty homes and turnaround time back to the long-term average.
Impact of borrowing costs on large scale investment programme: 37% of expenditure went towards servicing borrowing in 2022/23. Scaling up capital investment means this percentage will increase. Borrowing rates have also increased significantly from 2023/24 to 2024/25, as an example of this, repayments have increased by £2.6 million and interest has increased by £4 million.	The business plan is reviewed annually and any changes in borrowing rates will be closely monitored and reflected in future iterations. The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate pooled across all projects. This ensures the most competitive rates are secured. A five-year rent strategy will allow for longer term financial certainty and sustained income to service debt.
Contractor capacity: Due to the scale of the Programme contractor capacity within current frameworks will be limited as multiple contractors sit across a number of work packages. As such they may have limited capacity to respond to the scale of work set out in the capital investment programme. The WHR work packages are not suitable to be procured within existing frameworks due to the specialist type of work, number of sub-contractors required, and the risks involved with working on multi-storey blocks.	Key workstreams will be staggered throughout the financial year to ensure contractors within existing Council frameworks are not overloaded. External frameworks will be explored to see if they are suitable for procuring more specialist and sizable WHR area based and multi-storey work programmes. Continued engagement with contractors on external frameworks and the market more widely will need to be scaled up to let prospective contractors know the strength of the WHR pipeline. The existing Housing Property Framework will need to be renewed in 2024. This provides an opportunity to ensure that any future Framework is suited to the needs of the capital programme over the next five years and in particular that this includes the ability to

	procure larger more specialist contractors to take forward area based and multi-storey WHR programmes.
Grant funding: Grant funding benchmark for new homes is not responding quickly enough to cost increases. And whilst the overall benchmark has increased the overall funding pot has not. Which means less homes can be taken forward year on year. If resource planning assumptions remain static there is currently not enough grant to support the Council Housing Building programme. Based on recent SG budget announcement in December 2023, the current RPAs could be reduced further in 2024/25. Uncertainty on Council's on-lending to Edinburgh Living LLPs may reduce its ability to purchase completed homes funded by the HRA, impacting on HRA capital receipts assumed in the business plan. The cost of delivering WHR across the Council's existing estate is estimated be around £58,000 per home, c.3.6% increase from last year. Grant funding is not guaranteed and requires individual bids to be submitted on a project-by-project basis. Grant funding to support owners to invest in mixed tenure improvements and energy efficiency will be insufficient, resulting in the Council not meeting its net zero commitment.	Edinburgh has a strong track record of spending it's RPAs and mopping up national underspends. Officers will continue to work with government to maximise grant funding for new supply. As set out in the 'Strategy for purchasing land and homes to meet affordable housing need' report at HH&FW committee in Dec 23, officers are exploring a variety of mitigations including exploring ways to increase borrowing capacity and generating additional funding. Work on Edinburgh Living viable models is underway; taking into account development costs, availability of grant funding and consents. Additional funding for energy efficiency and low carbon technologies will be a made available by the Scottish Government. This includes the Low Carbon Infrastructure Transition Programme and its successor programme which will invest £400min large-scale heat decarbonisation infrastructure; and the Social Housing Net Zero Heat Fund which will make £200m available over the next five years to support social landlords across Scotland to install zero emissions heating systems and energy efficiency measures across their existing stock. The application to Scottish Government's EES:ABS grant fund has been aligned with the MTIS pilot in order to maximise funding available to owners to enable works to progress.