Finance and Resources Committee

10.00am, Friday, 14 February 2020

Housing Revenue Account (HRA) Budget Strategy (2020-2030)

Executive/routine	**Executive**
Wards	**All**
Council Commitments	1, 10, 18, 41, 44

1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 agrees to refer the 2020/21 budget, draft five-year capital investment programme, and the rent levels for 2020/21 set out in Appendices 2, 3 and 4 to the Council budget meeting for approval;

1.1.2 notes the outcome of the annual budget consultation;

1.1.3 notes the proposed £2.5 billion ten-year investment programme to deliver Council commitments, including 10,000 new affordable homes;

1.1.4 notes that the cost of achieving net zero carbon in Council housing by 2030 has been built into the business plan; and

1.1.5 notes the risks to the delivery of the HRA budget strategy set out at 4.31 and the mitigating actions.

Paul Lawrence

Executive Director of Place

Contact: Elaine Scott, Housing Services Manager

E-mail: elaine.scott@edinburgh.gov.uk | Tel: 0131 529 2277

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Report

Housing Revenue Account (HRA) Budget Strategy (2020-2030)

2. Executive Summary

2.1 Following consultation with tenants, this report sets out the HRA budget for 2020/21 and recommends that the report is referred to the Council budget meeting for approval on 20 February 2020.

2.2 This report sets out an ambitious HRA Budget Strategy to deliver £2.5 billion investment over ten years in building and improving Council homes to deliver Council commitments on affordable housing and net zero carbon by 2030. Capital investment will be accompanied by improvements in how we deliver housing services to increase customer satisfaction. The Strategy is aimed at reducing tenants cost of living, with below inflation rent increases and service charges frozen for the fifth year in a row.

2.3 Capital investment has more than doubled over the last five years and is expected to more than quadruple over the next five years as we meet the 20,000 homes target and increase investment in existing homes. A fabric first approach for new build and existing homes that minimises the requirement for energy use will reduce costs for tenants. The Budget Strategy also includes funding to trial innovative technologies and pilot approaches to retrofit new build.

2.4 The HRA Budget Strategy presented in this report, and noted by Housing, Homelessness and Fair Work Committee will support the delivery of the Council commitment and enable the wider area improvements; including the regeneration of Granton Waterfront, Pennywell, Craigmillar, Meadowbank, Fountainbridge, Powderhall and Wester Hailes.

2.5 The major risks to the delivery of the strategy and mitigating actions are set out at section 4.31 of the report. The alignment of investment priorities identified through budget consultation, savings identified through the Housing Service Improvement Plan (HSIP) and a wider review of the debt portfolio has resulted in a further reduction in the deficit to £22.7 million, postponing it by a further 11 years (2034/35).

3. Background

3.1 On 21 March 2019, Housing and Economy Committee approved the 2019/20 HRA capital programme for investment of £108.954 million in new homes, existing homes (including external fabric and estates) and services. This was the largest annual capital investment programme to date in Council homes.

3.2 On 6 June 2019, Housing and Economy Committee received an update on the HSIP. The report set out the approach to redesigning the Housing Service with a specific focus on developing more effective and responsive services for customers. The approach to improvement complements the significant planned investment in tenants' homes and estates, whilst significantly improving customer satisfaction, operating performance and reducing costs. A further update was provided to Housing, Homelessness and Fair Work committee on 20 January 2020.

3.3 On the 14 May 2019, Corporate Policy and Strategy Committee approved the Council's Sustainability Approach, which included Edinburgh working towards a net zero carbon target by 2030, with a hard target of 2037. In response to this the Housing Service has commissioned two separate pieces of consultancy work on options to achieving net zero carbon across the Council's new build housing programme and the Council's existing stock. The Council's approach to achieving zero carbon in Council housing was approved at Housing, Homelessness and Fair Work committee on 20 January 2020.

3.4 On 29 August 2019, Housing, Homelessness and Fair Work Committee considered a report on the HRA budget strategy and agreed to seek tenants' views on the Budget Strategy, what has been achieved to date, priorities over the next five years and tenant experience of services and potential service improvements.

4. Main report

4.1 The HRA manages the income and expenditure for the Housing Service. The Housing Service is entirely self-financing and receives no funding from the General Fund (GF). The annual revenue budget of c.£100 million is almost exclusively funded from tenants' rents (95%), with the remaining 5% coming from service charges. The annual capital investment programme is funded through a combination of prudential borrowing, Scottish Government grant funding and reserves.

4.2 The HRA budget is prepared annually following the review of the 30-year HRA Business Plan and the Capital Investment Programme and is approved by Council following consultation with tenants. Appendix 1 sets out the HRA Business Plan and budget setting process.

Consultation and Engagement

4.3 The Budget Strategy is informed through an extensive programme of consultation and engagement with tenants. This includes regular surveys to assess customer satisfaction with the service, focus groups to enable in-depth exploration of key issues, tenant panels, tenant led service inspections and scrutiny, resident and community meetings and an annual budget consultation which is co-designed with tenants.

4.4 Over 80% of tenants who responded to previous consultations told us that they supported the investment plan, funded by a 2% rent increase, identifying the following priorities to be delivered over a five-year period:

4.4.1 building new affordable homes;

4.4.2 investing in making existing homes easier and cheaper to heat; and

4.4.3 reducing the cost of living through the delivery of a variety of different services, including an energy advice service, a tenant discount scheme, low cost broadband service and community food growing.

4.5 Subsequent budget consultations have confirmed support for the key priorities, including support to increase rents beyond 2%, if priorities could be delivered more quickly. In 2019/20 around 81% of tenants said they supported the key priorities but, alongside support for capital investment, tenants prioritised investing in improving core housing services, such as day to day housing management, and repairs and maintenance of Council homes, as well as the wider estate management. This resulted in a scaling up of investment in existing and new homes (35% increase on previous year), as well as responding to tenants' requests to prioritise improvements in core services through a three-year HSIP.

4.6 This year's consultation has generated a similar profile of responses with respondents supporting the need for more affordable homes and investment in existing homes and estates. When asked what area of the service needed improvement almost half of all comments were linked to the repairs service. The focus being on improving the ways to report repairs, appointment times, the speed and quality of repairs and how complaints are handled when an issue arises.

4.7 The majority of respondents (60%) were in favour of removing rent free fortnights to more closely align with monthly Universal Credit (UC) payments and salaries for tenants in employment. Scheduled rent payment dates for the annual rent charge will be spread over the full year (as of 1 April 2020) instead of 48 weeks to help tenants' budget better, avoid getting into debt, and manage the monthly UC payments.

Delivering the Strategy

4.8 The 2020/21 HRA Budget Strategy supports the delivery of £2.5 billion investment in homes and neighbourhoods over ten years that aims to build more homes, modernise existing homes and neighbourhoods and transform frontline services to tackle inequality and reduce tenants cost of living. Capital investment has more than doubled over the last five years and is expected to more than quadruple over the next five years.

4.9 Work is well underway to accelerate the delivery of affordable housing in the city and to achieve this Council's commitment to build at least 10,000 social and affordable homes over five years (by 2022), with a plan to build 20,000 by 2028. This year's plan also assumes that house building will continue beyond the ten-year commitment, with an additional c.2,000 homes delivered over the Business Plan period. The first two years of the commitment saw a record number of homes approved (3,101 homes) for social rent, mid-market rent and low-cost home ownership; an almost 25% increase on the average approvals achieved over the last five years. Approvals this financial year (2019/20) are expected to reach 1,700 homes. The Strategic Housing Investment Plan 2020-25 has identified a pipeline of 6,766 affordable homes over the next five years with opportunities to accelerate and bring additional approvals through a 'Build to Rent' pipeline.

4.10 The draft five-year capital investment programme set out in Appendix 4, includes nearly £2 billion investment in new Council homes over ten years. This will fund the delivery of around 5,000 Council homes for social rent, as well as supporting the development of mixed-use sites and large-scale regeneration of Granton; one of Europe's biggest Waterfront regeneration projects.

4.11 In 2018 the Council established 'Edinburgh Living' Limited Liability Partnerships to own and manage homes for mid rent and market rent. The LLPs are a public sector partnership with the Council holding a 99% stake in the partnership. Our partner in Edinburgh Living is the Scottish Futures Trust. Over the past year, Edinburgh Living has purchased over 100 homes for mid rent from the Council. Over the next two years, it is anticipated that the Council will develop over 400 homes for Edinburgh Living.

4.12 The HRA Business Plan assumes investment in existing homes and neighbourhoods of around £20,000 per home over the next 15 years. Almost half of Council homes are in mixed tenure blocks, which means the cost of repairing and improving the externals and common areas of blocks is shared with owners. A detailed business case to establish a mixed tenure delivery team and revise the Scheme of Assistance to support owners to invest in their homes was approved at Finance and Resources Committee on 23 January 2020.

4.13 One of the key priorities for tenants coming through the consultation is improving the look and feel of homes beyond their own front doors. This includes both the common areas within stairs and out into their estates. Improving the standard of external environment around Council homes is one of the key workstreams within the HSIP. The external environment workstream will be broad in scope and will consider not only improvements to the housing element of the service but also look at opportunities for integration with other Council services such as waste and transport. The detailed scope of projects is currently being finalised, but it is likely to consider the future approach to capital investment in Neighbourhood Environmental Projects, delivery of services such as stair cleaning and estates clearance, community initiatives, use and maintenance of open areas.

4.14 A door entry installation programme is already underway, around 200 blocks will be upgraded in 2019/20. In addition to this, small scale upgrades, where owner consent is not required to take forward works, will also be undertaken in early 2020/21, including stair painting, upgrades to flooring and improved lighting in common stairs. The detail of this will be set out in the 2020/21 Capital Investment Programme report to Housing, Homelessness and Fair Work Committee in March 2020, following consultation with tenants and elected members.

4.15 Making homes easier and cheaper to heat remains a key priority for tenants. Over half of homes have benefited from energy efficiency measures over the last five years (including 4,400 new heating systems; 3,200 homes insulated; and 2,700 new windows and front doors). All Council homes need to meet Scottish Government's Energy Efficiency Standards for Social Housing (EESSH) by December 2020. At the end of 2018/19, 67% of Council homes met this standard; a 23% increase on 2017/18 levels.

4.16 Almost 70% of social housing in Edinburgh (both Council and housing association homes) has an energy efficiency rating of either EPC B or C; significantly higher than the private rented (51%) and owner occupier sectors (47%). In addition to this, Edinburgh also has the third lowest percentage (23%) in Scotland for social housing households in fuel poverty.

4.17 It is anticipated that almost 90% of homes will meet EESSH 1 by December 2020. Where possible, the remaining homes will be held in temporary exemptions. Investment to date, coupled with the decarbonisation of the grid, has resulted in a 65% reduction in carbon emission of Council homes since 2005.

4.18 The 2020/21 Budget Strategy factors in the cost of delivering the ambitious EESSH2 (EPC B) and the Council's net zero carbon commitment by 2030. Achieving EESSH 2 will be challenging especially for 'hard to treat' buildings and mixed tenure blocks with a need to pilot new and emerging technologies. The Business Plan includes a carbon innovation fund starting in 2021 to trial innovative technologies, approaches to retrofit and support carbon offsetting to ensure Council homes will be carbon neutral by 2030.

4.19 It is anticipated that the cost associated with delivering carbon neutral homes will reduce over time as technology develops and industry responds to increased market demand. Initiatives supporting energy efficiency and behaviour change are also important and can have a significant impact on how people use energy in the home, which can help lower fuel bills, tackle fuel poverty and reduce carbon.

4.20 With this scale of investment in homes and neighbourhoods, it is essential that the Housing Service is working as efficiently as possible to maximise the benefits to tenants and the wider city, whilst ensuring rents remain affordable. The three-year HSIP sets out an approach to redesigning the Housing Service with a specific focus on developing more effective and responsive services for customers. Progress with delivering the HSIP will be reported to committee on a six-monthly basis. The latest progress update was provided to Housing, Homelessness and Fair Work Committee on 20 January 2020.

4.21 In addition to the HSIP, new services have been introduced that tenants felt would help reduce their living costs and improve the overall quality of the Housing Service. This includes a dedicated energy advice service, tenant discount scheme and a housing apprenticeship programme targeted at tenants and their families. A broadband programme is also in development, with phase one focusing on securing super-fast, reliable fibre infrastructure to Council homes, at no cost to the Council or tenants. There is also an annual campaign to recognise and reward tenants and residents who support their neighbours and look after their communities.

Funding the strategy

4.22 The HRA Business Plan sets out planned investment of £2.5 billion over the next ten years. This investment is funded from capital receipts, prudential borrowing, capital funding from revenue and Scottish Government subsidy for new social rented homes. Appendix 4 sets out the draft five and ten-year capital investment programme.

4.23 This investment will be taken forward alongside a service improvement programme that will deliver improvements and cost efficiencies of around 10% of operating expenditure by 2022/23. The investment required to make these necessary improvements has been factored into the Business Plan and progress is reported to Housing, Homelessness and Fair Work Committee every six months.

4.24 Rent collection performance improved significantly during the last financial year with year-end performance showing a 7% (c.£450,000) reduction on current arrears, when compared to 2017/18. This is even more positive, when compared to the national picture; where the overall trend was for landlords to be reporting an increase in arrears.

4.25 However, the overall context for income collection is one of financial challenge for tenants managing their household budgets, with changes in benefits such as UC and also the impact of low income and zero-hour contracts. The Business Plan therefore assumes that rent arrears will increase with an estimated loss of £9 million income over the five years following UC roll out to mitigate the impact of welfare reform on tenants.

4.26 It is expected that between 70-80% of households each year will receive some assistance with their rent charges through Housing Benefit or the housing element of UC. Almost all of these tenants would be entitled to an increase in their benefits to cover any increase in rent charges, subject to there being no other changes in their household circumstances that would alter their overall entitlements.

4.27 For the last four years, rents have increased by 2% which is below average inflation of 2.1%. Private rents have increased by an average of 4.9% a year, while local authority landlords' average rent has increased by 2.9% a year and average housing associations' rent has increased by 2.5% a year over the same period.

4.28 The proposed rent increase of 2% for 2020/21 would mean an average increase of between £1.73 for a one bedroom flat and £2.53 for a four-bedroomed house per week in 2020/21. Any increase in rent should be offset by a reduction in the cost of living through investment in new services and investment in existing homes, for example, reducing energy costs. Support is available to tenants who face difficulty paying rent. No home will be repossessed, as long as, the tenant engages with the Housing Service and a reasonable repayment plan is agreed and maintained to manage arrears and late payments of rent.

4.29 For the fifth year running the Business Plan assumes no increase in fees and charges to tenants. These include charges for stair cleaning, furnishing and heating where included as a service charge. Not all of these charges are covered by housing benefit. Freezing these costs has a direct benefit to the majority of tenants.

4.30 A ring-fenced contingency was established in 2017/18 to mitigate the impact of further decreases in income and/or unexpected increases in expenditure. The contingency reserve is projected to be £4.5 million at the beginning of 2020/21, rising to 10% of annual income by year eight.

Risks to the Business Plan

4.31 The top five risks to the Business Plan are set out in the table below:

Risk	Mitigation
Mixed Tenure: Over half of Council homes are in mixed tenure blocks where the Council shares responsibility for the repair and maintenance of common areas with home-owners and private landlords. Owners may not have the funds to invest at scale in their homes, delaying or limiting investment to Council homes in these blocks.	The Mixed Tenure Improvement Strategy's workstreams are under development, including establishing a mixed tenure delivery team, revising the Scheme of Assistance to provide more practical and financial support options to owners and landlords. A business case was approved by Finance and Resources Committee on 23 January 2020. The delivery of strategic acquisition and disposal of homes continues to achieve block consolidation.
Reduction in rental income: Rental income collection falls below the assumed level in the Business Plan, due to welfare reform and the implementation of Universal Credit Full Service (UCFS).	Migration and direct payment processes for UCFS have been improved, which allows the Council to work with tenants at the earliest opportunity to arrange secured rental payment methods. Further work is continuing to promote Direct Debit as default pay method. Based on the outcome of the budget consultation, rent free fortnights will be removed to more closely align with monthly UC payments and salaries for tenants in employment. This should help tenants'

	budget better, avoid getting into debt, and manage the monthly UC payments.
Reduction in costs efficiencies: The financial efficiency savings assumed in the latest Business Plan do not materialise, thus deepening the deficit.	The HSIP aims to reduce operating expenditure by 10% to mitigate the deficit and return the Business Plan to a positive balance. The programme is projected to achieve more than double the in-year savings target. Any shortfall in efficiency saving would have to be mitigated through a combination of increases in income, a re-phasing or reduction in planned capital investment, and/ or reduced services to tenants.
Increasing capital investment costs: The increase in new build construction and development costs (workforce, materials etc.) could be higher than anticipated due to wider economic uncertainties as the UK withdraws from the European Union. Land costs for housing development is also increasing due to competition in the open market for land acquisition. There are additional cost implications associated with meeting new sustainability targets.	Build cost inflation assumptions are reviewed annually based on market intelligence. The Business Plan includes a prudent average annual increase of 4.4% over the next 5 years. Comprehensive review of Design Guide is ongoing to increase standardisation and efficiency of design approach. The known costs for achieving a 50% reduction in household emissions by 2030 have been factored into the 30-year Business Plan as well as the establishment of a carbon innovation fund by 2021 to trial innovative technologies, retrofit approaches and explore carbon offsetting to ensure Council homes are carbon neutral by 2030.
Reduction in customer satisfaction and performance: Operational improvements and service efficiencies are not delivered/sustained, resulting in growing customer dissatisfaction, and loss of confidence and support from tenants and elected members.	The HSIP was approved in February 2019 with an aim to improve customer satisfaction, operating performance and reduce costs over the next three years. Progress is monitored monthly to Corporate Leadership Team and bi-annually to Housing, Homelessness and Fair Work Committee.

4.32 In addition to the mitigations set out above, the Business Plan assumes a £4.5 million contingency fund will be built up by the end of this financial year, rising to £15 million by 2027 to ensure the continuation of the investment programme, even with an unexpected reduction in income or increase in unplanned expenditure.

4.33 All risks are kept under review and significant changes will be highlighted to the Housing, Homelessness and Fair Work Committee, Finance and Resources Committee and Governance, Risk and Best Value Committee.

5. Next Steps

5.1 Consultation on the detail of the 2020/21 Capital Programme will be carried out with members in early 2020. This will inform the 2020/21 Capital Investment

Programme report which will be presented to Housing, Homelessness and Fair Work Committee for approval in March 2020.

5.2 A six-monthly update of the HSIP will be provided to Housing, Homelessness and Fair Work Committee in June 2020.

6. Financial Impact

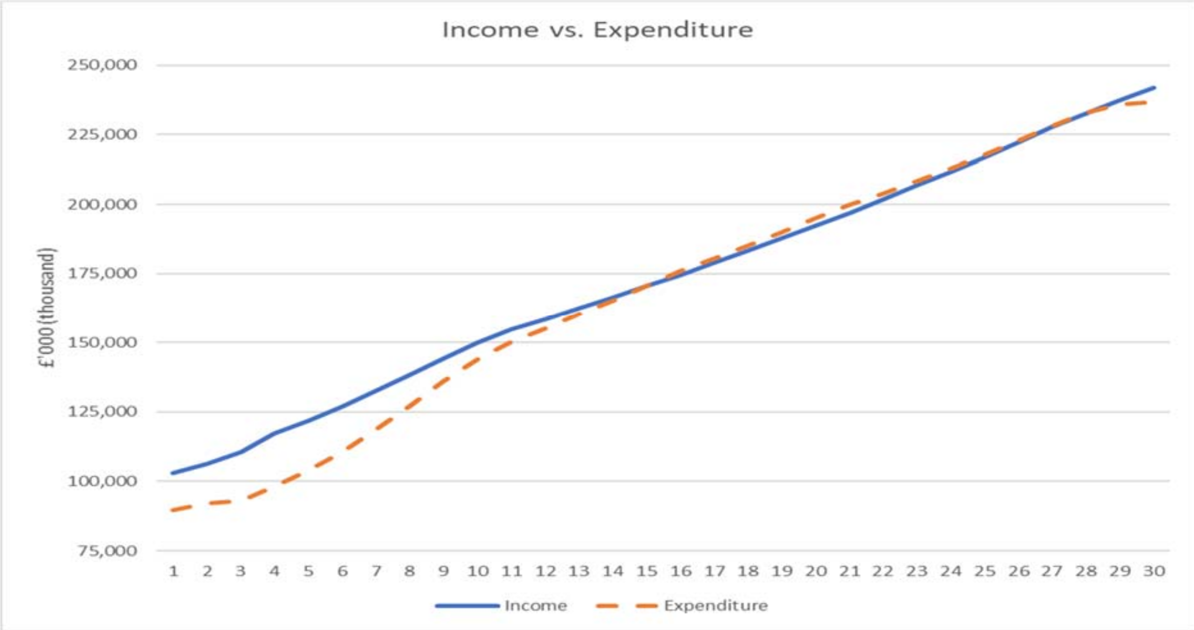
6.1 The 2019/20 Business Plan projected a £75.6 million deficit between 2022/23 and 2032/33. The Business Plan is reviewed annually and is rolled forward based on the previous year's outturn and approved rent levels. The key assumptions were updated in the summer prior to the 2020/21 budget consultation. The net impact of the updates, reported to Committee in August 2019, was positive with the deficit reducing by 20% and starting one year later in 2023/24 instead of 2022/23.

6.2 The positive change was primarily the result of a reduction in borrowing costs and an increase in rental income due to the introduction of new rent payment methods. However, these positive changes were offset by an increase in build cost inflation. Build cost inflation assumptions are reviewed annually based on market intelligence. Latest projections estimate an average annual increase of 4.4% inflationary rate over the next five years.

6.3 Further work to check and refine key assumptions has been undertaken since August as well as, the alignment of investment priorities identified through budget consultation with tenants and members. Capital investment programmes have also been reviewed to reflect the Councils net zero carbon target by 2030. A summary of the high-level assumptions is set out in Appendix 2.

6.4 The HSIP aims to deliver a 10% reduction in expenditure (£11.2 million) by 2022/23. The investment required to make the necessary improvements has been factored into the HRA Business Plan and will be reviewed annually. A savings target of £1.2 million was identified for 2019/20. Actual savings are estimated to be more than double the target (£3.4 million) following a review of in-year debt management. This was part of a wider review of the debt portfolio, which has resulted in a positive material change in debt servicing costs going forward.

6.5 The overall impact of the changes has resulted in a further reduction in the deficit to £22.7 million, postponing it by a further 11 years (2034/35).



6.6 A ring-fenced contingency was established in 2017/18 to mitigate the impact of further decreases in income and/or unexpected increases in expenditure. The contingency reserve is projected to be £4.5 million at the beginning of 2020/21, rising to 10% of annual income by year eight.

7. Stakeholder/Community Impact

7.1 Each year the views of tenants are sought on the HRA budget strategy, investment plan, service improvements and associated rent levels. The approach to engaging tenants on the budget is reviewed annually by a working group of tenants and officers, the Rent Matters Working Group (RMWG).

7.2 Tenants have consistently indicated strong support for building new homes, improving homes and services and stable and affordable rents.

7.3 Consultation on the 2020/21 budget took place in 2019. Tenants were asked to comment on what has been achieved to date, what has worked well and not so well, and to establish priorities going forward to ensure the Housing Service is delivering an effective, quality service that is value for money to its tenants. The consultation also included a proposal to change to the current rent charging periods from 2020/21 to more closely align with monthly UC payments and salaries for tenants in employment.

7.4 All tenants were sent information on the budget proposals through the tenant newsletter. Over 30 tenant organisations received information packs and 230 individual Tenant Panel members received information either by email, text or letter. Events were held in the localities, including sessions of street-canvassing across the city. Responses were received on line and via email, social media, from postcards, cut outs from newsletters and local events

7.5 The budget plan was also discussed at a meeting with the Edinburgh Tenants Federation on 20 November 2019. Officers presented the approach, key messages, consultation questions and results to date.

7.6 In addition to the annual rent consultation the Housing Service is in regular contact with tenants and has a wealth of information on tenant satisfaction and priorities from a variety of sources. The Housing Service carries out an annual survey of over 1,000 tenants, as well as, regular focus groups looking at specific topics and various short life working tackling certain issues. Housing officers are now offering annual conversations with each tenant within their patch.

7.7 Tenant engagement is being further expanded and enhanced through the HSIP. Ongoing dialogue will help to keep tenants and staff onboard with the change programme and will ensure they are involved in all aspects of shaping improvements. To facilitate this, the focus group programme will be expanded, with groups to be held regularly with tenants and staff.

8. Background reading/external references

8.1 2019/20 HRA Capital Programme, Housing & Economy Committee, 21 March 2019

8.2 Housing Service Improvement Plan, Housing & Economy Committee, 6 June 2019

8.3 Mixed Tenure Improvement Strategy Update, Housing & Economy Committee, 6 June 2019

8.4 2020/21 HRA Budget Strategy, Housing Homelessness & Fair Work Committee, 29 August 2019

8.5 Housing Sustainability, Housing, Homelessness & Fair Work Committee, 20 January 2020

8.6 Housing Service Improvement Update, Homelessness & Fair Work Committee, 20 January 2020

8.7 Mixed Tenure Improvement Service Pilot, Finance and Resources Committee, 23 January 2020

9. Appendices

9.1 Appendix 1 – Annual Business Planning Process

9.2 Appendix 2 - Business Planning – High Level Assumptions

9.3 Appendix 3 – Housing Revenue Account Budget 2020/21 (Draft)

9.4 Appendix 4 – Draft 5 Year HRA Capital Investment Programme & 10 Year Investment Strategy

Appendix 1 – Annual Business Planning Process

Appendix 2 – Business Planning High Level Assumptions

Input	2020/21	Note
Inflation (Operating Costs)	2%	In line with the Bank of England inflation target.
Inflation (Employee Costs)	3%	Based on the latest local government pay offer.
Rent Increase	2%	This assumption is in line with current market inflation projections. The budget strategy aims to keep rents stable and affordable, while delivering one of the most ambitious investment programmes in Scotland.
Net Rental income	97.63%	Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes.
Former tenant arrears write off	1.69%	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 projected write off at the end of 2019/20 is estimated to be at the similar level as 2018/19.
Rent lost on empty homes	0.68%	The Council remains one of the top performing Local Authorities in this area, with a continued high proportion of lets to households with high levels of need. There has been a slight improvement in 2019/20 compared to 2018/19 levels (0.76%).
Fees and charges increase	0%	Fees and charges for additional services provided with tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) is frozen for the fifth year in a row.
Debt level (projected for March 2020)	£416m	Increased from £377 million at 31 March 2019. This was due to an increased borrowing requirement to support the capital investment programme in 2019/20.
Interest on debt (pool rate)	4.50%	The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate pooled across all projects. The 2020/21 pool rate assumption is 0.5% lower than that used in 2019/20.

Appendix 3 – Housing Revenue Account Budget 2020/21 (Draft)

	Projected Outturn 2019/20 £m	Proposed Budget 2020/21 £m	Movement £m	Movement %	Note
Net Income	**100.526**	**103.139**	**2.613**	**2.60%**	1
Expenditure					
Housing Services	31.754	33.340	1.586	4.99%	2
Property Maintenance	23.952	22.478	-1.474	-6.15%	3
Debt Charges	38.887	36.723	-2.164	-5.56%	4
Strategic Housing Investment	5.933	10.598	4.665	78.63%	5
Total Expenditure	**100.526**	**103.139**	**2.613**	**2.60%**	

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 service charges and costs recovered in relation to communal heating schemes and owner occupiers. The net income is expected to be increased by more than the 2% rent increase proposed. This is mainly due to additional rental income from new homes completed in 2019/20 and expected to be completed in 2020/21. The average weekly rent will increase by £2.00.

Note 2.

"Housing Services" includes core housing management services, new tenant and community services like energy advice and tenant discount scheme. It includes employee costs, central support costs and recharges, premises and other expenditure. The draft budget also includes £2m for the implementation of the Housing Service Improvement Plan (HSIP) and £1.7m for the enabling work of large-scale regeneration. The HSIP sets out the plan to reduce the total expenditure by 10% (£11.2) by 2022/23 to ensure the HRA remains financially stable. The interim saving targets for Housing Services have now been incorporated in the draft budget, which has been partly offset by the inflationary increase.

Note 3.

"Property Maintenance" includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. As in "Housing Services", HSIP saving targets have now been incorporated in the draft budget, which is partly offset by the "additional" repairs and maintenance for new homes and inflationary increase on estate management/maintenance expenditure.

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 5.56% reduction is the result of a wider review of the debt portfolio, which has resulted in a positive material change in debt servicing costs going forward. As a result of prudent treasury management, net debt levels are expected to have increased by only £48 million over the last five years, whilst delivering nearly £335 million of capital investment over the same period.

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 increase is the result of reduced operating expenditure through HSIP savings and debt restructuring. The Strategic Housing Investment Fund is an amalgam of the Repairs and Renewals Fund and the Council Tax Discount Fund.

Appendix 4 – Draft HRA Five Year Capital Investment Programme & Ten Year Investment Strategy

The 2020/21 Draft Budget and business plan are based on the assumptions set out in Appendix 2. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy, which is based on tenant priorities, service performance and statutory investment requirements. Inflation has been included in the figures where appropriate.

The funding strategy 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***
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	***Total***	2025/26 to 2029/30 £m	***Total***
Programme Expenditure								
New Homes Development*	35.890	97.156	170.677	169.287	183.688	***656.698***	1190.595	***1847.293***
New Home Land Costs	12.000	8.200	6.500	0.000	0.000	***26.700***	106.220	***132.920***
Tenant's Homes & Services	19.030	16.457	10.693	10.836	11.059	***68.074***	58.794	***126.868***
External Fabric and Estates	29.548	28.169	29.501	35.414	36.140	***158.773***	192.143	***350.916***
Total Expenditure	**96.468**	**149.982**	**217.371**	**215.537**	**230.887**	***910.245***	**1547.752**	***2457.997***
Programme Resources								
Prudential Borrowing	23.346	94.916	116.650	136.322	53.807	***425.041***	789.542	***1214.583***
Capital Funded From Revenue	3.656	3.013	3.121	3.229	3.238	***16.257***	16.325	***32.582***
Capital Receipts and Contributions	3.150	6.722	11.340	9.805	6.638	***37.655***	11.500	***49.155***
Receipts from LLPs*	47.374	28.413	52.040	40.575	148.029	***316.431***	581.115	***897.546***
Scottish Government Subsidy (Mid-Market)	5.962	3.938	0.000	0.000	0.000	***9.900***	0.000	***9.900***
Scottish Government Subsidy (Social)	12.980	12.980	34.220	25.606	19.175	***104.961***	149.270	***254.231***
Total Funding	**96.468**	**149.982**	**217.371**	**215.537**	**230.887**	***910.245***	**1547.752**	***2457.997***

**The budget for new build housing includes the upfront capital costs for the Council led development of all 10,000 affordable homes, including homes for mid market and affordable market that will be purchased by the Council's new LLPs. This has no impact on the HRA as interest payments are deferred until the homes are purchased. £76 million of the £898 million anticipated receipts from LLPs by year ten is for homes already under construction and due to complete in the next two years. Please note these receipts go beyond current approved levels of on-lending, approval will be sought to expand the programme in future years.*