# The City of Edinburgh Council

**10.00am, Thursday 18 February 2021**

# Housing Revenue Account (HRA) Budget Strategy (2021-2031) – referral from the Finance and Resources Committee

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| **Executive/routine** |
| **Wards** |
| **Council Commitments** |

## 1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Housing Revenue Account (HRA) Budget Strategy (2021-2031) to the City of Edinburgh Council as part of the budget-setting process.

**Andrew Kerr**

Chief Executive

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# Referral Report

## Housing Revenue Account (HRA) Budget Strategy (2021-2031)

### 2. Terms of Referral

2.1 On 2 February 2021, the Finance and Resources Committee considered a report which presented the HRA Budget Strategy, also noted by Housing, Homelessness and Fair Work Committee in November 2020, and set out an holistic area-based approach to investment that would focus on buildings and the wider neighbourhood, to create places where people would want to live that keep them safe, secure, healthy and connected. The £2.8 billion investment, an increase of around £320 million on the previous year's plan, would act as a catalyst for wider area improvements and support the delivery of a brownfield first strategy as set out in Choices for City Plan. It would also support delivery of Council commitments on affordable housing and net zero carbon by 2030.

2.2 The Finance and Resources Committee agreed:

2.2.1 To agree to refer the 2021/22 budget, draft five-year capital investment programme, and the rent levels for 2021/22 set out in Appendices 2, 3 and 4 of the report by the Executive Director of Place to the Council budget meeting for approval.

2.2.2 To note the outcome of the annual budget consultation.

2.2.3 To note the proposed £2.8 billion ten-year investment programme to deliver Council commitments, including the delivery of new homes, the modernisation of existing homes and the commitment to deliver zero carbon emissions by 2030.

2.2.4 To note the risks to the delivery of the HRA budget strategy set out at paragraph 4.29 of the report and the mitigating actions.

### 3. Background Reading/ External References

3.1 [Finance and Resources Committee – 2 February 2021 – Webcast]

### 4. Appendices

4.1 Appendix 1 – report by the Executive Director of Place

# Finance and Resources Committee

## 2.00pm, Tuesday, 2 February 2021

# Housing Revenue Account (HRA) Budget Strategy (2021-2031)

| | |
|---|---|
| **Executive/routine** | **Executive** |
| **Wards** | **All** |
| **Council Commitments** | [1, 2, 6, 10, 39 and 40] |

## 1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 agrees to refer the 2021/22 budget, draft five-year capital investment programme, and the rent levels for 2021/22 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 £2.8 billion ten-year investment programme to deliver Council commitments, including the delivery of new homes, the modernisation of existing homes and the commitment to deliver zero carbon emissions by 2030; and

1.1.4 notes the risks to the delivery of the HRA budget strategy set out at 4.29 and the mitigating actions.

**Paul Lawrence**

Executive Director of Place

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# Report

## Housing Revenue Account (HRA) Budget Strategy (2021-2031)

### 2. Executive Summary

2.1 Following consultation with tenants, this report sets out the HRA budget for 2021/22 and recommends that the report is referred to the Council budget meeting for approval on 18 February 2021.

2.2 The 30-year HRA Business Plan 2021/22-2050/51 is the financial framework that underpins the Housing Service. The Plan is reviewed annually in consultation with tenants and a five-year Capital Programme and one-year Capital Investment Budget is approved by Council.

2.3 The HRA Budget Strategy presented in this report, and noted by Housing, Homelessness and Fair Work Committee in November 2020, sets out an holistic area-based approach to investment that will focus on buildings and the wider neighbourhood, to create places where people want to live that keep them safe, secure, healthy and connected. The £2.8 billion investment, an increase of around £320 million on the previous year's plan, will act as a catalyst for wider area improvements and support the delivery of a brownfield first strategy as set out in Choices for City Plan. It will also support delivery of Council commitments on affordable housing and net zero carbon by 2030.

2.4 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, holding rent increases at 2% and delivering financial efficiencies of 12% by 2026. Service charges remain frozen for the sixth year in a row.

2.5 The major risks to the delivery of the strategy and mitigating actions are set out at section 4.29 of the report. The Business Plan projects that the HRA remains in balance or a small surplus to 2028/29. Thereafter a small annual deficit is projected with a return to surplus in year 22 (2042/43). There are sufficient reserves to offset the in-year deficits accrued.

## 3. Background

3.1 On 11 June 2020, Policy and Sustainability Committee received a report from the Edinburgh Poverty Commission on Poverty and Coronavirus in Edinburgh. The report provided initial findings on the impact of the outbreak on poverty in Edinburgh and reflections on responses needed to mitigate that impact.

3.2 On 27 August 2020, Finance and Resources Committee approved a revised 2020/21 HRA capital budget in light of the impacts of Covid-19. The HRA presented a 41% expected reduction in expenditure and committed to exploring opportunities to reallocate capital slippage to strategic land acquisition to support the new build programme.

3.3 On 5 November 2020, Housing, Homelessness and Fair Work Committee considered a report on the HRA Budget Strategy 2021/22, which set out the initial findings of consultation with tenants, a significant increase capital investment over the next ten years to support the delivery of new affordable homes, achieve zero carbon emissions in Council owned homes and improve the neighbourhoods where Council tenants live. It also provided a progress update on the delivery of service improvements and efficiencies.

3.4 On 14 January 2021, Housing Homelessness and Fair Work Committee approved the Strategic Housing Investment Plan (SHIP) 2021/26. It identified a pipeline of 10,036 affordable homes that could be approved for site start and 11,370 potential completions over the next five years. It also set out the key risks and challenges to delivering affordable housing at scale, including construction industry capacity, availability of grant funding and control of sites. A separate report on land strategy to support delivery of affordable housing and brownfield regeneration was also considered by committee.

## 4. Main report

4.1 The HRA manages the income and expenditure for the Housing Service. The Housing Service provides affordable homes and other services to nearly 20,000 tenants and 500 home owners in the city. The Housing Service is entirely self-financing and receives no funding from the General Fund. 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, capital receipts and reserves.

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

**Tenant Priorities**

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.

4.4 Over the last five years the majority (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:

4.4.1 building new affordable homes;

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

4.4.3 improving core housing services, such as day to day housing management, and repairs and maintenance of Council homes, as well as wider estate management; and

4.4.4 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 This year's consultation also sought tenants' views on the changing focus of the investment strategy from investing in the interiors of homes, to buildings and neighbourhoods. It is recognised that there are many factors which contribute to resident satisfaction with their local area and overall quality of life. The budget strategy asked tenants what is important to them and where investment should be focused.

4.6 All tenants received a paper copy of the 2021/22 budget consultation as part of the Tenants' Courier newsletter. This was further supported via an online form and social media campaign. The consultation was also promoted to tenant organisations and tenant panel members via email and text to ensure all tenants were given an opportunity to participate. In addition to this, the consultation questions were included in the annual tenants' survey of 1,000 tenants. This year's tenant survey was conducted in July and August, adapted from a face-to-face survey to a telephone survey in response to Covid-19. The survey is procured and delivered by an independent third-party organisation and seeks to provide a representative mix of views from tenants across the city.

4.7 This year's consultation has generated a similar profile of responses, with 76% of tenants confirming support for the investment plan funded by a 2% rent increase, with a further 22% supporting increasing rents beyond 2%, if priorities could be delivered more quickly.

4.8 While improvement inside tenants' homes and external fabric of buildings remain as priority areas for investment, over half of the surveyed tenants said more investment should be made to improve common areas including safe, modern stairwells, improved waste management and recycling facilities, as well as, access to green open spaces and local shops. One in three respondents also cited improved transport links, sports facilities, community meeting spaces and access to community growing spaces as priority areas.

**Delivering the strategy**

4.9 The 2021/22 HRA Budget strategy seeks to support the health and wellbeing of tenants and support the transition towards a 'net zero' carbon city in which all forms of deprivation and inequality are reduced. The £2.8 billion investment programme set out in this report will deliver a holistic area-based approach to creating places where people want to live that keep them safe, secure, healthy and connected, through:

4.9.1 energy efficient, low carbon homes that minimise carbon emissions and reduce energy demand in secure, modern, well-maintained stairwells;

4.9.2 new and existing homes blended together to create a local identity and a sense of pride in communities;

4.9.3 well-designed, green, open spaces that encourage residents to be active, with strong connectivity to the wider community through sustainable, affordable travel; and

4.9.4 Accessible, responsive and efficient services building on existing links with partner organisations to drive forward individual and community resilience and wellbeing.

4.10 Work is well underway to accelerate the delivery of affordable housing in the city and achieve this Council's commitment to develop a programme to build at least 20,000 social and affordable homes by 2027. The first three years of the commitment saw a record number of homes approved for site start to be delivered by the Council and housing associations (5,031 homes) for social rent, mid-market rent and low-cost home ownership. It is anticipated that over 2,000 new affordable homes will be approved for site start this financial year (2020/21) and based on current delivery programmes an additional 1,300 homes are expected to be completed. Including this year's projections and the first year of the SHIP, that would mean 9,200 new affordable homes would be approved by 31 March 2022; with the 10,000 target achieved later in 2022.

4.11 The draft five-year capital investment programme set out in Appendix 4, includes more than £1.9 billion investment in new Council homes over ten years. This will fund the delivery of around 4,500 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. Around £2m Council Tax Discount Fund (part of the Strategic Housing Investment Fund) will be used to support the delivery of the Granton Waterfront Early Action projects managed through the General Fund Capital Investment Programme. This will be further supplemented by other grant funding in 2021/22 to deliver these projects. The strategic purchase of land by the Council, as set out in the Land Strategy report presented to Housing Homelessness and Fair Work Committee on 14 January 2021 alongside new partnerships and joint ventures is expected to further increase the Council led development programme.

4.12 Over the last five years £165m has been invested in improving existing homes and neighbourhoods, delivering more than 28,000 individual improvements, with an emphasis on making homes easier and more affordable to heat. This includes:

4.12.1 7,100 homes with new kitchens and bathrooms;

4.12.2 7,100 homes with new modern heating systems;

4.12.3 1,600 homes with new doors and window upgrades;

4.12.4 5,200 homes with electrical upgrades;

4.12.5 4,000 homes with health and safety improvements;

4.12.6 2,900 homes with external fabric upgrades; and

4.12.7 280 neighbourhood improvement projects.

4.13 Making homes easier and cheaper to heat remains a key priority for tenants and reduces poverty. Delivery of the Scottish Government's Energy Efficiency Standards for Social Housing (EESSH) has been the key driver for improving existing homes over the past four years. Pre Covid-19, 86% of homes were expected to achieve EESSH by December 2020, with the remaining homes being held as a temporary exemption. Meeting EESSH2 and achieving net zero carbon by 2030, will be more challenging and requires a different approach. As set out in the Housing Sustainability Update report to Housing Homelessness and Fair Work Committee on 5 November 2020 a new evidence-led holistic approach will be taken, focusing on whole house deep retrofit which balances energy efficiency with building improvement and tenant comfort, health and affordability. A design brief has been produced that will ensure all new build homes are designed to achieve net zero carbon. The cost of achieving net zero carbon has been factored into the 2021/22 Business Plan.

4.14 The total proposed investment per home has nearly doubled from c.£24,000 to c.£43,000 over the first ten years of the business plan period; this includes known costs for whole house retrofit to meet sustainability objectives, mixed tenure investment in buildings and common areas. Consultation with tenants shows a strong desire for investment in wider neighbourhood improvement. This year's strategy also proposes the inclusion of an additional budget equating to £5,000 per home to invest in improving the areas outside of homes to create well-designed open spaces, working alongside planning and transport colleagues to promote active transport and access to local amenities. This will enable existing estates to benefit from similar levels of placemaking investment as in new housing developments. Similar to the approach for new build developments, individual design briefs will be developed for consultation and engagement with residents.

4.15 The holistic area-based approach to regeneration will be taken forward as part of the Mixed Tenure Improvement Service (MTIS) pilot. The 36-month MTIS pilot approved by Finance and Resources Committee on January 2020, seeks to deliver a mix of repairs and improvements to around 180 mixed tenure blocks in which the Council is a landlord. An enhanced Scheme of Assistance has been approved to encourage owners to invest in the repairs and maintenance of their homes and common areas of the block.

4.16 The MTIS will operate initially in the Murrayburn, Dumbryden and Hailesland areas where the Council will be upgrading Council homes through the HRA Capital programme and new build Council housing is under construction. Council officers are already engaging with local organisations to take forward a wider place-based approach to the regeneration of Wester Hailes.

4.17 There is potential for the funding that is currently allocated through the NEPs budget to be better aligned to wider neighbourhood regeneration and capital investment programmes. A review and discussion with key stakeholders will be taken forward to develop an approach that ensures local communities can continue to exercise a strong influence over how this funding is prioritised.

4.18 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 Housing Service Improvement Plan (HSIP) was introduced in 2019/20 with the aim of significantly increasing customer satisfaction, improving operating performance and reducing costs, with a specific focus on developing more effective and responsive services for customers.

4.19 The Housing Service has undergone an unprecedented level of change over the last six months in response to Covid-19. This has accelerated modernisation and efficiencies in service provision through digital and remote working. Ensuring that the frontline housing service is visible, responsive and effective has never been more critical. The service is continuing to adapt to the challenges and opportunities of the new operating environment and wider core services are now resuming in a controlled manner.

4.20 The Covid-19 operating environment has reinforced the objectives of the HSIP and has highlighted some emerging priorities which will shape the way the programme is taken forward. The HSIP is driving improvements across a number of workstreams, centred around digital improvements, enhancements to customer communication, service resilience and efficiencies.

4.21 Work in progress prioritises the tenant experience of finding and moving into a home, as well as improvements to rents processes and systems. Informed by the Covid-19 operating environment, policies and procedures are being refreshed and training and wellbeing plans are being developed in consultation with officers. Over the next six to twelve months, estates management and continued digital improvements will be key areas of focus. A more detailed update on the work of the HSIP was included in the Housing Revenue Account (HRA) Budget Strategy 2021/22 report approved at Housing Homelessness and Fair work Committee on 5 November 2020. Progress with delivering the HSIP will be reported to Housing Homelessness and Fair Work committee on a six-monthly basis.

4.22 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. The expansion of community gardens and food growing is currently being explored, including bringing in a partner organisation to support delivery and management existing and new gardens. A pilot project in the Hutchison area is currently underway. The scope of the Community Grants funding agreement has also been expanded to support community garden projects. 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**

4.23 The HRA Business Plan sets out planned investment of £2.8 billion over the next ten years. This investment is funded from capital receipts, prudential borrowing, capital funding from current revenue and Scottish Government subsidy for new social rented homes. Appendix 4 sets out the draft five and ten-year capital investment programme.

4.24 In response to the recent period of disruption as a result of covid-19 and the financial pressures the HRA faces to meet its ambitious commitments, the HSIP now seeks to deliver greater savings over an extended period. In addition to the savings target of £11m to be achieved by 2023/24, a further £3m is now factored in by 2025/26. 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.

4.25 For the last four years, rents have increased by 2% which is below average inflation of 2.3%. Private rents have increased by an average of 3.3% a year, while the average rent for local authority landlords has increased by 2.9% a year and average housing associations' rent has increased by 2.5% a year over the same period. Between 70-80% of households each year receive some help with their rents through Housing Benefit and the housing element of Universal Credit (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.

4.26 Over three quarter of tenants who responded to the budget consultation supported the 2% rent increase, a further 22% said they would be willing to pay more if improvements could be delivered more quickly. The proposed rent increase of 2% for 2020/21 would mean an average increase of between £1.76 for a one bedroom flat and £2.58 for a four-bedroomed house per week in 2021/22. 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.

4.27 For the sixth 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.

4.28 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 Business Plan assumes a £11.5m contingency fund will be built up by the end of this financial year, rising to £25m by 2027 to ensure the continuation of the investment programme, even with an unexpected reduction in income or increase in unplanned expenditure. This is an increase from the £15m planned contingency set out in last year's budget.

**Risks to the Business Plan**

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

| Risk | Mitigation |
| --- | --- |
| **Reduction in rental income:** Rental income collection falls below the assumed level in the Business Plan due to ongoing migration of tenants on to UC and financial hardship being experienced following Covid-19. | A total of 10,500 tenants are expected to migrate to UC by December 2023. 3,220 tenants were known to claiming UC by March 2020. The assumption on number of tenants migrating to UC in 2020/21 has been increased to take account of the impact of Covid-19 on tenants' income.<br><br>Rent free fortnights have been removed from the start of 2020/21 to align charging periods more closely with monthly UC payments and salaries for tenants in employment, helping tenants to budget better and avoid getting into debt.<br><br>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. |
| **Increasing capital investment costs:** The increase in new build construction and development costs (workforce, materials etc.) could be higher than anticipated due to the impact of Covid-19 and the need to implement safe working practices. As well as, additional cost implications associated with sustainability targets. Land costs for housing development is also increasing due to competition in the open market.<br><br>With investment increasingly focused on buildings and wider neighbourhood, more improvement work will take place outdoor and progress will become more weather dependent. | Build cost inflation assumptions are reviewed annually based on market intelligence. In year projections take account of known costs uplifts as a result of Covid-19, but these are not expected to have a sustained long-term impact. The known costs for achieving net zero carbon (including trial innovative technologies, retrofit approaches and carbon offsetting) have been factored into the Business Plan.<br><br>Weather dependency will be taken into account in the development of programmes and when awarding and managing contracts. |

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|---|---|
| **Mixed tenure and external improvement:** Over half of Council homes are in mixed tenure blocks where the Council shares responsibility for the repair and maintenance of common areas with homeowners 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 new MTIS is now in the implementation stage. Enhanced Scheme of Assistance measures are now in place following Finance and Resources Committee approval on 23 January 2020 for extended payment terms.<br>The delivery of strategic acquisition and disposal of homes continues to achieve block consolidation. |
| **Reduction in costs efficiencies:** The financial efficiency savings assumed in the latest Business Plan are not delivered, thus deepening the deficit. | The HSIP aims to reduce operating expenditure by c.12% to mitigate the deficit and return the Business Plan to a positive balance. A detailed review of efficiency opportunities is continuing in response to the current operating environment. A HSIP Board and programme manager are in place. Progress is reported to Housing, Homelessness and Fair Work Committee on a six-monthly basis. |
| **Securing land for affordable housing**: One of the key risks to the delivery of 20,000 affordable housing is failure to secure suitable land for development. The Council and RSL delivery partners have significantly less influence over the type of housing that will be brought forward for development and development timescales on private sector sites. | 27 surplus Council sites have already been purchased through the HRA for affordable housebuilding. Officers are working with public sector partners to secure the delivery of public sector outcomes, including affordable housing on public sector land.<br>The HRA Business Plan includes c.£120m for land acquisitions over the next ten years.<br>The availability and control of land continues to be a key focus of the partners working together on the City Region Deal. |

4.30 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 2021/22 HRA Capital Programme will be carried out with members in early 2021. This will inform the 2021/22 HRA Capital Investment Programme report which will be presented to Housing, Homelessness and Fair Work Committee for approval in March 2021.

5.2 A six-monthly update of the HSIP will be provided to Housing, Homelessness and Fair Work Committee in June 2021.

## 6. Financial impact

6.1 The 2020/21 Business Plan projected a £22.7m deficit between 2034/35 and 2047/48. The Business Plan is reviewed annually and is rolled forward based on the previous year's outturn and approved rent levels. Key assumptions were updated prior to consultation and noted in the HRA Budget Strategy 2021/22 report to Housing, Homeless and Fair Work Committee in November 2020.

6.2 A summary of the key changes is set out below:

6.2.1 **Net Zero Carbon** – Additional capital costs to ensure all new homes are built to net zero carbon standards and all existing homes, where possible, have a full house retrofit. A carbon offsetting fund from year 10, once all fabric upgrade options have been exhausted;

6.2.2 **Construction costs** – An increase in baseline new build assumptions to reflect recent tender costs and the impact of Covid-19 in the first few years of the Business Plan;

6.2.3 **Estate Improvement** – An additional £5,000 per home has been included in the Business Plan to invest in well-designed open spaces that enhance local communities;

6.2.4 **Operating efficiencies** – The business plan assumes efficiencies in operating and financing costs of £11m by 2023/24, and a further £3m to be achieved by 2025/26;

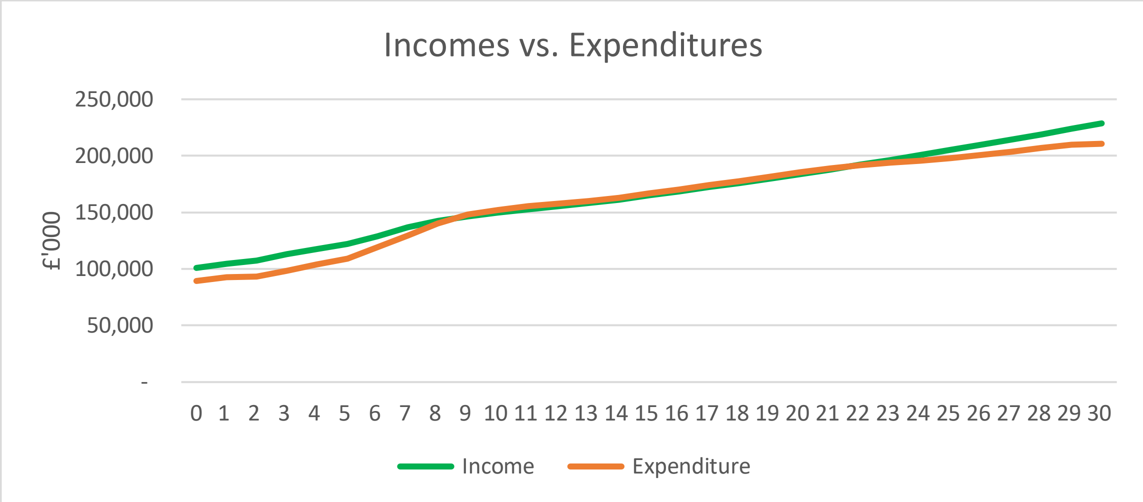
6.2.5 **Further reduction in pool rate** – The Council's pool rate was reduced from 4.5% to 3.8% in last year's plan.

6.2.6 **Increased contingency -** This year's Business Plan also includes a £25m contingency (an additional £10m increase on last year's plan), built up over the next six years, to ensure the continuation of the investment programme. This is a separate account to manage any unexpected reduction in income or increase in unplanned expenditure.

6.3 Further work to check and refine key assumptions has been undertaken since the report to Housing, Homelessness and Fair Work Committee as well as, the alignment of investment priorities identified through budget consultation with tenants and members. This includes changes in employee costs inflation and void rent loss in 2021/22 to take into account of the Covid-19 impacts on local government pay offer and time to re-let homes. A summary of the high-level assumptions is set out in Appendix 2.

6.4 Planned capital investment has increased in the first 10 years by nearly £320m (c.16%) compared to last year's Business Plan. The Business Plan assumes this will be funded by an annual 2% rent increase.

6.5 Following the changes set out above, the Business Plan is projecting a £25.3m deficit between years 9 and 21 (2029/30 and 2041/42); with an average annual deficit of £1.9m over these 13 years. However, it is important to note that the deficit only relates to in year expenditure exceeding income, there is enough fund in reserves to completely offset it. The HRA has a net surplus of £84.3m over 10 years and £137.0m over 30 years.




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 £11.5 million at the beginning of 2021/22, rising to £25 million by 2027, c.19% of the annual income of the year concerned.

## 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.

7.2 All tenants received a paper copy of the budget consultation as part of the Tenants' Courier newsletter during the consultation period. There was an online form and social media campaign. The consultation was promoted to tenant organisations and tenant panel members via email and text. A virtual meeting with ETF members was held on 11 November 2020. Since Covid-19, Housing Officers have been engaging in regular welfare checks, these contacts were used as opportunity to encourage tenants to take part in the consultation.

7.3 In addition to the annual rent consultation and tenant survey 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. Focus groups are carried out to look at specific topics and various short life working tackle particular issues.

7.4 Tenant engagement is being further expanded and enhanced through the HSIP to ensure the programme is based on sound research, benchmarking and tenant feedback. In response to Covid-19, arrangements are being put in place to ensure tenant engagement can continue in a safe and accessible way. This will include setting up a new virtual tenant group to focus on service improvement. Consultation with existing tenant groups is taking place to help shape this.

## 8. Background reading/external references

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

8.2 Housing Revenue Account (HRA) Budget Strategy 2020/30, City of Edinburgh Council, 20 February 2020

8.3 Edinburgh Poverty Commission – Poverty and Coronavirus in Edinburgh, Policy and Sustainability Committee, 11 June 2020

8.4 Housing Sustainability Update, Housing, Homelessness and Fair Work Committee, 5 November 2020

8.5 HRA Budget Strategy 2021/22, Housing Homelessness and Fair Work, 5 November 2020

8.6 Land Strategy to Support Delivery of Affordable Housing and Brownfield Regeneration, Housing Homelessness and Fair Work, 14 January 2021

## 9. Appendices

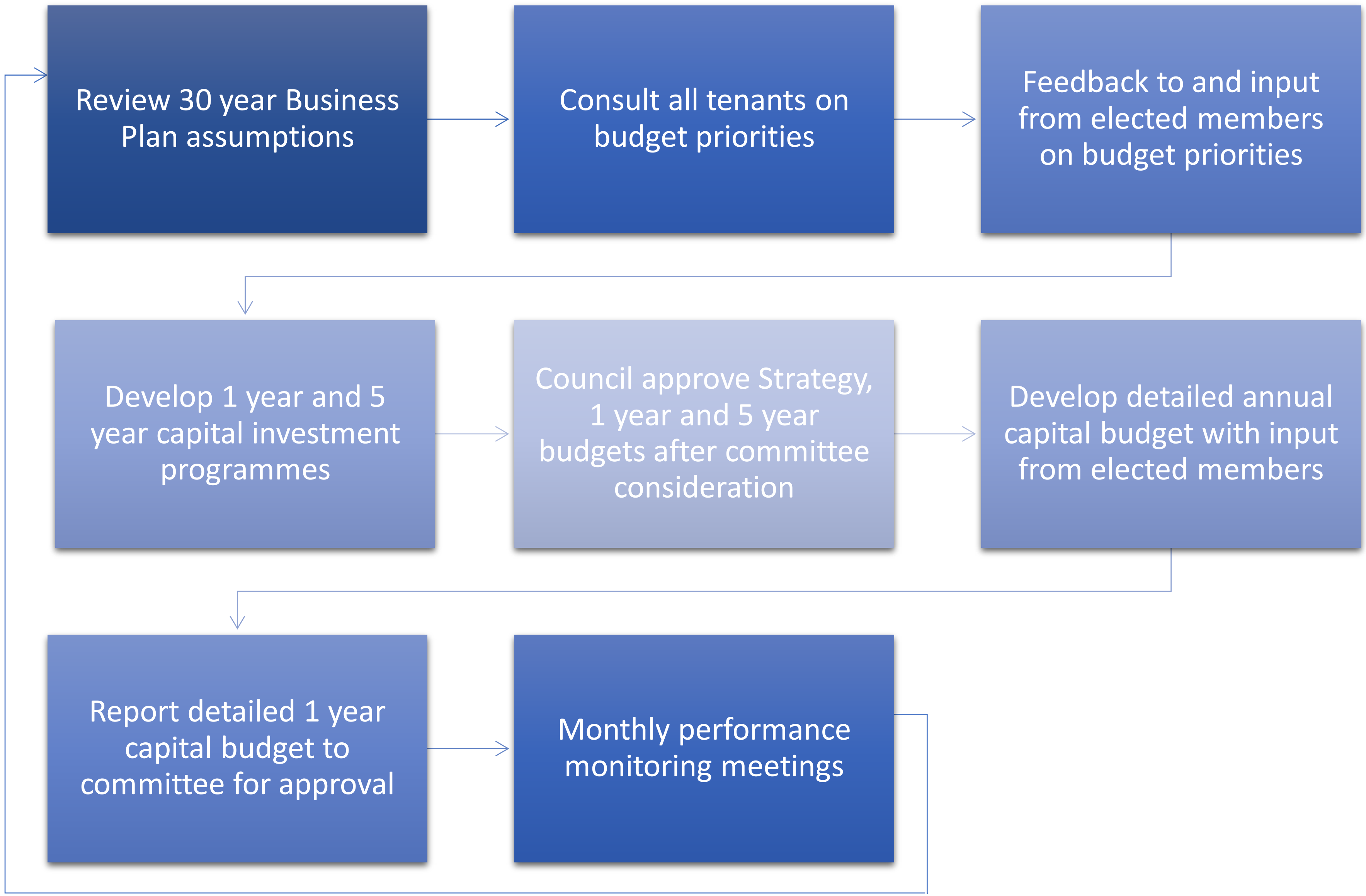
9.1 Appendix 1 - Annual Business Planning Process

9.2 Appendix 2 - Business Planning – High Level Assumptions

9.3 Appendix 3 – Housing Revenue Account Budget 2021/22 (Draft)

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

## Appendix 1 – Annual Business Planning Process



## Appendix 2 – Business Planning High Level Assumptions

| Input | 2021/22 | Note |
|---|---|---|
| **Inflation**<br>**(Operating Costs)** | **2%** | This is in line with the Bank of England inflation target. |
| **Inflation**<br>**(Employee Costs)** | **2.0%** | The business plan assumes 2% employee costs increase in 2021/22 to align with the Operation Costs inflation above and Council General Fund assumption. |
| **Rent Increase** | **2%** | This assumption is in line with long term market inflation projection. The budget strategy aims to keep rents stable and affordable, while delivering one of the most ambitious investment programmes in Scotland. |
| **Net Rental income** | **97.57%** | Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes. |
| **Former tenant arrears write off** | **1.78%** | Any rental debt outstanding for over three 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 2020/21 is estimated to be at a similar level to 2019/20. |
| **Rent lost on empty homes** | **0.65%** | This assumption is based on previous performance levels and is applied over the 30-year business plan period. A slightly higher percentage of 0.71% is assumed in 2021/22 only, to account for the longer re-let time as result of the new letting practice under Covid-19 restrictions. |
| **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 sixth year in a row. |
| **Debt level (projected for March 2021)** | **£395m** | The debt level is projected to remain the same as at 31 March 2020. £14m of new borrowing is forecasted to support the capital investment programme in 2020/21; which will be offset by treasury management controls and the repayment of a similar level of historic debt. |
| **Interest on debt (pool rate)** | **3.80%** | The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate pooled across all projects. It has now included an assumption of the favourable rate for new HRA borrowing announced in Spring Budget 2020. The 2021/22 pool rate assumption is 0.7% lower than that assumed in 2020/21. |

## Appendix 3 – Housing Revenue Account Budget 2021/22 (Draft)

| | Projected Outturn 2020/21 £m | Proposed Budget 2021/22 £m | Movement £m | Movement % | Note |
|---|---|---|---|---|---|
| **Net Income** | **103.138** | **104.638** | **1.500** | **1.45%** | 1 |
| | | | | | |
| **Expenditure** | | | | | |
| Housing Services | 33.219 | 33.933 | 0.714 | 2.15% | 2 |
| Property Maintenance | 20.666 | 21.009 | 0.343 | 1.66% | 3 |
| Debt Charges | 36.337 | 37.556 | 1.219 | 3.35% | 4 |
| Strategic Housing Investment | 12.926 | 12.140 | -0.776 | -6.01% | 5 |
| **Total Expenditure** | **103.138** | **104.638** | **1.500** | **1.45%** | |

**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 less than the 2% rent increase proposed. This is mainly due to the freeze on service charges and a higher void rent loss as a result of longer re-let time under the new letting practice after the Covid-19 outbreak. The average weekly rent will increase by £2.04.

**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 £2.0 million for the continued development of the Housing Service Improvement Plan (HSIP) and £1.0 million for the enabling work associated with large-scale regeneration projects. An accumulated saving of £1.05 million has been included in the draft budget during the third year of HSIP in order to reduce the total expenditure by 12% (£14.3 million) by 2025/26, to ensure the HRA remains financially stable, 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", an accumulated saving of £4.0 million has now been incorporated in the draft budget during the third year of the HSIP, 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 3.35% increase is in line with the capital investment plan set out in the report. As a result of prudent treasury management, net debt levels are expected to have increased by only £27 million over the last five years, whilst delivering nearly £345 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 main reason for the 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.

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

The 2021/22 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*** |
|---|---|---|---|---|---|---|---|---|
| | 2021/22* £m | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | ***Total*** | 2026/27 to 2030/31 £m | ***Total*** |
| Programme Expenditure | | | | | | | | |
| New Homes Development** | 33.223 | 95.718 | 142.628 | 110.806 | 328.326 | ***710.701*** | 1094.736 | ***1805.437*** |
| New Home Land Costs | 20.000 | 19.000 | 19.533 | 15.933 | 15.933 | ***90.399*** | 33.466 | ***123.865*** |
| Tenant's Homes & Services | 8.586 | 21.758 | 27.935 | 27.473 | 24.362 | ***110.114*** | 116.120 | ***226.234*** |
| External Fabric and Estates | 20.917 | 56.395 | 71.386 | 74.136 | 66.325 | ***289.159*** | 330.149 | ***619.308*** |
| **Total Expenditure** | 82.726 | 192.871 | 261.482 | 228.348 | 434.946 | ***1200.373*** | 1574.471 | ***2774.844*** |
| Programme Resources | | | | | | | | |
| Prudential Borrowing | 28.424 | 156.397 | 120.778 | 97.870 | 138.309 | **541.778** | 728.812 | ***1270.590*** |
| Strategic Housing Investment Fund | 18.300 | 23.300 | 28.300 | 10.800 | 10.800 | ***91.500*** | 31.500 | ***123.000*** |
| Capital Receipts and Contributions | 4.560 | 3.880 | 7.700 | 25.590 | 16.644 | ***58.374*** | 89.754 | ***148.128*** |
| Receipts from LLPs** | 19.583 | 5.282 | 72.018 | 70.606 | 232.259 | ***399.748*** | 569.825 | ***969.573*** |
| Scottish Government Subsidy (Social) | 11.859 | 4.012 | 32.686 | 23.482 | 36.934 | ***108.973*** | 154.580 | ***263.553*** |
| **Total Funding** | 82.726 | 192.871 | 261.482 | 228.348 | 434.946 | ***1200.373*** | 1574.471 | ***2774.844*** |

**The planned programme for 2021/22 has been revised down to take account of the Level 4 Covid restrictions announced in December 2020 and rephased over the following three years. Opportunities to accelerate the programme will be pursued, should restrictions ease off during 2021/22.*

***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. £25 million of the £970 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.*