Finance and Resources Committee

10.00am, Thursday, 3 February 2022

Housing Revenue Account (HRA) Budget Strategy (2022-32)

Executive/routine	**Executive**
Wards	**All**
Council Commitments	

1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 Notes the outcome of the annual review of the Business Plan and that based on a 1.8% rent increase in 2022/23 (2% per annum thereafter) this would enable a £2.9 billion ten-year investment programme to deliver Council commitments, including 10,000 new affordable homes by 2027 and net zero carbon by 2038/39 (eight years later than originally planned);

1.1.2 Notes the outcome of the annual rent consultation with the majority of tenants supporting a 1.8% rent increase in 2022/23 and that a further rent freeze would require higher rent increases in future years, withdrawal/reduction of housing services or a reduction in investment in new and existing homes or a combination of all of the above;

1.1.3 Notes that, on 20 January 2022, the Housing, Homelessness and Fair Work Committee agreed to recommend a zero increase in council rents during the coming year;

1.1.4 Agrees to refer the 2022/2023 budget, draft five-year capital investment programme, and the rent levels for 2022/23 set out in Appendices 3, 5 and 6 to the Council budget meeting for approval; and

1.1.5 Notes that 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 to support delivery of Council's commitments and to keep rents affordable.

Paul Lawrence

Executive Director of Place

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Report

Housing Revenue Account (HRA) Budget Strategy (2022-2032)

2. Executive Summary

2.1 The Council is the largest Registered Social Landlord in the city with responsibility for managing and maintaining around 19,000 Council homes. The service is funded almost entirely from tenants' rental income. The HRA Budget Strategy aims to deliver a £2.9 billion investment in new Council homes, existing homes and neighbourhoods by 2027 whilst keeping rents affordable. HRA investment is supporting the delivery of major Council commitments; including the 20,000 affordable homes commitment and net zero carbon.

2.2 In response to the pandemic, Council approved a one-year rent freeze in 2021/2022, whilst still supporting the budget strategy, the 10-year capital investment programme and £1.3 billion revenue programme. The impact of this was a reduction of £2.014 million in projected gross rental income in 2021/22 with around £94 million less funding available over the lifetime of the Business Plan.

2.3 The 30-year Business Plan is reviewed each year and assumptions updated and a rent strategy developed for consultation with tenants. This year's rent consultation was designed and developed in partnership with tenants' representatives and on 2 September 2021, Housing, Homeless and Fair Work Committee agreed to seek tenants' views on the strategy based on five rent increase options for 2022/23, ranging from 1.8% to 5%.

2.4 The highest option (5%) would completely mitigate last year's rent freeze and enable the Council's original commitment to improve existing homes and neighbourhoods, deliver new affordable homes by 2027 and net zero carbon emissions from Council housing by 2030. All other rent options had an impact on the timescales improvements to housing and Council commitments could be delivered. A rent freeze option was not put forward, as it was not considered financially viable in the context of rising costs and the scale of investment required in existing and new homes to meet the needs of our customers, comply with statutory requirements; including the Energy Efficiency Standard for Social Housing (EESSH) and Council commitments. However, a dedicated free text box to allow tenants to make further comments in relation to the rent options was included. Less than 7% of respondents included a comment which indicated support for a rent freeze. The majority of tenants supporting a 1.8% rent increase.

2.5 The proposed below inflation rent increase is considered to be the lowest possible in a context of rising costs and economic uncertainty that impact on delivery of day to day housing management and maintenance services, as well as, delivery of key Council commitments. Following the review of Business Plan assumptions and assuming an 1.8% increase, homes could be brought up to net zero carbon standards eight years later than originally planned (by 2038/2039 instead of 2030/2031). There would also be a projected deficit of £30.145 million over the 30-year period. The deficit only relates to in-year expenditure exceeding income, there is enough in reserves to completely offset it. 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 to support delivery of Council's commitments and to keep rents affordable.

2.6 The pandemic has had a significant impact on delivery of both the capital programme and Housing Service Improvement Plan (HSIP). The majority of service costs remained and additional costs were also incurred to allow services to be delivered safely. The work underway on the design and planning for delivering a whole house retrofit programme; combined with the new approach to working with owners being piloted at Murrayburn, will enable investment in existing stock to be scaled up in future years. Expenditure on the new build programme will also increase as housing construction commences on large mixed use sites that are currently in procurement.

2.7 A further rent freeze in 2022/2023 would have a significant impact on the ability to deliver planned large scale investment in existing and new homes. The impact could not be mitigated through further elongating capital investment; it would either require significant rent increases in future years or the withdrawal/reduction of housing services or a reduction in investment in new and existing homes or a combination of all of the above.

2.8 On 20 January 2022, Housing, Homelessness and Fair Work Committee agreed to recommend a zero increase in council rents during the coming year and asked officers to provide an amended proposal incorporating the rent rises needed during the following four years to compensate for the loss of rent income in the coming year. This information is provided at 4.23.1.

2.9 Committee is asked to agree to refer the key assumptions for the Business Plan, draft 2022/2023 revenue budget, and draft five-year capital investment programme set out in Appendices 3, 5 and 6 to the Council budget meeting for approval.

3. Background

3.1 On 18 February 2021, the City of Edinburgh Council approved the 2021-2031 HRA budget Strategy following referral from Finance and Resources Committee which included a plan to invest £2.8 billion over ten years to deliver Council commitments, including the delivery of new homes and net zero carbon emissions by 2030 and a composite motion from the Conservative, Green and Liberal Democrat Groups which agreed 'the recommendations by the Executive Director of Place in the HRA Budget Strategy for 2021-2031 and the outline 10-year HRA capital programme 2021-2031, subject to agreement that there be no rent rise in 2021/2022.

3.2 The investment plan is based on priorities identified by tenants through previous consultations, these include:

3.2.1 Improving core housing services, such as day to day housing management and repairs and maintenance, with strong focus on getting the basics right and being responsive to tenants' needs, while developing services that help reduce tenants' living costs, including an energy advice service.

3.2.2 Building new affordable homes that are of high energy efficiency standards and are part of well- designed, twenty minute neighbourhoods;

3.2.3 Investing in making existing homes easier and cheaper to heat and working with owners in mixed tenure blocks to improve the external fabric of the buildings and common stairs; and

3.2.4 Investing in areas immediately outside homes for tenants to enjoy and create well-designed, green, open spaces that encourage people to be active and engage with their local environment.

3.3 On 18 March 2021, Committee received a report setting out the impact of the one-year rent freeze on the 2021/2022 revenue budget, and the potential mitigations that need to be put in place in 2022/2023 to secure the ten-year capital investment programme to deliver Council commitments.

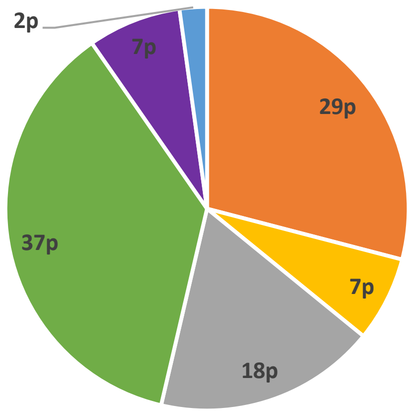
3.4 On 2 September 2021, Committee agreed to seek tenants' views on the HRA budget strategy with five rent increase options for 2022/2023, ranging from 1.8% to 5%, and potential mitigations of the one-year rent freeze for inclusion in the 2022/2023 HRA budget report.

4. Main report

4.1 The budget is prepared annually following consultation with tenants and the regular review of the 30-year HRA Business Plan (the Business Plan) and the Capital Investment Programme. It is shaped by tenants' priorities, Council commitments, statutory compliance and government targets, as well as, life cycle and health and safety, i.e. maintenance and improvements to keep our homes modern and safe.

4.2 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 and interests. The pie chart below sets out how each £1 of rent is spent.

Chart 1: How every £1 is spent in 2021/2022



Housing management (staff & service delivery costs) - This includes:
- staff costs such as the concierge & housing officers
- training and equipment staff need to do their jobs.
- Adapting to changes i.e. in how services were delivered during Covid.

Other support services tenants receive - Services which keep homes safe & well maintained delivered by other parts of the council e.g. grass cutting & pest control.

Repairing & maintaining homes - Emergency and reactive repairs. Gas servicing.

Debt servicing for new homes, improving existing homes & neighbourhoods) - The majority (81%) of expenditure is on historic debt repayment i.e. money that has been borrowed previously to fund improvements to existing homes.

In-year revenue investment for new homes & improving existing homes & neighbourhoods – used of reduce the amount of borrowing required to fund capital investment

Contingency - Money set aside to make sure we're always prepared for any unforeseen circumstances.

4.3 The majority of annual expenditure is on day to day service delivery (95%) including staffing and central support costs, repairing and maintaining homes and servicing borrowing for previous capital investment. Capital investment is funded through a combination of prudential borrowing, Scottish Government grant funding, capital receipts and reserves. The servicing of borrowing accounts for 37% of annual revenue expenditure; around 3% is on servicing new borrowing to fund the capital investment programme. The remaining 2% is put into contingency & savings. All savings are reinvested in the Capital investment programme to reduce borrowing long term.

4.4 During the pandemic the majority of service costs remained (including all staff costs and other support services). Additional costs were also incurred to allow services to be delivered safely (including PPE and cleaning supplies, adapting offices and vehicles, as well as, additional devices for remote and home working).

4.5 The pandemic has also had a significant impact on delivery of the capital programme over the last few years. The construction industry has been severely impacted by materials and skills shortages and delays due to implementation of health and safety measures since the sector came out of lockdown. However, the delivery pipeline for new homes remains strong and investment in existing homes is also expected to scale up in future years.

4.6 The majority of tenants support the overall capital investment plan. A total of 60% of respondents highlighted improvements to existing homes as either their first or second priority for investment. In addition to building new homes and investment in their wider neighbourhood, respondents stated that more investment should be made on staff training, public facilities and spaces, stairs and mixed tenure blocks, as well as services to enable vulnerable tenants to live independently (e.g. sheltered housing, adaptation and social care, and garden service). All of which remains in line with the current investment plan.

4.7 The work underway on the design and planning for delivering a whole house retrofit programme, combined with a new approach to working with owners (through Mixed Tenure Improvement Service pilot), as well as, the development of larger, mixed use sites (Granton and Liberton) across the new build programme, will see capital investment more than double in future years. The capital budget as set out in appendix 6 includes the scaling up of staff resources to manage the ambitious retrofit programme. New build resources have already doubled over the last five years to support the delivery of the affordable housebuilding programme. Within the Council's housebuilding programme, there are currently 440 new homes on site and under construction and a further 2,600 homes in design and development. This does not include homes being delivered for low cost home ownership or private sale through Council led development.

4.8 Investment to improve the energy efficiency of existing homes continues to be a priority, with almost 80% of homes now meeting the Energy Efficiency Standard for Social Housing (EESSH), with 14% homes under contract either on-site or at tender or development stage and the remaining 6% are held in temporary exemption or those that are financially or structural prohibitive to bring up to standard. Over 10% of homes already meet the much more ambitious EESSH2 standard. All homes require to meet EESSSH2 by 2032. A stock condition survey is currently underway to better inform future investment required on existing homes. It is anticipated that the survey will also highlight repair and maintenance work required, increasing both revenue and capital expenditures on existing homes.

4.9 Almost half (48%) of tenants stated that the repairs and maintenance service should be the top priority for investment. This is in line with the Housing Service Improvement Plan (HSIP) which prioritises the repairs service for improvement.

4.10 Within the HSIP, there is a strong focus on digital improvements, self-service capabilities, improved processes for missed and follow-on appointments, enhanced tenant communications around appointments and the tenant feedback captured following repairs appointments; and improved process for managing cases of dampness, mould and condensation. Work is also now underway to ensure new systems and procedures are being used to their full potential, and managers are fully equipped with the tools they need to drive sustainable productivity across the repairs service.

Funding the Strategy

4.11 Over three quarters (76%) of tenants considered their rent to be good or very good value for money, with around 12% considering it poor or very poor. Five rent increase options, ranging from 5% to 1.8% and the associated impact on long term investment were consulted on. The majority (60%) of the tenants opted for 1.8% rent increase in 2022/23 which would see the investment in bringing existing homes up to net zero carbon taking an additional eight years longer than the Council's original soft target of 2030. The net zero carbon target could be brought forward by accelerating investment funded either by higher rent increases in subsequent years or through the Scottish Government low carbon transition fund or similar enabling funds.

4.12 The business plan assumes 2% general inflation increases (see appendix 3 for more details), with construction cost compound inflation increasing by 16.76% over the next five years, an average of 3.35% a year. According to the Bank of England, the annual rate of consumer price inflation (CPI) has risen from 0.7% in January

2021 to 5.1% in November 2021 and is expected to reach about 6% by spring 2022. Employee cost inflation is estimated at 3% in 2022/2023 in line with the Council's General Fund budget. The proposed rent increase of 1.8% is therefore below all assumed inflationary increases, reducing the in-year surplus which can be used to offset new borrowing to fund the capital investment programme.

4.13 Private rents have increased by an average of 2.5% a year over the last five years, while the average rent for local authority landlords has increased by 2.6% a year and average housing associations' rent has increased by 2.4% a year over the same period. For the last five years, Council rents have increased by an average of 1.6%. The average council rent (two-bedroom flat) is 46% below Local Housing Allowance and 55% below the average market rents in the city. More information on rent levels is set out in Appendix 2.

4.14 Analysis on rent increase options against the welfare status of the respondents (whether the tenants get full help with their rent, some help with their rent, or no help with their rent) found no clear trend/correlation, with the 1.8% rent increase being the most popular choice in all three groups of respondents and 5% being the second most popular option for tenants getting full help or some help with their rent. Details of the consultation results can be found in Appendix 1.

4.15 Between 70-80% of tenants each year receive assistance with their rent payment responsibilities through Housing Benefit or the housing element of Universal Credit (UC). Tenants on partial benefit would not have to pay anything extra, as benefits are based on a person's income and ability to pay, not on rent levels. Therefore, any increase in the rent charge would normally be covered by an increase in the benefit received if there are no other changes in the household circumstances and they are not affected by benefits cap and/or under-occupation reduction.

4.16 The Council's approach to the collection of rent is based around best practice and aims to prevent tenants getting into debt they cannot afford. Since the start of the pandemic, tenant rent arrears have increased due to a significant number of tenants facing changes in their household financial circumstances and the suspension of formal debt recovery measures to ensure tenants were not at increased risk of losing their home during the pandemic.

4.17 The Tenant Grant Fund has been introduced to help those who are at risk of homelessness because of rent arrears related to the Covid-19 pandemic restrictions (23 March 2020 to 9 August 2021). Tenants can request a grant to reduce or clear their Covid-19 related rent arrears. The grant is payable to the landlord and on the condition that both the tenant and landlord agree to stopping eviction proceedings and put in place repayment arrangements for any additional outstanding arrears. A small team has been created to administer the fund; it is due to close on 31 March 2022.

4.18 Tenants continue to be encouraged to engage as early as possible with the Housing Service and a wide range of support and advice services are available to help not just on rent payments but wider household costs.

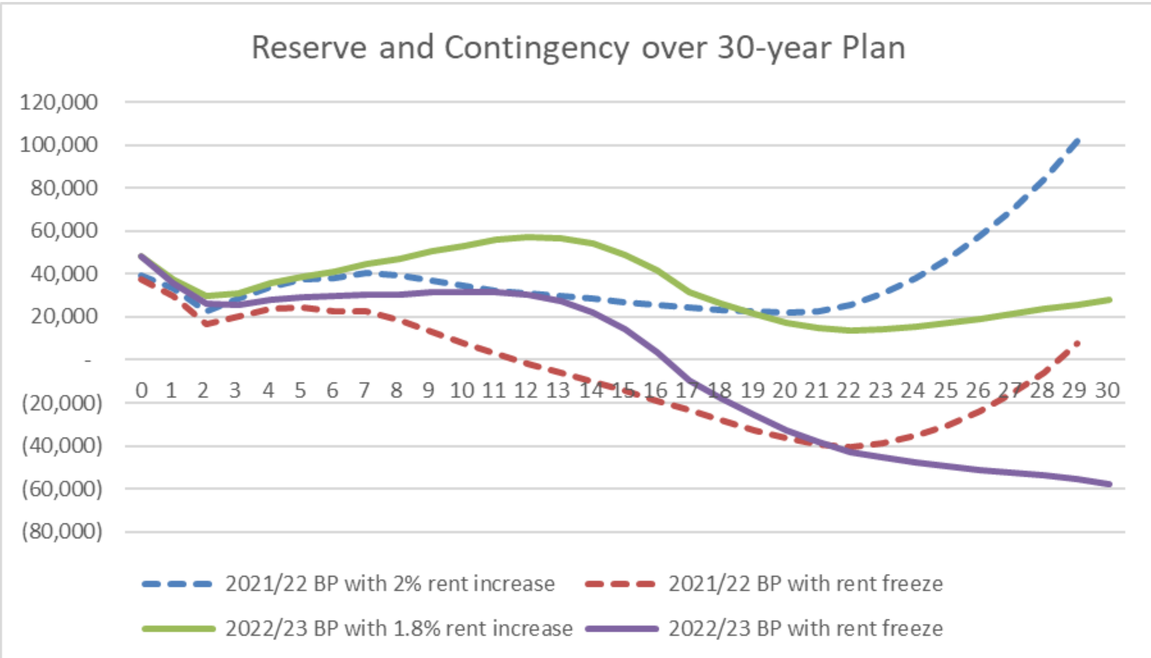
Long term Impact on delivery

4.19 The Business Plan is extremely ambitious. It seeks to maximise expenditure, whilst minimising the impact on tenant's incomes by driving forward significant efficiencies. Every 1% of rent equals c.£47 million of income over the lifetime of the Business Plan. £1 million of revenue can support c.£18 million capital borrowing.

4.20 The 2021/2022 rent freeze has meant a reduction of £2.014 million in projected gross rental income in 2021/2022. Unless expenditure is further reduced (beyond current HSIP targets) or income is increased in future years to compensate this equates to a £93.921 million reduction over the lifetime of the Business Plan.

4.21 A rent freeze option was not deemed viable and therefore was not included as a direct consultation option. However, a dedicated free text box to allow tenants to make further comments in relation to the rent options was included. Less than 7% of respondents included a comment which indicated support for a rent freeze.

4.22 If a rent freeze was agreed for a further year (2022/2023, followed by 2% thereafter), the HRA Business Plan would sink into a significant deficit (£74.9 million from 2035/36 until the end of the Business Plan), with the reserves and ringfenced contingency fully exhausted in 2038/2039.



4.23 In order to mitigate the impact of another rent freeze longer term and return the Business Plan to a healthy financial position, there are four potential options:

4.23.1 **Increase income in future years –** Rents would need to be increased by a minimum 2.5% over the next four years. If rents were increased by more sooner (i.e. 4% in 2023/2024 and 2% thereafter) this would lessen the impact and duration of the deficit. A longer-term rent strategy would be required to ensure the recovery of lost income in early years.

4.23.2 **Reduce revenue expenditure –** The HSIP already assumes a 12% reduction in annual expenditure by 2025/2026. This is already an ambitious improvement programme. It is therefore not realistic to assume that a further reduction in revenue expenditure could be achieved through efficiencies alone. Service reduction would have to be considered. As set out in Chart 1, around 40% of current annual expenditure is required to service historic borrowing for improvements and therefore cannot be reduced. Around 18% accounts for the responsive repairs and maintenance service and around 30% for housing management costs (including staff costs, management costs and overheads). Any in year surpluses are fully utilised to reduce borrowing in current or future years.

4.23.3 **Reduce capital investment –** A reduction in £1.8 million income would mean approximately £32.0 million of capital borrowing could not be supported. This could mean a reduction of 160 new social rented homes or 1,070 homes would not be able to receive whole house retrofit improvements. Or more homes could be build/upgraded to a lower specification. The business plan currently makes financial provision to deliver 10,000 Council-led affordable homes by 2027. Reducing the capital investment would prevent the delivery of the commitment.

4.23.4 **Elongate the Capital programme –** Elongating capital investment would not be enough to bring the plan back into surplus.

4.24 It is important to note that this analysis is based on the 2022/23 Business Plan. Key risks include reduction in rental income, limited grant funding, increasing capital investment costs, an inability to realise savings through HSIP and wider market volatility (super inflation), therefore, if any of these factors are worse than estimated, then more severe mitigations (i.e. higher rent increases) would be required in future years to mitigate the impact of a rent freeze in 2022/2023.

4.25 Due to the scale of capital investment and service improvement programmes one-year rent increases are difficult to implement. Longer term strategic outcomes take time to plan and roll out. An assessment would be required to take account of projects at different stages of design and procurement. Any reduction in service provision would take time and would not necessarily occur in the same year as the rent freeze itself. Consultation would need to take place with tenants alongside engagement with staff, trade unions and elected members. The longer these savings take to implement the greater the deficit.

5. Next Steps

5.1 Consultation on the detailed capital programme will be carried out with Elected Members in early 2022. This will inform the 2022/2023 Capital Investment Programme report which will be presented to Housing, Homelessness and Fair Work Committee for approval in March 2022.

5.2 A six-monthly update of the HSIP is included on the agenda for this meeting of Housing, Homelessness and Fair Work Committee, with a further update due in June 2022.

5.3 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 additional funds could potentially be used to accelerate investment.

6. Financial impact

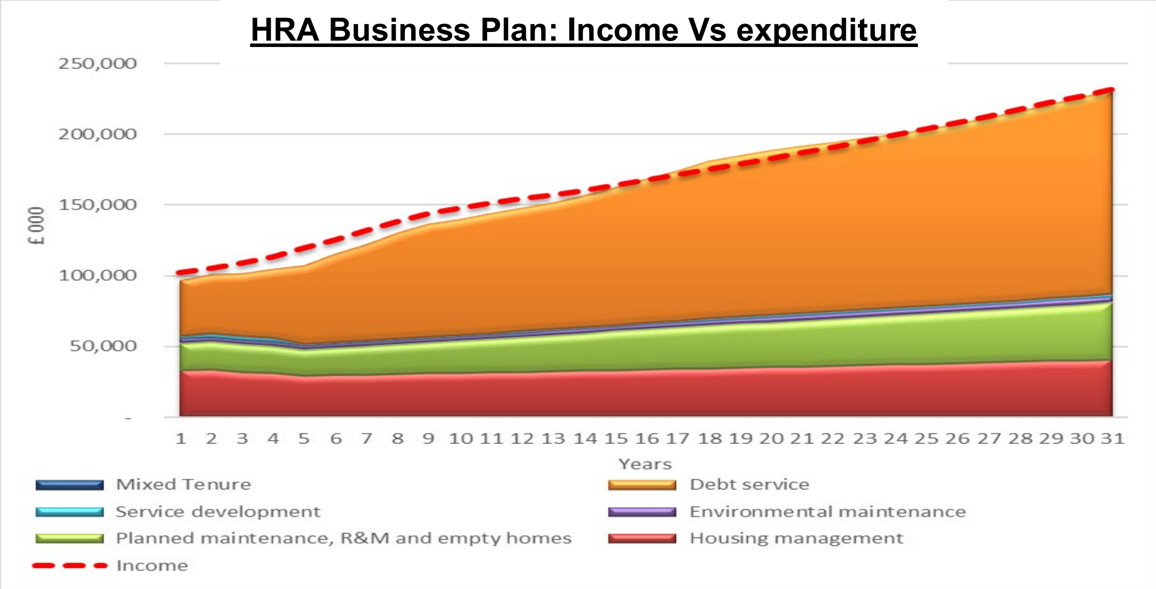
6.1 The rent freeze in 2021/2022 increased the overall deficit by 179% from £25.300 million to £70.594 million, lasting two years longer (2029/2030–2043/2044). The reserves and ringfenced contingency were exhausted by year 13 (five years into the deficit period), only recovering in year 30 of the plan.

6.2 The revised 30-year plan is set out below, based on a 1.8% rent increase in 2022/2023, followed by 2% (in line with inflation) thereafter and net zero carbon investment delivered by 2038, instead of 2030. The overall impact of the changes has resulted in deficit from 2036/37 to 2043/44 (eight years). Key changes since the consultation report in September include:

6.2.1 **Reduction in capital expenditure** due to a further alignment on the Whole Housing Retrofit, Mixed Tenure Improvement Pilot (MTIP) and internal stairwell investments to avoid double counting of the investment in existing homes. The capital programme has been further reviewed to take account of the continued impact of Covid-19 and Brexit on the costs and availability of materials, labours and contractors. This has resulted in re-profiling of the programme in the next two years into future years.

6.2.2 **Increased revenue assumptions on CPI** in line with Bank of England latest projection and long-term target, as well as, an increase on employee cost inflation in 2022/2023 to align with Council's General Fund assumption.

6.2.3 **Increased revenue expenditures** based on the latest outturns and increased activities assumed in 2022/2023 as the market adjusting to the new operating environment. The employee costs budget has been reviewed to take into account of vacancy, overtime and spinal column point of existing employees.



6.3 The total gross deficit over the plan is projected to be £30.1 million, averaging £3.8 million a year. The deficit only related to in year expenditure exceeding income, there was enough in contingency and reserves to completely offset it. The contingency and reserves balance is at the lowest in 2043/2044 at £13.6 million.

6.4 The top five risks to the Business Plan are reduction in rental income, limited grant funding, increasing capital investment costs, an inability to realise savings through HSIP and wider market volatility. These risks and potential mitigations are detailed in appendix 4.

7. Stakeholder/Community Impact

7.1 Each year the views of tenants are sought on the HRA budget strategy, investment plan, services and associated rent levels. This year's rent consultation was designed and developed in conjunction with the Housing Service Improvement Group (formerly the Rent Matters Working Group) made up of individual tenants, supported by Edinburgh Tenants Federation (ETF) and Tenant Information Service (TIS). In addition to helping to plan the annual budget consultation, the Housing Service Improvement Group have a role in monitoring and shaping the HSIP.

7.2 All tenants received a paper copy of the 2022/2023 Council Housing Rent Consultation booklet, which provided information on how the housing service works and the housing investment plan, along with the rent consultation survey.

7.3 The booklet was sent in a designed envelope to attract attention and a freepost envelope was provided for tenant to return the postal survey. Tenants could also respond to the consultation survey online through the Consultation and Engagement Hub. This new approach was different from previous years and resulted in a significant increase in postal and online responses, from 236 (average over last 5 years) to 445 for this year's rent consultation.

7.4 In addition, the rent consultation has been complimented by the annual Tenant's Survey of 1,000 Council tenants, carried out by an independent third party, procured by the Council. The Council provides a random sample of tenants contact details, weighted by locality and property type to be representative of the made up of our tenants.

7.5 Two focus groups were also carried out with tenants to seek in depth views on the consultation topics in relation value for money, rent increase options and longer-term rent strategy.

7.6 There is also a regular programme of tenant engagement and customer insight. This includes regular satisfaction surveys, focus groups, tenant panels, tenant led service inspections and scrutiny, resident and community meetings, which help to inform the continuous development of the budget strategy and HSIP.

8. Background reading/external references

8.1 Housing Revenue Account (HRA) Budget Strategy 2021-31 - City of Edinburgh Council, 18 February 2021

8.2 Housing Revenue Account (HRA): Impact of a One-Year Rent Freeze - Housing, Homeless and Fair Work Committee, 18 March 2021

8.3 Updated Housing Revenue Account (HRA) Capital Programme - Housing, Homeless and Fair Work Committee, 3 June 2021

8.4 2022/2023 Housing Revenue Account (HRA) Budget Consultation - Housing, Homeless and Fair Work Committee, 2 September 2021

8.5 Housing Service Improvement Plan Update - Housing Homeless and Fair Work Committee, 20 January 2022

9. Appendices

9.1 Appendix 1: 2022/23 Council Rent Consultation Results

9.2 Appendix 2: Wider Market Context: Rent levels and rent setting.

9.3 Appendix 3: Business Planning – High Level Assumptions

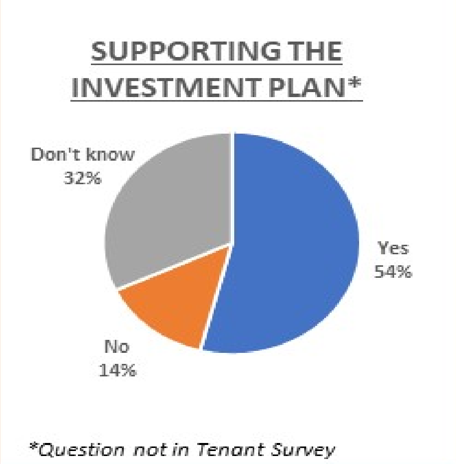
9.4 Appendix 4: Top five risk to the HRA Business Plan.

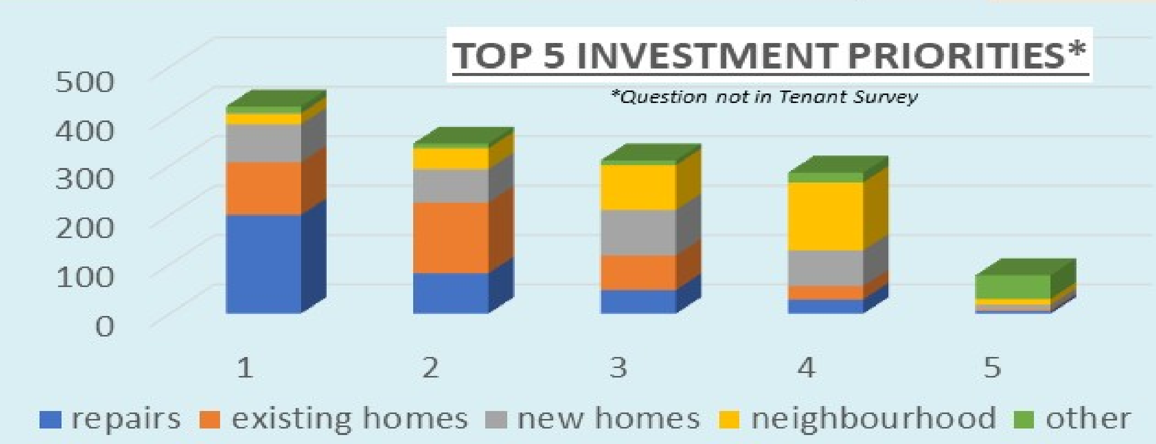
9.5 Appendix 5: Housing Revenue Account Budget 2022/23 (Draft)

9.6 Appendix 6: Draft 5 Year & 10 Year HRA Capital Investment Programme

Appendix 1: 2022/23 Council Housing Rent Consultation Results

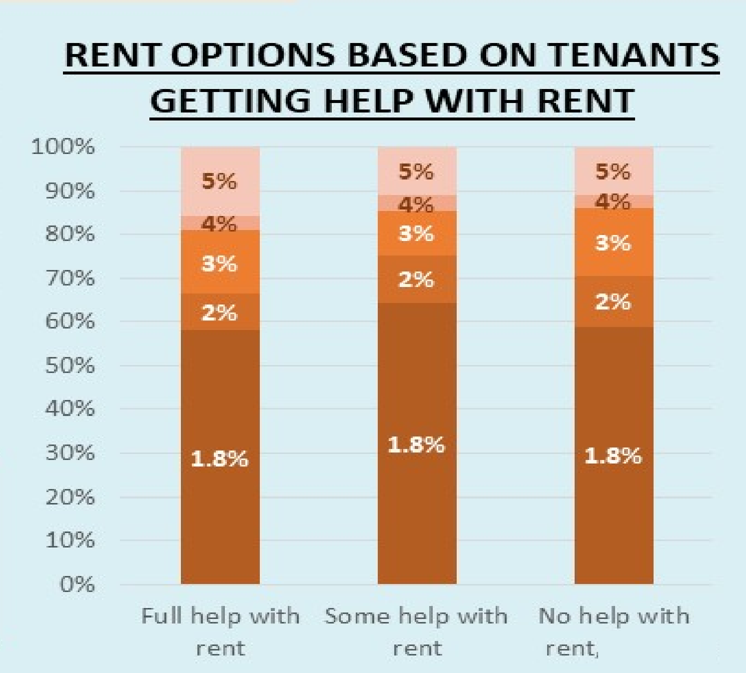
This year's rent consultation was ran for 12 weeks between 15 September and 8 December 2021. Below is a summary of the 1,431 responses received (14 responses have been removed due to duplication):



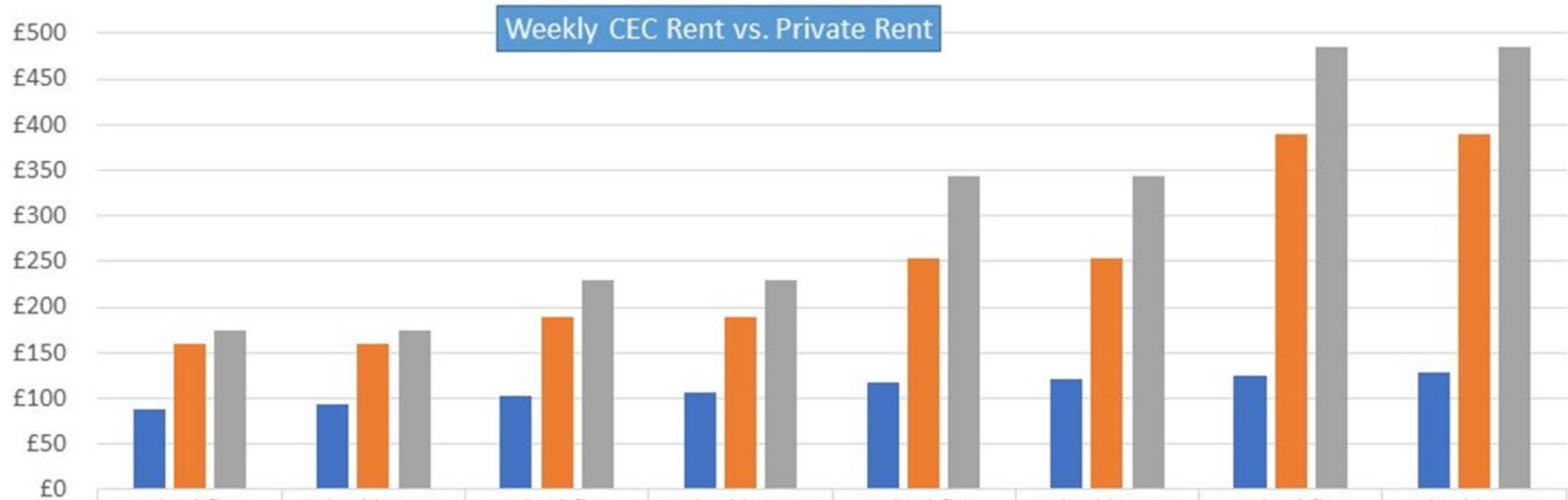


OTHER PRIORITIES

- Staff
- Community Hubs, playpark, public facilities and spaces
- Stairs and Mixed Tenure
- Sheltered Housing
- Adaptation and social care
- Garden services
- Climate Change Targets
- ASB and security in blocks (esp. high rise)



Appendix 2: Wider Market Context: Rent levels & rent setting



	1 bed flat	1 bed house	2 bed flat	2 bed house	3 bed flat	3 bed house	4+bed flat	4 bed house
CEC	£88.14	£92.63	£102.44	£106.96	£116.76	£121.28	£124.29	£128.80
LHA	158.79	158.79	189.86	189.86	253.15	253.15	390.08	390.08
Avg. Private Rent	£174.00	£174.00	£229.85	£229.85	£343.38	£343.38	£485.08	£485.08

Average annual increase since 2016 (5-year avg)	
Council rents	1.6%
Inflation	2.0%
Private Rents	2.5%
Local Authority Landlords	2.6%
Housing Associations	2.4%

Around 1 in 5 Scottish local authorities have confirmed rent increases below 2% in 2022/23. Others are consulting on rent increases ranging between 1% and 4.9%

Appendix 3: Business Planning – High Level Assumptions

Input	2022/23	Note
Inflation **(Operating Costs)**	**2%**	This is in line with the Bank of England inflation target.
Inflation **(Employee Costs)**	**3%**	This assumption aligns with that in the Council's General Fund business plan. The starting budget has been reviewed to take account of vacancies, overtime and spinal column point increases.
Rent Increase	**1.8%**	The majority of tenants supported a 1.8% rent increase. The business plan assumes 1.8% increase in 2022/23, then 2% annual increase thereafter in line with the long-term market inflation projection by the Bank of England. The budget strategy aims to keep rents stable and affordable, while delivering one of the most ambitious investment programmes in Scotland.
Net Rental income	**95.19%**	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	**3.86%**	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 2022/23 is expected to be similar to that in 2021/22, while the bad debt provision assumed in the business plan is higher due to the increased current tenancy arrears as a result of Covid-19 pandemic.
Rent lost on empty homes	**0.95%**	This assumption is based on a long-term performance average and is applied over the 30-year business plan. A slightly higher percentage is assumed in 2022/23 to account for the longer re-let time as result safe working practices implemented under Covid-19 restrictions.
Fees and charges increase	**0%**	Fees and charges for additional services where provided as part of tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) is frozen for the seventh year for the majority of services while a detailed review to identify the future approach to these services is being carried out. The Stair Cleaning service charge for tenants can be held for a further year following re-tendering and the award of a new contract in September 2021.
Debt level (projected for March 2022)	**£414m**	Reduced from £432 million at 31 March 2021. This was due to loans fund review adjustment as part of treasury management and repayment of borrowing being higher than the new borrowing to support the capital investment programme in 2021/22.
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.

Appendix 4: Top five risks to the HRA Business Plan

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 Universal Credit (UC) and financial hardship being experienced following Covid-19.	The assumption on number of tenants still to be migrated between now and December 2024 has been increased to take account of the impact of Covid-19 on tenants' income and welfare status. 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. The assumption on bad debt rate for former tenancy rent arrears has been increased based on trend of performance to minimise the impact of non-recovery of former tenancy rent arrears on revenue income. Where arrears are written off for accounting purpose, the Council will still continue to pursue recovery action.
Grant funding: The maximum amount of grant funding cannot be achieved for Council Social Rented, resulting in a reduction in the number of homes that can be delivered. Uncertainty on additional grant and 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. Grant funding to support owners to invest in mixed tenure improvements is reduced, therefore limiting the number of mixed tenure blocks that can be improved.	Edinburgh has a strong track record of spending its Grant Resource Planning Assumptions. Over the last five years it has mopped up £36 million in national underspends. Officers will continue to work with government to maximise grant funding for new supply. Work on Edinburgh Living viable models is underway; taking into account development costs, availability of grant funding and consents. The Mixed Tenure Improvement Service (MTIS) pilot is now in the implementation stage. Enhanced Scheme of Assistance measures are in place for extended payment terms. The application to Scottish Government's Energy Efficient Scotland: Area Based Scheme (EES:ABS) grant fund has been aligned with the MTIS pilot in order to maximise funding available to owners to pay for their shares of repairs and fabric improvement work.
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 additional safe working practices, as well as, additional cost implications associated with sustainability targets.	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.
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% by 2025/26. A midpoint review is being progressed to look at the saving targets and phasing of savings to take account of the new operating environment following Covid-19. Early review findings will be used to inform the Business Plan. Progress is reported to Committee every 6 months.
Market volatility: Inflation is currently higher than originally projected (5.1% in Nov 2021). This could have a significant impact on borrowing rates. Every 0.1% increase would increase the cost of the capital programme by £4.6 million over the next 10 years.	Business plan is reviewed regularly. It is informed by market intelligence. There is a significant amount of prudence baked into the plan and a contingency fund built up to manage any unforeseen circumstances.

Appendix 5 – Housing Revenue Account Budget 2022/23 (Draft)

	Projected Outturn 2021/22 (£m)	Proposed Budget 2022/23 (£m)	Movement (£m)	Note
Net Income	**103.786**	**105.391**	**1.605**	1
Expenditure				
Housing Services	34.775	37.689	2.194	2
Property Maintenance	21.596	22.872	1.276	3
Covid-19 Extraordinary Costs	1.480	0.000	-1.480	4
Debt Charges	33.498	36.960	5.462	5
Strategic Housing Investment	12.436	7.870	-4.566	6
Total Expenditure	**103.786**	**105.391**	**1.605**	

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 less than the proposed 1.8% rent increase. This is mainly due to the freeze on service charges, a higher void rent loss as a result of longer re-let time for safe working practice and a higher bad debt provision as a result of Covid-19 pandemic. The average weekly rent would increase by £1.84. If an additional rent freeze was agreed in 2022/23; the projected net rental income would reduce to £103.651m. A rent freeze results in a £1.83m reduction in Gross Rental income and a £0.09m reduction in void rent loss and bad debt provision.

Note 2.

"Housing Services" includes core housing management services, tenant and community services like energy advice and tenant discount scheme. 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, spinal column point changes, team growth and new rate of employers' National Insurance. The draft budget also includes £1.5 million for the continued development of the Housing Service Improvement Plan (HSIP) and £3.7 million for the enabling work of large-scale regeneration, which will be monitored along with the capital programme and, where appropriate, relevant expenditure will be capitalised in year. A saving of c.£0.4 million has been included as part of the HSIP to reduce the total expenditure by 12% (£14.6 million) by 2025/26, to ensure the HRA remains financially stable.

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", a saving of £2.5 million has 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.

"Covid-19 Extraordinary Costs" relate to cost of time spent by operatives completing additional cleaning on responsive repairs and maintenance jobs within tenants' homes. There is currently no budget assumed in the 2022/23 draft budget.

Note 5.

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. As a result of prudent treasury management, net debt levels are expected to have increased by only £49 million over the last five years, whilst delivering nearly £388 million of capital investment over the same period.

Note 6.

"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. If an additional rent freeze was agreed in 2022/23 and all other expenditure remained the same, £6.13m (£1.74m less than set out above) would be added to Strategic Housing Investment programme.

Appendix 6: Draft 5 Year & 10 Year HRA Capital Investment Programme

The 2022/23 Draft Budget and business plan are based on the assumptions set out in Appendix 3. 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 10-year capital programme would not be affected by a rent freeze in 2022/23 on the assumption that rents are increased by an adequate amount in future years to offset the impact (see para 4.24). If rents are not increased in subsequent years, then the capital programme would have to be reduced.

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***
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	***Total***	2027/28 to 2031/32 £m	***Total***
Programme Expenditure								
New Homes Development*	43.332	107.049	162.503	398.595	401.714	***1,113.193***	831.748	***1,944.941***
New Home Land Costs	16.800	2.500	17.500	29.433	25.466	***91.699***	39.866	***131.565***
Tenant's Homes & Services	11.337	11.115	14.458	14.786	15.337	***67.033***	82.227	***149.260***
External & common works to housing, estates improvements & property acquisitions	50.350	53.923	72.244	69.899	72.513	***318.929***	389.670	***708.599***
Total Expenditure	**121.819**	**174.587**	**266.705**	**512.713**	**515.030**	***1,590.854***	**1,343.511**	***2,934.365***
Programme Resources								
Prudential Borrowing	87.938	104.216	127.158	167.115	182.537	***668.964***	569.105	***1238.069***
Capital Funded from Revenue / Reserve	18.300	18.300	10.800	10.800	10.800	***69.000***	43.400	***112.400***
Capital Receipts and Contributions	5.000	7.920	37.912	39.135	48.046	***138.013***	129.382	***267.395***
Receipts from LLPs*	6.444	15.567	56.437	244.445	199.967	***522.860***	422.517	***945.377***
Scottish Government Subsidy (Social)	2.537	26.664	32.158	50.258	72.720	***184.337***	174.307	***358.644***
Scottish Government Subsidy (Acquisition)	1.600	1.920	2.240	0.960	0.960	***7.680***	4.800	***12.480***
Total Funding	**121.819**	**174.587**	**266.705**	**512.713**	**515.030**	***1,590.854***	**1,343.511**	***2,934.365***

**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. £22 million of the £945 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.*