Finance and Resources Committee

10.00am, Tuesday, 7 February 2023

Housing Revenue Account (HRA) Budget Strategy 2023/2024 – 2032/2033

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 the annual rent consultation; with just over half of tenants (53%) voting for a third rent freeze and the remainder supporting a 2.5% (31%) and 5% (16%) increase;

1.1.2 Notes that officers recommend that rents be increased by 2.5% in 2023/24 and that a Tenant Hardship Fund will be established to support tenants experiencing financial hardship; including those who cannot access benefits;

1.1.3 Notes the impact of two years rent freezes and increasing costs and that (based on 2.5% rent increases over the next 10 years) around 81% of existing homes can be brought up to Energy Efficiency Standard for Social Housing (EESSH2) standards over the lifetime of the business plan and that only those new homes in design development (c.2,200 social rented homes) can be delivered;

1.1.4 Notes the impact on the capacity of the capital investment programme if rents are frozen by a third year or if rents are increased by 5% in 2023/24, as set out in the Financial Impact section;

1.1.5 Notes that in December 2022, COSLA leaders agreed a Statement of Intent to keep the rental and fee increases to an average of less than £5 a week across the country. A 2.5% rent increase is equivalent to an average of £2.55 a week with a 5% increase equivalent to an average £5.10; and

1.1.6 Agrees to refer the 2023/2024 budget, draft 10-year capital investment programme, and the rent levels for 2023/2024 set out in Appendices 3 and 4 to the Council budget meeting for approval.

Paul Lawrence

Executive Director of Place

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Report

Housing Revenue Account (HRA) Budget Strategy 2023/2024–2032/2033

2. Executive Summary

2.1 The 30-year HRA Business Plan is reviewed annually to make financial provision for delivery of day-to-day services to tenants and capital investment in new and existing homes. The Business Plan is seeking to support the delivery of Council commitments, including more Council homes and net zero carbon.

2.2 On 24 February 2022, Council approved a rent freeze for the second year in a row equating to £179m loss of income over the lifetime of the 30-year business plan from the two rent freezes. Since then, the impact of the Ukrainian war, as well as the long-term impact of the pandemic has seen costs in the construction sector increase by around 30%. The cost-of-living crisis and inflationary rises have meant that the day-to-day delivery of core landlord services are costing almost 20% more than last year's business plan. This reduces the capacity to borrow to invest in improving existing homes and neighbourhoods and building new affordable homes.

2.3 Delivery of the EESSH2 programme is expected to reduce energy demand for the average home by 76% providing significant savings for tenants whilst supporting carbon reduction. Based on average fuel bills (October 2022 price cap) a household in a two-bed flat could save over £1,000 a year, after a home has been brought up to EESSH2 standards. However, based on increasing costs it will not be possible to deliver improvements to all our Council homes without significantly increasing rents and securing additional financial support from Scottish Government.

2.4 As part of this year's budget consultation tenants were asked whether they would support a 0%, 2.5% or 5% rent increase to help fund investment. It was noted that none of these options would be enough to deliver the original plan. However, it is recommended that a 2.5% rent increase be implemented in 2023/2024. After two years of freezes any increase in rents would be a positive step in getting the business plan to a position to be able to deliver Council commitments, whilst keep rents affordable and any increases well below inflation.

2.5 Just over half of tenants supported a rent freeze for a third year in a row. Almost 70% of those who voted for a rent freeze get help with paying their rent with Benefits set to be increased by CPI (10.1%) in April 2023. Therefore, any increase in rents would be covered through a proportionate increase in benefits (assuming tenants' circumstances have not changed). 47% of tenants agreed that rents should be increased in 2023/24, with almost a third (31%) of respondents voting for a 2.5% increase and 16% supported a 5% increase.

2.6 The report (para 4.9 to 4.12) and Appendix 5 sets out the support available to tenants to help with paying rent and other bills; including additional resources for the Energy Advice Service and a new early intervention contact system to alert housing officers to tenants who are having difficulty managing their rent account. A new Tenant Hardship Fund will be established to provide support to tenants experiencing financial hardship; including those who cannot access benefits. A report will be brought to Housing, Homelessness and Fair Work Committee setting out how the Fund will be managed.

2.7 The one-year revenue budget (Appendix 3) and Draft 10-year Capital Investment Programme (Appendix 4) are predicated on annual rent increases of 2.5%. This would mean that over the lifetime of the business plan 81% of existing homes could be brought up to EESSH2 standards. Those homes in design and development would be completed over the next 10 years (c.2,200 social rented homes), but no new homes would be progressed without rent increases and additional Scottish Government grant funding. Should rents be increased by more than 2.5% or should there be a significant increase in grant funding then the pipeline can be progressed and accelerated in future years.

2.8 If a third rent freeze was approved, 8.3% per annum rent increases would be required over the following five years (from 2024/2025 onwards) in order to be able to deliver EESSH2 by 2040 and to build 5,000 homes for social rent by 2034.

2.9 A longer-term rent strategy will need to be put in place from 2024/2025 onwards to ensure that the HRA remains financially stable, and to ensure the Council delivers on statutory requirements, including EESSH2. Almost 60% of tenants said they would support a longer-term rent setting strategy, with the three-year period being the most selected option.

3. Background

3.1 On 24 February 2022, Council received a report proposing a below inflation 1.8% rent increase in 2022/2023 (2% per annum thereafter) to enable the revised £2.9b 10-year investment programme to deliver Council commitments, including 10,000 Council-led new affordable homes by 2027 and net zero carbon by 2038/39 (eight years later than originally planned). In light of the ongoing cost of living crisis, Council agreed to freeze rent for a second year in a row instead.

3.2 The report also highlighted that a minimum of 2.5% per annum rent increases would be required over the subsequent four years (2023/2024 to 2026/2027) to mitigate the loss of income caused by the second rent freeze and to achieve the long-term investment plan based on the assumptions at the time.

3.3 As part of the 2022/23 Programme for Government, the First Minister announced on 6 September 2022 that emergency legislation would be introduced to freeze rent with immediate effect till at least 31 March 2023 and a moratorium on evictions. The Cost of Living (Tenant Protection) (Scotland) Act 2022 was passed at the Scottish Parliament and came into force on 28 October 2022. The legislation introduced a rent increase cap, which was set at 0%, until 31 March 2023. It also gave Scottish Ministers the ability to extend the rent increase cap beyond March 2023 for two additional periods of six months.

3.4 On 22 September 2022, City of Edinburgh Council agreed a Motion on "Rent Freeze" from the Labour Administration; incorporating an addendum from the SNP Group and an amendment from the Green Group.

3.5 On 29 September 2022, Housing Homelessness and Fair work received a report setting out the implications for the HRA of rising costs and rent freezes and agreed to consult tenants on their main financial challenges. Committee was asked to note that the third rent freeze would mean that the Council will not be able to deliver statutory energy efficiency commitments and expand the Council's housebuilding programme without significant rent increases in future years and substantial Scottish Government subsidy.

3.6 On 24 November 2022, Scottish Government issued a call for evidence from landlords and tenants on the impact of the rent cap measures for tenants and the implications for landlord service delivery, business and investment plans.

3.7 In December 2022, COSLA published a Statement of Intent, prepared in consultation with the Association of Local Authority Chief Housing Officers (ALACHO) and approved by COSLA leaders. Comments were also invited from SOLACE and Directors of Finance. The statement included the following in relation to rent increases '*During these difficult times, as providers of social housing and Gypsy/Traveller pitch or site provision, we intend to keep the rental and fee increases to an average of less than £5 a week across the country.'*

3.8 On 21 December 2022, Scottish Government confirmed they would not freeze rents for social landlords beyond March 2023.

4. Main report

4.1 The 30-year HRA Business Plan 2023/2024 - 2052/2053 is the financial framework that underpins the Housing Service. 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 10-year Capital Investment Programme. It is shaped by statutory compliance and government targets, tenants' priorities and council commitments, as well as life cycle and health and safety.

4.2 The Business Plan seeks to make financial provision for the ongoing delivery of core commitments to:

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

4.2.2 Increase the supply of social rented Council homes by 5,000 homes by 2034 supporting the Council's ambition to reach 25,000 new affordable homes;

4.2.3 Deliver the Scottish Government's requirement for social housing to meet the EESSH2 standard working towards a target of all Council Homes being brought up to this standard by 2040;

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

4.2.5 Deliver an area-based approach to design and management of our wider estates aligned to investment in new and existing homes; and

4.2.6 Support and enable large scale regeneration in the city; including the regeneration of Granton waterfront.

4.3 The pandemic had an immediate impact on delivery of the capital programme with site closures and additional health and safety measures resulting in elongated programmes and increased costs. These challenges have been compounded by supply chain disruption, shortages of materials, labour, contractor availability leading to sharp increases in costs. The subsequent war in Ukraine and cost of living crisis linked to volatility in the energy market has meant that the cost of day-to-day delivery of our core landlord services has increased alongside increases in borrowing costs for capital works.

4.4 Capital investment is funded through a combination of prudential borrowing, Scottish Government grant funding, capital receipts, in-year revenue surplus and/or sinking fund built up in previous years. The servicing of capital borrowing from previous years accounts for 34% of all expenditure. The financial capacity of the HRA to fund the long-term delivery has deteriorated significantly. The previous two rent freezes have meant a £6m reduction in income per annum (£179m over the business plan). Every £1 million revenue can fund around £16m in capital borrowing.

4.5 The assumptions used in the Business Plan have been reviewed and updated to reflect the latest operating environment. Therefore, unless rents are increased significantly or there is a substantial injection of grant funding from Scottish Government to support energy efficiency investment, we will not be able to deliver on the commitments within the timescales set out in 4.2 above. The scale of mitigations required are set out in the Financial Impact section below.

Tenant Consultation

4.6 Each year the Housing Service consults tenants on the annual budget strategy and any associated rent increases. Almost 90% of tenants supported the overall investment plan, which focuses on investing money in building more social housing and making homes warmer and cheaper to run by making them more energy efficient.

4.7 As part of this year's budget consultation tenants were asked whether they would support a 0%, 2.5% or 5% rent increase to help fund the plan. However, one of these options would not be enough to get the business plan back on track, after two years of freezes any increase in rents would be a positive step in getting the business plan back on track, whilst keep rents affordable and any increases well below inflation.

4.8 Around 10% of tenants felt that rents were not value for money. 64% of respondents were aware of the previous two-year rent freezes. Just over half of tenants supported a rent freeze for a third year in a row. Almost 70% of those who voted for a rent freeze get help with paying their rent. Therefore, any increase in rents should be covered through a proportionate increase in benefits. 47% of tenants agreed that rents should be increased in 2023/2024. Almost a third (31%) of respondents voted for a 2.5% increase and 16% supported a 5% increase.

Help with Rent

4.9 95% of all income to the HRA comes from tenants' rents. Many of our tenants have seen their household income reduced (or interrupted) as a result of the pandemic, requiring help from welfare benefits, such as Universal Credit, to pay for their rents. The cost-of-living crisis further increased the financial pressures of our tenants, which in turn affects rent collection.

4.10 Between 70% and 80% of tenants each year receive assistance with their rent payment responsibilities through Housing Benefit or the housing element of Universal Credit. Working age benefits and pension credits are set to go up by CPI (10.1%) in April 2023. Tenants on partial benefit may see a minimal additional contribution if the rent charge is increased, as benefits are based on a person's income and ability to pay. Therefore, any increase in the rent charge would be proportionately covered by an increase in the benefit received if there are no other changes in the household circumstances.

4.11 In addition to rent levels tenants were asked questions in relation to wider cost of living issues. The results are summarised in appendix 2. The major of respondents highlighted that food (70%) and energy bills (77%) were becoming increasingly difficult to pay for. 23% of tenants said they had been consciously reducing their energy usage to save money. 31% of tenants also commented that their home quickly becomes cold once their heating has been turned off.

4.12 Since 2018 the Housing Service has had a dedicated energy advice service which offers in depth advice and support helping tenants to ensure they are heating their homes in the most effective way, support with preventing or managing fuel debt, accessing social funds and the Warm Homes Discount and other advice on positive behavioural changes. In the last six months, the Energy Advice Service has received 60% more referrals for support than the same period last year. The service is currently in the process of expanding to recruit two additional advisors to both meet with current demand and projected growth in demand.

4.13 35% of tenants surveyed said they were finding rent more difficult to pay for. Around a third (31%) sought additional help, with over half of those tenants speaking to their housing officer. The second and third most popular places for support were the Council's Income Maximisation Service and Citizens Advice Bureau.

4.14 The Council introduced a new early intervention system in October 2022 which alerts housing officers that tenants may be experiencing difficulties in paying rent. This will enable housing officers to have early conversations with tenants and prevent tenants getting into higher levels of debt.

4.15 A Scottish Government Tenant Grant Fund is in place to prevent homelessness for Private and Social tenants with rent arrears accrued as a result of the pandemic. A dedicated team (consisting of one Housing Officer and two Housing Assistants) was put in place to provide information, support and grant awards to tenants who find themselves at risk of homelessness and ensure that tenants are signposted to the right financial help and advice. Updated guidance has recently been issued by the Scottish Government to extend awards from the fund to cover rent arrears arising because of the cost of living crisis. Officers are reviewing criteria before inviting further funding requests.

4.16 A multi-disciplinary team has also been put in place to help Council tenants who are at serious risk of court action and are not engaging with their housing officer. The team consists of a housing/homelessness specialist, a debt advisor and income maximisation officer supervised by a team leader. With specialised representation from housing, family and household support, adult protection, children and families social work services and family group decision making. The team actively reaches out to tenants, offering joined up, intensive support, with the aim of keeping the tenant in their home.

4.17 Fees and charges for additional services provided as part of tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) have been frozen for the last seven years. The majority of these charges cannot be covered by benefits and therefore provide a direct financial saving to tenants. The stair cleaning, core furnished tenancy and ground maintenance charges in new build developments will be increased in line with any rent increase this year, these are mandatory tenancy conditions and therefore covered by benefits.

4.18 For the last five years, Council rents have increased by an average of 1.2%. The average council rent (two-bedroom flat) is 46% below Local Housing Allowance and 62% below the average market rents in the city. Along with the City of Edinburgh Council, three local authority landlords (Aberdeen, East Lothian and Midlothian) had a rent freeze for a second year in a row in 2022/2023. All other local authorities increased rent by between 1% and 3.1%. The 2023/2024 rent increase proposals for 25 of the 26 Local Authority landlords in Scotland are now available. Only five landlords so far are giving the option of a rent freeze (including Edinburgh). Rent increase proposals range from 0% to 7%.

4.19 Alongside a recommendation to increase rents by 2.5% officers are proposing that a Tenant Hardship Fund be set up to help tenants experiencing financial hardship; including those who cannot access benefits. Administration of the fund will be similar to Discretionary Housing Payment. The exact criteria and administration of the scheme will be reported to Housing, Homelessness and Fair work committee in March 2023.

4.20 Whilst legislation requires social landlords to consult with their tenants for any rent increase, a longer-term commitment can be put in place to help better plan investment and give tenants some certainty on what rent they will be paying over a number of years. Previously, the Council did have agreement on a rent structure (inflation + 2.7%) to meet statutory commitment of bringing homes up to meet the Scottish Housing Quality Standard. Almost 60% of tenants said they would support a longer-term rent setting strategy, with the three-year period being the most selected option. A longer-term commitment on rents is needed to enable officers to plan investment and to deliver the EESSH2 programme and increase the supply of Council homes.

Making homes easier to heat

4.21 All social landlords are required to bring homes up to the very ambitious EESSH2. The original target of 2032 has been put on hold and Scottish Government are currently carrying out a review of the standard and associated timescales. The outcome of the review is expected to be known in late Spring/ early Summer. The cost and complexity of meeting this standard in existing homes has had a huge impact on business plans across all social landlords and their capacity to meet statutory commitments, as well as, building more homes.

4.22 Whilst this will improve the energy efficiency of homes, reduce carbon and heat demand, which in turn will reduce energy costs, the whole house retrofit costs are currently estimated to be around £56,000 per home. It is estimated that by meeting EESSH2, existing energy demand required to heat the home could be reduced by average to 76%. Based on average fuel bills (October 2022 price cap) a household in a two-bed flat could save over £1,000 a year, after a home has been brought up to EESSH2 standards. A 2.5% rent increase would be the equivalent of an average annual increase of £132.60.

4.23 From 2023/2024 onwards capital investment will enable a new approach to energy efficiency/retrofit; focussing on a whole house retrofit (WHR) approach covering larger area-based programmes. The first stage of this includes full whole block retrofit and wider upgrades and improvements to four multi-storey blocks and one low rise area-based scheme. In addition to this, eight multi-story blocks will move into design and development with the majority of these moving to site start in

2024/2025. A further low-rise area-based programme will also move into design and development (with a 2024/2025 anticipated site start).

4.24 Overall, the design and development process for WHR and wider improvement/upgrade works is lengthy and extremely detailed with numerous building elements needing careful consideration to ensure the right solution for the building and tenants is developed. The design and development process can take between 12-18 months, along with lengthy engagement and sign off from planning, building control and procurement. Therefore, the ability to plan budgets over a longer term is critical to the overall success of the programme.

4.25 The Mixed Tenure Improvement Service (MTIS) continues to work alongside owners to enable fabric repairs and energy efficiency works to progress. The MTIS Programme will move into its final year of works in Wester Hailes in 2023/2024. To date a total of 911 homes including 233 private and 678 Council homes in Phases 1 to 8 are either complete or currently undergoing works to retrofit and improve the blocks.

4.26 Phases 9 to 11 are being planned at Murrayburn, Dumbryden and Hailesland targeting a further 380 homes over the final year of the programme. The MTIS programme is being expanded to targeted other areas of the city to enable more Council homes to be brought up to EESSH2.

4.27 In January 2022, Scottish Government announced £200m for Social Housing Net Zero Heat Fund (SHNZHF) for all of Scotland over the next five years. The fund is project specific and distributed on a first come first serve basis. Successful projects could claim between 50% and 100% of the total costs.

4.28 The SHNZHF has an average annual budget of £40m for all of Scotland. Based on the draft capital programme (predicated on a 2.5% rent increase) set out in appendix 4, it is estimated that spend of c.£128m over the next five years would be required to bring almost 2,300 Council homes up to EESSH2.

4.29 The Energy Efficient Scotland: Area-based Scheme (EES:ABS) funding from Scottish Government has been integral in driving forward investment in mixed tenure blocks. Private owners in extreme fuel poverty receive a maximum grant of £13,500 (for flats) to £18,000 (for detached houses) through the scheme. However, even with this funding, the costs to private owners in some of Edinburgh's most deprived areas are likely to be significant.

4.30 In November 2022, the Housing Convenor wrote to the Cabinet Secretary for Social Justice, Housing and Local Government setting out the cost challenges associated with EESSH2 and asking that Scottish Government Resource Planning Assumptions (RPAs) similar to the Affordable Housing Supply Programme be provided to help council's meet this ambitious standard, without having to pass all the costs onto tenants who are already struggling. The letter also highlighted the need for additional funding and support for owners to continue to drive much needed investment across mixed tenure blocks and reduce the financial constraints that prevent many private owners from progressing with these works.

Building new affordable homes

4.31 As set out above the scale of investment required in meeting statutory energy efficiency commitments of existing homes is putting increasing financial pressure on our ability to build more affordable homes. That said, housing need and demand pressures in Edinburgh have never been greater and so building new affordable homes in the city remains a priority.

4.32 Within the Council's housebuilding programme, there are currently 613 new affordable homes on site and under construction (301 for social rent and 312 for mid-market rent) and a further 1,055 homes in design and pre-construction stage (727 for social rent and 328 for mid-market rent). This does not include homes being delivered for private sale or market rent through Council led developments.

4.33 The amount of grant funding benchmark made available for each affordable home increased in 2021, however, the increases in construction costs has meant that it has had a limited impact on viability, as it only represents around 35% of the cost of an affordable home.

4.34 The HRA can only support delivery of around 2,200 homes for social rent on sites that have been identified as part of the Strategic Housing Investment Programme (SHIP 2023-2028), which was approved by Housing, Homelessness and Fair Work Committee in December 2022. The SHIP is reviewed annually.

4.35 The Business Plan assumes that around £120m of Scottish Government grant funding will be required to support the delivery of only the social rented homes in the new build programme over the next five years (based on a 2.5% rent increase). Over the next three years Edinburgh's starting allocation for building both the Council and Housing Associations social and mid-market rented homes is £136m.

4.36 The Council House Building team has a future pipeline programme of over 4,000 homes (including social rent, mid-market rent and homes for sale). Most of these are in early concept stages and some sites still remain in third party ownership/are still operational. Should rents be increased by more than 2.5% or should there be a significant increase in grant funding then this pipeline can be progressed and accelerated in future years to support the ambition to reach 25,000 affordable homes.

5. Next Steps

5.1 Depending on the decision at the special Council budget meeting on 23 February 2023, council officers will work through the impact of the agreed 2023/2024 rent level on the capital investment programme. The detailed 2023/24 Capital Investment Programme will be reported to Housing, Homelessness and Fair Work Committee for approval in March 2023.

5.2 The criteria and administration of a Tenant Hardship Fund to support tenants experiencing financial hardship; including those who cannot access benefits, will be developed. A report on the proposed fund will be reported to Housing, Homelessness and Fair work committee in March 2023.

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 last HRA Budget Strategy approved by the Council in February 2022 included a 10-year £2.9b capital programme and £1.2b revenue programme. Following a review of the Business Plan assumptions (as set out in the HRA budget strategy report 2023/24 to 29 September HH&FW committee), in order to deliver the same outcomes over the next 10 years it is projected to cost £3.5b in capital (20%

increase on last year's plan) and £1.4b in revenue (17% increase on last year's plan). Key changes listed below have resulted in a significant increase in HRA expenditure. These include:

6.1.1 **Cost of delivering services** (inflationary increases, staff cost increases, and electricity costs). Inflation is currently assumed to be 3% over the next three years (in line with General Fund planning assumptions) and electricity costs for operating Housing Service workplaces are estimated to increase by 29% in 2023/2024, while Employee Costs Inflation has been updated to align Council's General Fund business plan (3% for three years);

6.1.2 **Cost of borrowing to fund capital investment.** The assumption for pooled interest rate for capital borrowing has been increased from 3.8% to 4.78%. For every 0.1% increase, debt servicing costs would increase by an average of c.£19m over the 30-year plan period based on the latest draft investment programme;

6.1.3 **Delays in financial efficiencies** coming from the Housing Service Improvement Plan are now expected to take longer to be realised due to the pandemic**;**

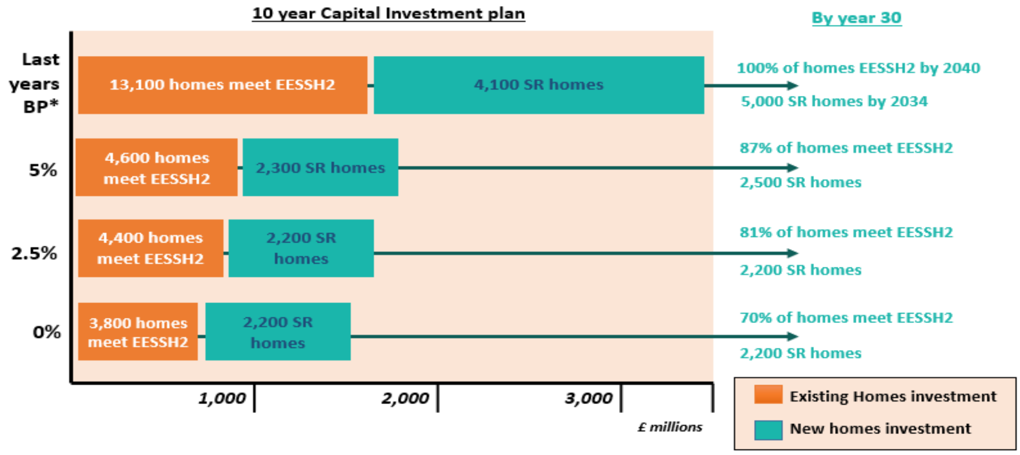
6.1.4 **New build programme cost increases.** Increasing cost in materials, workforce and land. There is a 28% increase in assumed Council housebuilding build cost (excluding land costs) per home based on the most competitive tender prices for recent housing projects. Although the affordable housing grant was increased in 2021/2022, however, it still leaves a considerable gap when compared to the increase in assumed development costs; and

6.1.5 **Bringing existing homes up to EESSH2.** Detailed design principles work is well underway and able to inform more accurate cost assumptions. The average whole house retrofit costs to achieve EESSH2 standards has increased from £30,000 to £56,000 per home.

6.2 The impact of the increasing costs set out above, as well as the reduction in income as a result of two consecutive rent freezes, means that the business plan has a lot less money to spend on capital investment. Three scenarios have been modelled based on the proposed rent increases that formed part of the tenant consultation exercise.

6.3 The graph below sets out the impact on the 10-year and 30-year capital investment programmes based on proposed rent increases. None of the proposed scenarios (0%, 2.5% or 5%) would be able to get the business plan back on track.

Figure 1: Impact on 10-year capital investment programme



6.4 All tested scenarios show that significant interventions would be required to be able to deliver the original 10-year capital investment programme that would see all homes meet EESSH2 by 2040 and 5,000 new homes for social rent by 2034. One of the following or a combination of the following measures would need to be implemented:

6.4.1 **Increasing rents:** Rents would have to be increased by 7.8% per annum for the following five years (2024/2025 to 2028/2029) in order to be able to deliver on current commitments. If there was a rent freeze for a third year in a row, this would increase to 8.3% p.a. for five years;

OR

6.4.2 **Increase government funding:** Funding of c.£64m per annum until 2040 would be required to support the delivery of EESSH2 and enable rent increases to be limited to 2.5% from 2023/2024 onwards. It is estimated that the SHNZHF has an average annual budget of £40m for all of Scotland and the Council will need to submit bids for a share of this funding.

6.4.3 An additional £190m in grant funding for new build would also be required over the next 12 years to deliver the original commitment of 5,000 homes of social rent by 2034.

OR

If rents are not increased or significant grant subsidy received, then the capital investment programme set out in appendix 4 would be implemented.

6.4.4 **Stopping the new build programme:** All the homes currently in design and development would be taken forward (c.2,200 social rented homes), but no new homes would be brought into the programme.

AND

6.4.5 **Reducing energy efficiency investment in existing homes:** The programme would have to reduce by c.30%. Which would mean an elongation of the programme to be delivered over 30 years instead of the original 17 years (by 2040) and a reduction in the number of homes that meet the statutory compliance of EESSH2 (total of 81% by 2053, including those already met the standards to date).

6.5 There is already an ambitious service efficiency target as part of the Housing Service Improvement Plan and therefore any additional revenue saving would have to come through service reduction. A small contingency, c.10% of operating expenditure, has been built up to date to deal with any emergencies or unforeseen circumstances.

6.6 It is proposed that payments to tenants in financial hardship will be funded from HRA reserves but, it is important to note that all the scenarios set out above assume that any in year surpluses or reserves (sinking funds) are applied to the capital investment programme to reduce the need to borrow in current and future years. Therefore, if the reserves were to be used for anything else (i.e. to mitigate the impact of a rent freeze in the short term or to support tenant hardship) this would have a detrimental effect on the capacity of the capital investment programme in the medium to long term. Unless rents were further increased, or additional grant funding acquired to compensate then the outputs set out in Figure 1 above could not be achieved.

6.7 Every £1 million from reserves used to directly fund the capital programme would save c.£0.7 million in servicing borrowing over the business plan period (30 years). In 2023/2024 alone this could save the business plan over £11.9 million in debt servicing costs.

6.8 As per Scottish Government guidance, the HRA cannot actually be allowed to remain in deficit in any given year. A contribution from the Council's General Fund would be required. It is therefore prudent budget management to reduce the need to borrow to keep the HRA in as financially stable a position as possible.

6.9 Should rents be increased in 2023/2024, it is proposed that a Tenant Hardship Fund be set up. The fund will be used to support tenants experiencing financial hardship; including those who cannot access benefits. All attempts will be made to maximise access to benefits and to supporting tenants from getting into debt with the Tenant Hardship Fund acting as a "safety net" for tenants impacted by the rent increase. The ongoing uptake of the Fund will be monitored to help inform future provision.

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. On 22 September 2022, City of Edinburgh Council agreed that the annual planned consultation on rent strategy should be refocused on tenants' main financial challenges, which includes rent, energy, effective insultation and food.

7.2 The consultation was developed with input from Edinburgh Tenant's Federation (ETF) and Tenant Information Service (TIS). It comprised of 23 questions covering a range of issues including: specific cost of living concerns, accessing advice services, rent increase options, long-term rent setting, the investment plan, value for money and overall service satisfaction.

7.3 On 24 October 2022, the HRA Budget strategy was approved for publication by the Consultation Advisory Panel. The Consultation ran from 31 October until 23 December 2022.

7.4 Tenants could respond to the consultation survey online through the Consultation and Engagement Hub. This was promoted through the Tenant's Courier newsletter which goes to every tenant and through email footers and targeted social media posts. Registered Tenant Organisations (including Living Rent) also received an email prompt to complete the survey and promote it to tenants within their groups.

7.5 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.

7.6 On 30 November 2022 officers also attended a meeting with members of the ETF executive committee to present and promote the 2023/2024 HRA Budget Consultation.

8. Background reading/external references

8.1 Housing Revenue Account (HRA) Budget Strategy (2022-23) - City of Edinburgh Council, 24 February 2022.

8.2 Mixed Tenure Improvement Service Pilot Progress - Finance and Resources Committee, 3 March 2022.

8.3 2022/23 Housing Revenue Account (HRA) Capital Programme - Housing Homeless and Fair Work Committee, 24 March 2022.

8.4 Update on the Housing Service Improvement Plan - Housing Homeless and Fair Work Committee, 4 August 2022.

8.5 Housing Revenue Account (HRA) Budget Strategy 2023/24 - Housing Homeless and Fair Work Committee, 29 September 2022.

8.6 Strategic Housing Investment Plan (SHIP) 2023-28 - Housing, Homeless and Fair Work Committee, 1 December 2022.

9. Appendices

9.1 Appendix 1: Core Business Plan Assumptions.

9.2 Appendix 2: 2023/24 Council Rent Consultation Results.

9.3 Appendix 3: Housing Revenue Account Budget 2023/24 (Draft).

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

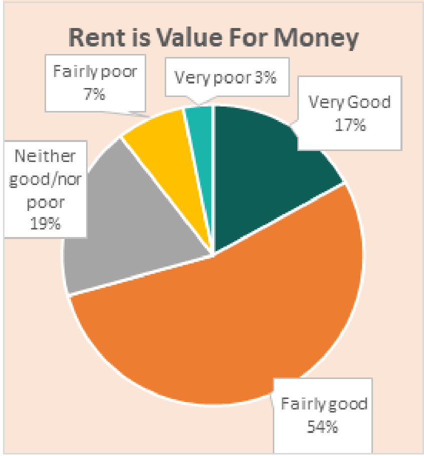
9.5 Appendix 5: Summary of crisis support available for tenants.

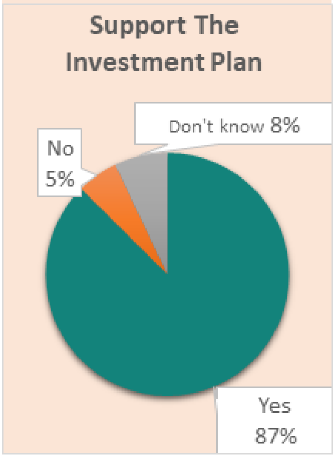
Appendix 1: Business Planning High Level Assumptions

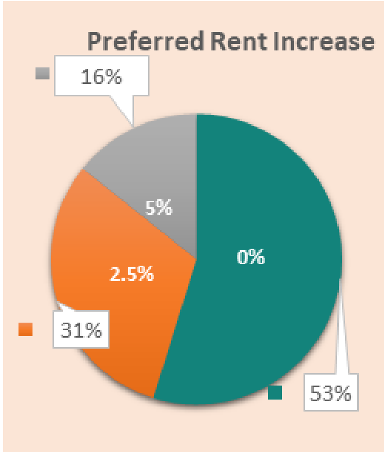
Input	2023/24	Note
Inflation (Operating Costs)	**3%**	This assumption aligns with that in the Council's General Fund business plan. It assumes 3% for three years before returning to the Bank of England inflation target of 2%.
Inflation (Employee Costs)	**3%**	This assumption aligns with the Council's General Fund business plan. The core budget has been reviewed to take account of projected vacancies, overtime and spinal column point increases.
Rent Increase	**2.5%**	Tenants were consulted on three rent increase options in 2023/24: 0%, 2.5% and 5%. The 2.5% option has been used as baseline to develop a one-year revenue budget and 10-year capital programme.
Net Rental income	**96.26%**	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	**2.00%**	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 2023/24 is expected to be similar to that in 2022/23. The bad debt provision has reduced slightly as current tenancy arrears have stabilised post Covid-19 pandemic. Where arrears are written off for accounting purpose, the Council will still pursue recovery action if there is a material change of circumstance (i.e. the debtor is traced, or they become solvent).
Rent lost on empty homes	**1.74%**	An assumption of 0.65% based on long-term average performance is applied over the 30-year business plan period. This higher figure is assumed in 2023/24 but is anticipated to reduce over 2023/24 as the backlog of empty homes is tackled. A work plan and project team is now in place to reduce the turnaround time by developing ICT systems, improving processes and working practices and drawing in additional resources through external contractors and overtime with a clear focus on reducing baseline void turnover duration.
Fees and charges increase	**0% & 2.5%**	Fees and charges for additional services provided with tenancies have been frozen for the last seven years. It is assumed that those charges which cannot be covered from benefits (i.e. communal heating, heat with rent and contents insurance) will continue to be frozen in 2023/24. Those charges which can be covered through benefits (i.e. stair cleaning, ground maintenance in new build developments and core furnishing) will be increased in line with any rent increase. A 2.5% assumption has been applied to the draft one-year revenue budget set out in appendix 3.
Debt level	**£434m**	Debt level increased from £411 million at 31 March 2022. This was to support the capital investment programme in 2022/23.
Interest on debt (pooled rate)	**4.78%**	The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate shared across all projects. The assumed rate has increased from 3.8% to 4.78%; for every 0.1% increase, debt servicing costs would increase by an average of c.£19m over the 30-year plan period.

Appendix 2: 2023/24 Council Rent Consultation Results

This year's rent consultation ran for 12 weeks between 31 October and 23 December 2022. Summary below of the 1,036 responses received

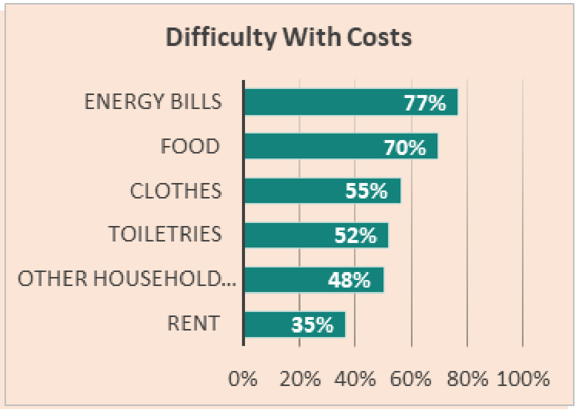


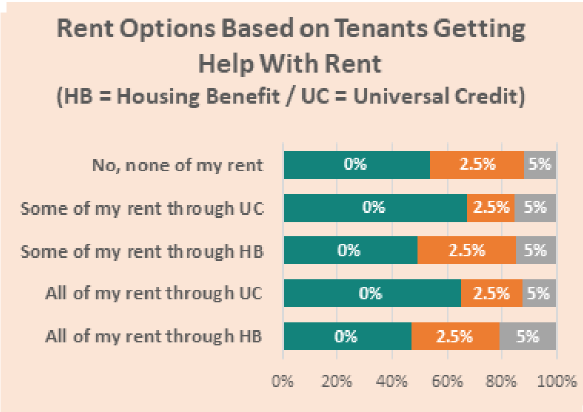




The major of respondents highlighted that food (70%) and energy bills (77%) were becoming increasingly difficult to pay for. 23% of tenants said they had been consciously reducing their energy usage to save money. 31% also commented that their home quickly becomes cold once their heating has been turned off.

Just over half of tenants supported a rent freeze for a third year in a row. Almost 70% of those who voted for a rent freeze get help with paying their rent. Therefore, any increase in rents would be covered through a similar increase in rents(assuming their circumstances have not changed).





64% of respondents were aware of the previous two-year rent freezes.

Almost 60% of tenants said they would support a longer-term rent setting strategy, with the majority agreeing a three-year period would be most suitable.

For the last five years, Council rents have increased by an average of 1.2%.

Only four landlords so far are giving the option of a rent freeze (including Edinburgh). Rent increase proposals range from 0% to 7%.

Appendix 3: Housing Revenue Account Budget 2023/24 (Draft)

	Projected Outturn 2022/23 (£m)	Proposed Budget 2023/24 (£m)	Movement (£m)	Note
Net Income	**103.169**	**105.734**	**2.565**	1
Expenditure				
Housing Services	35.862	37.294	1.432	2
Property Maintenance	25.094	24,942	-0.152	3
Debt Charges	36.905	36.676	-0.229	4
Strategic Housing Investment	5.308	6.822	1.514	5
Total Expenditure	**103.169**	**105.734**	**2.565**	

The proposed budget for 2023/24 shown above reflects a proposed 2.5% rent increase.

Note 1.

"Net Income" is the total rent due to be collected, less written off former tenant arrears and rent loss due to empty homes. It also includes income from interest, service charges and costs recovered in relation to communal heating schemes and owner occupiers. The net income is expected to be increased by just less than 2.5% if the proposed rent increase of 2.5% is approved. This is mainly due to the freeze on service charges. An assumption has been made that the void rent loss rate will improve in 2023/24 as a result of the work plan and project team that have been put in place to reduce the turnaround time of void properties. The average weekly rent would increase by £2.55 in the event of a 2.5% rent increase.

Note 2.

"Housing Services" includes core housing management services, tenant and community services like energy advice and community gardens. It includes employee costs, central support costs and recharges, premises and other expenditure linked to service delivery and their corresponding inflationary increases. The employee costs have been reviewed to reflect the expected pay awards and spinal column point changes. An inflation rate of 3% has been assumed for all costs (in line with General Fund budget assumptions) apart from electricity, where inflation is expected to be higher (29%). The draft budget also includes £1.0 million for the continued development of the Housing Service Improvement Plan (HSIP) and £2.9 million for the enabling work of large-scale regeneration.

Note 3.

"Property Maintenance" includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. A saving of £0.8 million has been incorporated in the draft budget for grounds maintenance as a result of careful management of the contractor providing maintenance of HRA land. This saving is partly offset by an increase in expected repairs and maintenance in line with increases in the overall number of 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). This is in line with the capital investment plan set out in Appendix 4 in relation to resource planning. As a result of prudent treasury management, net debt levels are expected to have increased by only £53 million over the last five years, whilst delivering nearly £406 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.

It is important to note that all scenarios considered for the 23/24 HRA Business Plan assume that any in year surpluses or reserves (sinking funds) have been applied to the capital investment programme to reduce the need to borrow in current and future years.

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

The 2023/24 Draft Budget and business plan are based on the assumptions set out in Appendix 1. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy based on annual rent increases of 2.5%. Inflation has been included in the figures where appropriate. The programme will be revised up or down depending on the final rent increase agreed in 2023/24.

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

Programme Heading	1	2	3	4	5	***5 Year***	6 to 10	***10 Year***
	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	***Total***	2028/29 to 2032/33 £m	***Total***
Programme Expenditure								
New Homes Development*	99.090	109.200	127.123	149.064	137.969	*622.446*	271.086	***893.532***
New Home Land Costs	2.000	3.000	0.000	4.875	4.875	*14.750*	*0.000*	***14.750***
Tenant's Homes & Services & Maintenance	12.567	10.505	10.646	12.312	12.026	58.056	65.682	***123.738***
External Fabric and Estates & Acquisitions	59.704	56.420	53.286	54.916	53.997	278.323	294.695	***573.018***
Total Expenditure	**173.361**	**179.125**	**191.055**	**221.167**	**208.867**	**973.575**	**631.463**	***1605.038***
Programme Resources								
Prudential Borrowing	64.681	99.574	36.943	62.442	101.619	*365.259*	269.585	***634.844***
Capital Funded from Revenue / Reserve	20.300	15.300	15.300	15.300	15.300	*81.500*	91.300	***172.800***
Capital Receipts and Contributions	14.520	23.147	23.862	45.096	41.697	*148.322*	167.521	***315.843***
Receipts from LLPs*	45.809	23.541	87.948	60.839	33.026	*251.163*	26.175	***277.338***
Scottish Government Subsidy (Social)	26.131	15.643	26.042	36.530	16.265	*120.611*	72.082	***192.693***
Scottish Government Subsidy (Acquisition)	1.920	1.920	0.960	0.960	0.960	*6.720*	4.800	***11.520***
Total Funding	**173.361**	**179.125**	**191.055**	**221.167**	**208.867**	***973.575***	**631.463**	***1605.038***

**The budget for new build housing includes the upfront capital costs for the Council led development of all affordable homes, including homes for mid market and affordable market that will be purchased by the Council's LLP (Edinburgh Living). This has no impact on the HRA as interest payments are deferred until the homes are purchased. £69 million of the £277 million anticipated receipts from the LLP 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.*

Appendix 5: Summary of crisis support available for tenants

The Council has worked with key agencies to deliver a network of crisis support to tackle the impacts of the cost of living crisis. The Council adopted a cash-first approach for people facing financial hardship, whilst also offering a range of holistic support and advice.

Below sets out some of the significant financial support activities that all tenants in the city have access to and have benefitted from throughout 2022/23. In addition, there are range of Council tenant specific interventions, which are also set out below:

- ***Scottish Welfare Fund***: a total of £600,000 additional funds has been made available to provide immediate financial support for people in food, energy or other cost of living crises in Edinburgh. This investment provides the capacity needed to ensure that Edinburgh's Scottish Welfare Fund (SWF) can meet demand and ensure accessibility. Edinburgh has operated this flexible fund at low priority, increasing overall access. For period April – August 2022 SWF have awarded 8,687 awards to households totalling £3,291,951
- ***Child Payments & Free School Meals:*** in this financial year £3.2m has been paid to over 8,600 families. The final payment in December 2022 was increased from £130 to £260. The Scottish Social Security Agency will take responsibility for these payments under the Scottish Child Payment system. Scottish Government also provided funding to Local Authorities to administer payments to children in receipt of FSM to mitigate the negative impacts of the cost of living. Payments of £100 were made to almost 8,400 children, totalling £840,000. Following Full Council on 25 August 2022 a further £100 payment was made to eligible families. Families also continue to receive payments in lieu of FSMs in an attempt to combat holiday hunger. This year families have received funding of £2.50 per day, per child, totalling over £1m in support.
- ***Educational Maintenance Allowance:*** financial support for 16-19 year olds in low income households to support continued learning beyond school leavers age.
- ***Free bus travel***: available for young people under the age of 22 using National Entitlement Card
- ***Cost of Living Award:*** as part of the Scottish Government budget for 2022/23 the Finance Secretary announced a one-off Cost of Living Award of £150.00 to households living in a dwelling and liable for Council Tax (band A to D), and those with a valuation banding of E where a Disabled Persons Reduction applied. All bands where Council Tax Reduction was in place were liable for the payment as well as some exempt categories. Almost 147,000 payments were made to Council Tax accounts at a value of £22m.

  As part of the City of Edinburgh Council's budget for 2022/23 a financial payment of £150.00 was included to be made to citizens who were in receipt of Council Tax Reduction or Second Adult Rebate on 1 April 2022. Almost 32,000 payments were made to households totalling £4.8m.
- ***Additional grant funds to support families experiencing difficulty with energy costs:*** a total of £100,000 of funding was provided to Home Energy Scotland (HES) to fund payment of energy crisis grants of up to £1,000 to low-income households in Edinburgh. A further £100,000 has been made available to support this activity and is being distributed through food bank providers. The first tranche of payments totalling £52,000 was paid to providers city wide. A further payment is anticipated before the end of the financial year.
- ***Additional support for people in food crisis or poverty related hunger:*** in 2022/23, to date £209,000 has been made to provide direct food support for people in food crisis and the remaining payment is due in March 2023. This includes support for food banks, food pantries and community food groups.
- ***Support for people in or at risk of Council Tax arrears:*** a new Council Tax Liaison Team has been created who will intervene on low level new Council Tax debt to support

citizens to avoid debt loading and falling further into arrears by using proportionate payment plans.

- ***Council Tax Reduction Scheme:*** the Customer Team continue to support low-income citizens to meet their council tax liability. The Council has been allocated funding of £28.8m for 2022/23. Currently around 32,000 households are in receipt of this important financial support.
- ***Discretionary Housing Payments* (DHP):** the DHP budget from the Scottish Government is allocated in two streams: Under Occupancy Mitigation and Other DHPs. The allocation for Edinburgh for 2022/23 is as follows:
  - Under Occupancy mitigation - The first tranche of funding is £3.85M or 80% of the expected cost.
  - Other DHPs - This includes assistance for those affected by the Benefit Cap and Local Housing Allowance reforms. The funding for Other DHPS is £2.08m.

  There have been 7,617 DHP applications considered up to 31 December 2022, of which 558 were refused. Over £4.9m of this year fund has already been paid, with a further £1.3m committed to support vulnerable citizens meet their rental commitments. Additional funding from Scottish Government has been provided from January 2023 to fully mitigate the benefit cap for impacted citizens from 01 January 2023.
- ***Community Outreach:*** a regular programme of activity to increase access to Council and state benefits is ongoing. This outreach has been particularly successful in schools, with parent consultation sessions regularly supported to provide advice and guidance to parents, as well as sessions for staff to identify need.
- ***The Tenant Grant Fund:*** funded by Scottish Government to prevent homelessness for private and social tenants with rent arrears as a result of the Pandemic. A dedicated team (consisting of 1 Housing Officer and 2 Housing Assistants) was put in place to provide information, support and grant awards to tenants who find themselves at risk of homelessness and ensure that tenants are signposted to the right financial help and advice. This support may include access to community care grants and crisis grants from the Scottish Welfare Fund, with those who apply for either also having access to emergency food and clothing support. The fund is available to those who have exhausted all other options for support, including income maximisation and access to other grants or funds. Updated guidance has recently been issued by the Scottish Government to extend awards from the fund to cover rent arrears arising because of the cost of living crisis. Officers are reviewing criteria before inviting further funding requests. To date 234 Council tenants, 186 RSL tenants and 47 PRS tenants had been awarded a payment or had a decision pending.
- ***Specialist Multi-disciplinary Team to prevent homelessness*:** a multi-disciplinary team has also been piloted to help Council tenants who are at serious risk of court/eviction action and are not engaging with their housing officer. The team consists of a housing / homelessness specialist, a debt advisor and income maximisation officer supervised by a team leader. With specialised representation from housing, family and household support, adult protection, children and families social work services and family group decision making. The team actively reaches out to tenants, offering joined up, intensive support, with the aim of keeping the tenant in their home.
- Dedicated energy advice service for Council tenants: since 2018 the Housing Service has had a dedicated energy advice service which offers in depth advice and support helping tenants to ensure they are heating their homes in the most effective way, support with preventing or managing fuel debt, accessing social funds and the Warm Homes Discount and other advice on positive behavioural changes. In the last six months, the Energy Advice Service has received 60% more referrals for support than the same period.