Housing, Homelessness and Fair Work Committee

10.00am, Tuesday, 1 October 2024

Housing Revenue Account Budget Strategy 2025/26

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

1. Recommendations

1.1 Housing, Homelessness and Fair Work Committee is asked to:

1.1.1 Note the 2023/24 Housing Revenue Account (HRA) budget outturn and the Month Three forecast for 2024/25;

1.1.2 Note the updates made to the HRA Business Plan assumptions to date since the budget was approved in February and the emerging issues that increase the financial pressure on the HRA;

1.1.3 Note the review of the Business Plan assumptions is on-going and the outcome of the review will be reported to Committee in December 2024, in order to inform the development of the 2025/26 proposed budget;

1.1.4 Agree to seek tenants' views on the 2025/26 HRA Budget Strategy; and

1.1.5 Refer this report to Finance and Resources Committee for consideration in order to align with the General Fund budget development.

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Report

Housing Revenue Account Budget Strategy 2025/26

2. Executive Summary

2.1 The 30-year Housing Revenue Account (HRA) Business Plan 2025/26-2054/55 is the financial framework that underpins the Housing service. The plan is reviewed annually to reflect the latest operating environments. A five-to-10-year Capital Programme and one-year Capital Investment Budget are developed and approved by the Council at its budget meeting in February each year.

2.2 This report sets out the initial review of the Business Plan assumptions carried to date and provides an update on associated work in relation to using General Fund (GF) to support the HRA and innovative models to fund the new build programme (as potential mitigations to the increases in expenditure and reduction of grant income for affordable housing). It also provides an update on the rent structure review and seeks approval to obtain tenants' views on investment priorities as part of the annual budget consultation. The Business Plan assumptions review will be concluded in the next two months and the outcome of the review will be reported to Committee in December to help inform the 2025/26 budget.

3. Background

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

3.2 On 5 December 2023, Housing, Homelessness and Fair Work Committee approved the Strategic Housing Investment Plan 2024-2029. The Plan set out a potential affordable housing development pipeline of over 11,000 homes, of which 9,500 would require grant funding through the Affordable Housing Supply Programme (AHSP). Based on the Resource Planning Assumptions (RPAs), i.e. the projected grant allocation for Edinburgh provided by Scottish Government, at the time, it estimated a grant funding gap of £665m over the next five years.

3.3 On 22 February 2024, the Council agreed a five-year rent strategy to increase rent by 7% per annum between 2024/25 and 2028/29, with an assumption that a 7% per annum rent increase over the following five years would be required to meet capital investment commitments, which includes bringing 12,400 homes to Energy

Efficiency Standard for Social Housing 2 (EESSH2) standard and delivering 3,560 new social rented homes.

3.4 The continuation of the Tenant Hardship Fund (THF) was also approved, including a 7% increase to reflect the rent increase, to continue to provide help to tenants facing financial hardship.

3.5 The approved budget also included requests to explore the possibility of offering rent reductions for those homes which have not been brought up to the appropriate standard and proposals to make the rent structure fairer.

3.6 On 27 February 2024, Committee considered a report on Increasing Affordable Homes Delivery and agreed to further engage with Scottish Government officials to explore the parameters for transferring funds from the GF into the HRA.

3.7 On 14 May 2024, Committee received an update on the Strategic Housing Investment Plan 2024/25 – 2028/29, which set out the impact of the reduction in Edinburgh's AHSP grant allocation to £34.2m, an £11m (24%) reduction in previously indicated RPA of £45.2m. Due to the grant funding commitment for already approved projects and uncertainty of the 2025/26 AHSP budget, it was anticipated that Edinburgh was unlikely to be able to approve any new grant funded affordable homes in 2024/25. Based on average grant amounts for social rented homes a reduction of £11m would mean c.110 fewer social rented homes.

3.8 On 27 August 2024, Committee received a further update on the 2024/25 AHSP. It was noted that, following discussions with partners in relation to phasing of projects and their ability to bring forward private finance, as well as, the strategic use of commuted sums, an affordable housing programme of 427 new grant funded approvals could be brought forward in 2024/25. It is anticipated that 70% of the programme will be for social rent.

3.9 However, with uncertainty on future years' grant funding allocations, it remains challenging to develop a steady pipeline of affordable housing projects. Thus, reducing the reliance on grant funding in future years where possible remains a key focus to try and bring an element of certainty in the pipeline.

3.10 Following the approval of last year's budget, a "lessons-learned" exercise was carried out on the budget setting process as part of the continuous improvement. It was found that many of the assumptions used in the Business Plan were further changed after the budget proposal for consultation was presented to Committee in October 2023.

3.11 To help improve the process, including better alignment with the General Fund budget setting process, and allowing elected members more time to assess the financial implications and to develop the relevant budget motions, this report seeks to provide an update on the budget development work carried out to date and the plan for consultation. Another report will be presented to Committee in December detailing the financial implications after the conclusion of the Business Plan assumptions review and setting out the baseline of the budget proposal.

4. Main report

4.1 The HRA annual revenue budget of c.£116m is almost exclusively funded from tenants' rents (93%), with the remaining 7% coming from charges for services provided to tenants and assets held on the HRA account. The HRA is self-contained and is distinct from the Council's GF budget, although both budgets are to an extent reliant on each other for income and expenditure, most notably in the impact on void properties on homeless numbers.

4.2 The majority of expenditure in the 2024/25 approved budget is on day-to-day service delivery (c.98%) including staffing and central support costs, repairing and maintaining homes, and servicing borrowing of capital investment in previous years. The remaining c.2% of the approved budget was earmarked for the Strategic Housing Investment Fund (SHIF) reserve, to support capital investment (in-year or placed in a sinking fund for future years) or to build up a prudent contingency to deal with any emergencies or unforeseen circumstances. The opening balance of the SHIF reserve in 2024/25 was £26.353m.

4.3 The annual review of the business plan has been adopting a working assumption to build up and maintain a SHIF balance of c.£25m. This is equivalent of a quarter of the HRA annual operating (revenue) budget and is in line with a widely accepted business principle, where a cash reserve is held to cover three to six months of operating expenses to deal with any unforeseen emergencies. In light of the unbudgeted drawdown from the SHIF reserve in 2023/24 and projected drawdown in 2024/25 (as set out in Appendices 1 and 2), it is more important than ever to formalise a policy on the SHIF reserve. A long-term plan on the use and management of the SHIF reserve will be established and reported to this Committee in December.

4.4 The capital investment plan is a major component of the Business Plan as the scale of the investment is primarily determined by the borrowing capacity of the HRA. In 2024/25, debt servicing costs is projected to account for 38% of annual revenue expenditure.

4.5 The 30-year Business Plan is reviewed and updated annually. It is rolled forward based on approved budget assumptions, previous financial year outturns, as well as the latest market intelligence and service area projections. The 2023/24 outturn and 2024/25 Month Three forecast are set out in more detail in the financial impact section and in Appendices 1 and 2.

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

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

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

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

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

4.6.5 Deliver an area-based approach to design and management of the Council's wider estates aligned to investment in new and existing homes; and

4.6.6 Support and enable large scale regeneration in the city (such as the regeneration of Granton waterfront).

Changes since the approved budget

4.7 The last HRA Budget Strategy approved by the Council in February 2024 included a 10-year £3.8b capital programme and £1.7b revenue programme. The following key assumptions have been reviewed to date and will continuously be refined as the other assumptions are being updated:

4.7.1 **Align plan to 2023/24 outturns** - After updating the business plan with the 2023/24 outturns and some of the emerging issues identified from Month Three forecasts (as set out in Appendices 1 and 2), drawdown from the SHIF was required in 2023/24 and is expected in 2024/25, resulting in the current Business Plan having a less favourable starting position than the most recent approved plan and less in reserves to be able to offset capital expenditure in future years.

4.7.2 **Net income -** Officers expect less rent to be collected due to welfare reform, as more tenants are moving to Universal Credit through a managed migration. The number of void homes returned, and the number of newly built homes were slightly less than projected as of 1 April 2024, resulting in a slightly lower number of income-generating properties. In addition, a new budget provision has been made for rent loss due to decanting tenants for Whole House Retrofit (WHR) work. However, these reductions in income are expected to be largely offset by improving cost recovery from owners after emergency work has been carried out on mixed tenure blocks.

4.7.3 **Repairs and environmental maintenance updates -** Following the overspend in 2023/24, additional spend on repairs is projected for 2024/25 to bring the number of void properties down to the target level. An assumed saving on ground maintenance expenditure has been reduced after reviewing the actual expenditure in 2023/24.

4.7.4 **Cost of delivering day-to-day housing management services** (employee cost increases, inflationary increases and property costs) - Pay increases have been updated to align with GF budget assumptions. Higher property costs have also been included after the removal of tax exemptions for empty land and higher Council Tax inflation, further aligning to the GF. Most of the adverse impact from these changes has been mitigated by updating the assumptions on general inflation (Consumer Price Inflation,(CPI)) and electricity costs assumptions.

4.8 The review of the Business Plan assumptions is on-going and further changes are still to be made. The financial implications of the assumptions review will be detailed in the report in December.

4.9 An investment programme for building new homes and improving existing homes and estates is currently underway, along with the assumptions on development costs and pooled rate for borrowing. Another vital change still to be factored into the Business Plan is the grant assumptions for the new build programme.

4.10 With RPAs for the city's affordable housing programme reduced by 24% in 2024/25, it is assumed that the grant available in future years will remain at similar level, if not reduce further. In light of this, it is no longer prudent to assume that benchmark grant level will be available for all homes assumed in the Council's housebuilding programme. The Programme for Government announced on 4 September 2024 committed no additional funding to social rent housebuilding.

4.11 It should be noted that the grant available to the Council Housebuilding Programme is for delivery of both social rented and mid-market rented homes, as well as, for open market acquisitions. Social rented homes are, in some cases, cross-subsidised by mid-market rented and private sale homes within the same development; any change on the total number of homes and/or tenure split could therefore affect the viability of the whole development. In addition, phasing of the delivery, use of SHIF and projected rental income from new build units could all affect the HRA's overall borrowing capacity, thus the exact number of homes impacted.

4.12 Work is underway to establish a more prudent baseline and will be included in the report in December. A reduction in grant funding would result in a reduction in the number of homes that could be delivered (based on current rent levels), unless an alternative funding source can be identified.

Reducing reliance on grant funding for new homes

4.13 As noted in the update to Committee on 27 August 2024, a cross-service working group has been established to explore approaches to support a sustainable programme of Council housebuilding into the future. The key areas for consideration are financial modelling to reduce the reliance on grants, increasing income to mitigate the reduction in the grant availability, managing cost increases and delivering the Granton project alongside the city-wide development programme.

4.14 A number of financing options are being considered including a review of the borrowing term and the phasing of repayments. These approaches will be tested for impact on the HRA Business Plan and wider Council budgeting assumptions over the coming months. However, given the lower level of income derived from social rent, financial models currently being explored are likely to support the delivery of social rent homes by way of an alternative delivery structure for mid-market rent. A model that would support the delivery of mid-market rent homes with little to no grant would allow what grant is available to be reallocated to the delivery of social rent homes. This would maximise the overall number of affordable homes delivered across both tenures. Additional funding has been identified in the Programme for Government to support building mid-market rent properties.

4.15 Increasing income will be key to mitigating the loss of grant funding. Key routes to funding are being progressed already and include access to UK Tariff funding which supports the delivery of affordable homes for refugees, the Visitor Levy for Edinburgh and the use of Commuted Sums across a wider area of the city, where legal agreements allow for this.

4.16 On 22 August 2024, Policy and Sustainability Committee considered a report on A Visitor Levy for Edinburgh – Draft Scheme. It set out a draft Visitor Levy (VL) scheme for Edinburgh and sought approval from Committee to consult with members of the public on the draft scheme as required by the Visitor Levy (Scotland) Act 2024.

4.17 The draft scheme proposes to assign a fixed annual amount from the net proceeds for housing and tourism mitigation. It is proposed that a fixed annual sum of £5m would be committed to capital borrowing repayments, resulting in approximately £70m of investment to deliver social and mid market rent homes in the city. The initial proposal envisioned mid-market homes to provide accommodation for those working in low paid jobs supporting tourism and hospitality and social housing would free up bed and breakfast accommodation currently used as temporary accommodation for homeless households.

4.18 The report stated that further work would be required in order to clearly evidence how the provision of affordable housing could help to facilitate the achievement of the scheme's objectives and develop, support and sustain facilities and services for or used by visitors to Edinburgh for leisure or business purposes, as stipulated by the Act.

4.19 Policy and Sustainability Committee agreed that a report on the breakdown of the proposed spend on housing would be presented to Housing, Homelessness and Fair Work Committee in three to four cycles, exploring specific details of how the money could be spent to support social housing.

4.20 Income from the sale of constrained sites will also help to support development where smaller sites are more economically viable for private sector delivery. The Council will ringfence income from market sales to cross-subsidise the delivery of affordable homes on less constrained sites. A review of HRA land ownership is due to take place this year to fully understand ownership and opportunity. Site assessment is on an individual basis to ensure that opportunity to develop for affordable housing is given due consideration. Potential interventions through the GF subsidy of the HRA and future rent strategies are also set out in more detail below.

4.21 There are a number of factors which impact the cost of a home, including ambition towards net-zero, meeting insurance requirements, Housing for Varying Needs, Building Standards requirements, Planning requirements, the need for family housing, accessible homes and placemaking. Work is underway using the Edinburgh Home Demonstrator design guide to ensure that homes are being constructed as efficiently as possible while trying to avoid compromising on expectations and delivering what is needed for the city.

4.22 Procurement of the Council's housebuilding frameworks is progressing through internal review, and it is expected that contractor lots will be published before the end of the year. Work is also underway to explore routes to procure development partners who are able to build housing for sale on larger sites and deliver innovative funding solutions across all tenures. Both frameworks will be an important tool in accelerating delivery timescales, renewing cost competition, the potential to enable more straightforward partnership working with other public sector organisations and a compliant route to exploring alternative funding approaches.

4.23 Prioritisation of sites has become business as usual within the housebuilding programme and officers review the programme on an active basis to employ available funding solutions as they become available to the sites progressing at pace, where possible reallocating grant to other projects.

4.24 Work on the Granton Business Case is progressing with further discussion with Scottish Government due this month in order that a funding strategy can be agreed to allow Phase 1 of regeneration to move to construction in latter half of 2025.

Use of General Fund to support HRA

4.25 In October 2023, Committee requested exploration of how the HRA could be supplemented from the GF for particular investments.

4.26 Whilst not specifically required by the legislation, it is implied that a HRA is self-financing, that the budgeted income is sufficient to cover budgeted expenditure. However, the legislation permits a Council to transfer any HRA surpluses accrued to the GF. In addition, the HRA is not permitted to show a deficit at the end of the financial year and, if this occurs, authorities are required to transfer funds from the GF to cover this deficit.

4.27 The self-financing principle is also implied for capital investment. The Local Government in Scotland Act 2003 places a statutory duty on local authorities to determine the amount they can afford to allocate to capital expenditure. In doing so, they are required to have regard to the 'Prudential Code' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requirement is contained in SSI 2004/29, the Local Authority Capital Expenditure Limits (Scotland) Regulations 2004. The Prudential Code requires that the capital investment plans of the local authority are affordable, prudent and sustainable.

4.28 Since April 2010 no limits have been set on contributions from the GF to the HRA though any such a contribution would require the consent of Scottish Ministers under paragraph 2(5) of schedule 15 to the Housing (Scotland) Act 1987, more information is available on Annex: Housing Revenue Account - Scottish Public Finance Manual.

4.29 To obtain the relevant Ministerial consent for GF contribution, Scottish Government officials indicated that a local authority should outline the case for transferring funds from the GF to the HRA, including the amount (in money terms) involved; the reason for the transfer; and what alternate funding options have been considered and ruled out(including additional borrowing from the Public Works Loan Board (PWLB)). It should also set out the resource capacity available from the GF; the services that may be impacted by the transfer; and the plans for public consultation about the transfer if consent was granted. To date no local authority has requested the consent concerned.

4.30 In addition, on 27 February 2024, Committee agreed to further engage with Scottish Government officials and to identify the parameters around when approval for the transfer of funds [from General Fund to HRA] would and would not be given along with other practicalities involved in seeking the consent.

4.31 Council officers met with Scottish Government officials on 20 September 2024 and a verbal update on this can be provided at Committee.

Rent differentiation

4.32 The approved HRA budget strategy 2024-25 to 2028-29 requested a report on how Rent Differentiation is currently spread, and proposals to make it fairer.

4.33 The current rent structure has nine rent levels based on the property type (flat or house) and number of bedrooms (studio, one, two, three or four+), regardless of the geographical location of the homes.

4.34 The current structure was established following a rent structure review in 2008. The key objectives of the review were:

4.34.1 To generate the same amount of rental income;

4.34.2 To reduce the spread/ gap between the lowest and the highest average rent;

4.34.3 To have a “simpler” rent charging structure by greatly reducing the number of rent charges (from over 2,000 charges); and

4.34.4 To achieve the above without causing large numbers of tenants with disproportionately large increases/ decreases.

4.35 During the consultation for the 2008 review, tenants suggested more factors should be used to determine the rent charges, particularly in relation to property condition and location. However, the two factors were dismissed after careful consideration. It was argued that as the Council was working towards the Scottish Housing Quality Standard (SHQS) at the time the standard should ensure consistency of property condition going forward. It was also difficult to devise an objective measure for “better location” and could potentially restrict choice for those with limited income.

4.36 Research carried out to date on rent structures found that majority of the local authority landlords in Scotland adopt one of two structures:

4.36.1 Based on attributes of the property, though the number of attributes considered vary widely; or

4.36.2 Based on amenities “points” system; each amenity will be presented in form of “points” and each point translates to a rent charge per week.

4.37 As part of the rent differentiation research, officers met with local authority landlords who adopted an amenity “points” system and carried out a survey with members of Scotland’s Housing Network, who have had a rent structure review in recent years. The survey received responses from eight local authority landlords and eight housing associations/co-operatives.

4.38 It was found that the main driver for a rent review was to develop a fairer and easier to understand rent charging structure, mainly through reducing the number of rent levels and combinations. A couple of landlords adopted a new rent structure in order to generate additional rental income, on top of inflationary rent increase, to support investment.

4.39 Other landlords have used the rent review to harmonise the different rent charges for stocks “inherited” from different landlords through local government re-organisation in the late 1990s, stock transfers or organisational mergers.

4.40 The time taken to complete the review and implementation was one the main challenges identified, as they typically lasted three to five years. Many landlords stated that it was also difficult to create a new rent system that would not negatively impact on the HRA budget. One landlord indicated an unintended consequence of some tenants refusing upgrades/ improvements under an “attribute type” rent structure, as it would lead to a higher rent charge for the tenants.

4.41 Research will continue to inform a potential rent differentiation proposal and modelling scenarios. A separate report will be brought to committee in 2025 setting out proposals, consultation and implementation timeline.

5. Next Steps

5.1 It is recommended that this report be referred to Finance and Resources Committee in November 2024 in order to align with the GF budget development.

5.2 If Committee agree to proceed with tenant consultation (as outlined in Appendix 3), the consultation with tenants will run for eight weeks between 4 October and 29 November 2024 to help inform the development of the budget strategy proposal, which will be reported to Committee in December 2024. As the rent strategy of 7% per annum is already agreed this will not form part of the consultation.

5.3 The annual review of Business Plan will continue, with emerging issues from the current year’s budget and other updates still to be factored in, before the budget proposal baseline is finalised and reported to Committee in December.

5.4 A deep dive into repairs and maintenance expenditure will be carried out and the outcome will be reported as part of the Cyclical Assurance report in December 2024.

5.5 Financial interventions will be tested against the Business Plan. An update on the proposed 2025/26 HRA budget and Business Plan, as well as the outcome of the tenant consultation will be brought to Committee in December 2024. Budget briefing sessions on the financial implications of the assumptions review and the baseline proposed budget will be organised with Committee members in November.

5.6 The final budget proposal will be considered by the Council Leadership Team before being reported to a special Finance and Resource Committee and then to the Council's budget meeting in February 2025.

5.7 Financial interventions to enable the development of new build homes, use of GF (including use of Visitor Levy) and rent differentiation, will be reported to this Committee through briefing papers, business bulletins and committee reports as appropriate.

5.8 Approval to appoint to the Council Housebuilding Frameworks will be sought from the Finance and Resources Committee following a procurement process.

6. Financial impact

6.1 The provisional outturn for 2023/24 shows a negative variance to budget of £8.676m resulting in a requirement to drawdown £1.698m from the Strategic Housing Investment Fund (SHIF) (i.e. the amalgamation of the reserve and Council Tax Discount Fund (CTDF)) to deliver a balanced outturn position. A summary of the 2023/24 budget and variances can be found in Appendix 1. The opening balance in the Business Plan has been updated to reflect the 2023/24 outturn position, resulting in the business plan starting in a more adverse position.

6.2 The 2024/25 Month Three forecast projects a negative variance to budget of £4.536m, resulting in a requirement to drawdown £2.368m from the SHIF reserve, and additional £0.200m than originally forecast. The summary variances are as follows:

6.2.1 **Income** – The income budget is £116.331m and the forecast at month three is a shortfall of £0.428m. The shortfall relates to starting the year with lower than budgeted on-debit properties due to void properties and new build properties coming into use later than originally expected. As at the end of July 2024, there were 1,087 void properties and the forecast assumes numbers will reduce to 650 by March 2025.

6.2.2 **Expenditure** – The expenditure budget is £114.163m and at month three the forecast is for an overspend of £4.108m by year end.

6.2.2.1 There is a projected overspend in repairs and maintenance of £3.842m, due primarily to the increased activity to bring void properties into use.

6.2.2.2 There is a forecast pressure on debt serving costs of £0.466m which relates to a change in external funding assumptions. Income that had been expected in 2024/25 will now be received in 2025/26 resulting in additional borrowing costs for this financial year.

6.2.2.3 There is a projected net underspend on Housing Management of £0.200m which primarily relates to employee costs.

6.3 The SHIF reserve at the end of 2023/24 was £26.353m and a forecast drawdown of £2.368m in 2024/25 would result in a yearend balance of £23.985m to be carried forward to 2025/26, affecting the budget projection in future years.

6.4 Private rents in Edinburgh have increased by an average of 7.0% a year over the last five years, while local authority landlords have increased rents by an average of 3.1% a year in the last five years and housing associations have increased rents by an average of 3.7% a year over the same period.

6.5 For the last five years, Council rents have increased by an average of 2.4% a year. The average council rent (two-bedroom flat) is 49% below Local Housing Allowance and 66% below the average market rents in the city.

6.6 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. Tenants on full or partial benefit would not have to pay anything extra if the rent charge is increased, 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 a corresponding 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.

6.7 The Tenant Hardship Fund was set up, as part of 2023/24 HRA budget, to support tenants experiencing financial hardship, including those who cannot access benefits. In the first year of operation, 2,585 awards were made, with a total of £576,332 paid out to tenants. In the first five months of 2024/25, 538 applications have been received and £73,362 has been awarded to tenants. The Fund is constantly evolving and improving. The criteria has been extended to assist tenants facing pressing personal / family financial pressures (for example, to replace or repair household appliances, to pay for school activities and to meet demands for energy bills or personal debts). The maximum award has also been increased to two fortnightly (four weeks) rent payments where appropriate.

6.8 The 2025/26 budget assumption for the Tenant Hardship Fund will be up-rated to align with the agreed five-year rent strategy and the extended criteria.

6.9 The review of the capital investment programme and related assumptions is ongoing. The grant assumption is expected to reduce significantly following the affordable housing grant's RPAs reducing by 24% in 2024/25. The RPAs are expected to remain at similar level, if not be further reduced, in future years. This grant will need to be replaced with another funding streams if the current investment plan is to be continued, otherwise, the delivery of new homes would need to be reduced or elongated.

7. Equality and Poverty Impact

7.1 This budget strategy seeks to continue the HRA budget strategy approved in February 2024. The current strategic investment approach for existing homes is to target investment in areas that fall within the 20% most deprived areas as per the Scottish Index of Multiple Deprivation (SIMD), in line with a climate justice approach and those who are most at risk of fuel poverty.

7.2 Investment in new homes and partnership working as part of Health and Social Care integration will help increasing the supply of accessible and specially designed homes, meeting the housing needs of older people or people with complex health issues.

7.3 It is acknowledged that the approved 7% rent increase to be implemented in 2025/26 may have a disproportionate impact on tenants not receiving government help with their rents, increasing the financial challenge faced by the tenants. The Council will continue working with advice agencies within the city to provide appropriate advice and support for tenants facing financial hardship. The continuation and extension of the Tenant Hardship Fund will help tenants who are experiencing pressing financial pressures.

7.4 The Energy Advice Service, which was expanded in February 2023, continues to help tackle fuel poverty, by providing advice and information to Council tenants on operating heating systems efficiently, applying grants and loans, accessing suitable tariff, and referring tenants to Income Maximisation Service where appropriate.

8. Climate and Nature Emergency Implications

8.1 As a public body, the Council has statutory duties relating to climate emissions and biodiversity. The Council

"must, in exercising its functions, act in the way best calculated to contribute to the delivery of emissions reduction targets"

(Climate Change (Emissions Reductions Targets) (Scotland) Act 2019), and

"in exercising any functions, to further the conservation of biodiversity so far as it is consistent with the proper exercise of those functions"

(Nature Conservation (Scotland) Act 2004)

8.2 The City of Edinburgh Council declared a Climate Emergency in 2019 and committed to work towards a target of net zero emissions by 2030 for both city and corporate emissions, and embedded this as a core priority of the Council Business Plan 2023-27. The Council also declared a Nature Emergency in 2023.

Environmental Impacts

8.3 The year budget strategy aims to support the delivery of the core commitments listed in paragraph 4.1. The Whole House Retrofit programme will ensure all existing homes achieve high energy efficiency standards (e.g. EESSH2) by adopting a fabric first approach, helping to meet the Council's net zero commitment. Energy options appraisal will be undertaken for each Whole House Retrofit project at the design stage, taking into account of the best low carbon/renewable heating option for the development concerned, cost for tenants to run and the costs for the Council cost to install and maintain, ensuring a just transition.

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

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

8.6 Investment in open space through the Estate Improvement Programme (EIP), with a focus on nature and biodiversity, will have a positive environmental impact. It is acknowledged that some of the projects promoted through the EIP may potentially have a negative impact, for example, proposals to change soft landscaping spaces to hard landscaping or create parking spaces to relieve pressures in residential streets). Officers will seek to minimise such projects and explore alternative solutions to resolve local issues.

8.7 The Energy Advice Service provides advice and information to Council tenants to operate heating systems efficiently. It also supports tenants to apply grants and/or loans for installing energy efficiency measures in their homes, which helps to alleviate fuel poverty and reduce carbon emissions.

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

9.1 The key risks for developing a sustainable HRA business plan and potential mitigations are summarised in the table below.

Risk	Mitigation
Rate of income collection and number of income generating	The business plan has made assumption on the potential loss of income due to tenants migrating to Universal Credit, to minimise the negative impact on income.

properties are lower than assumed	The extension of Tenant Hardship Fund has helped alleviating financial pressures for tenants and allowed tenants to access appropriate advice and support. 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 implementation of an early intervention contact system helps to alert housing officers to target tenants having difficulty to manage their rent accounts, to avoid build-up of rent arrears. As part of the Housing Emergency Action Plan, a working plan has been put in place to bring down the number of empty homes and turnaround time back to the long-term average.
Increased expenditure on repairs and maintenance (R&M)	The business plan is reviewed annually. Starting position for R&M has been aligned to the 2023/24 outturn and additional budget provision has been made to the 2024/25 R&M budget, allowing more time to bring down the number of empty homes and turnaround time to the target levels, without impacting the long-term health of the business plan. A deep dive into R&M expenditure will be carried out and the outcome will be reported as part of the Cyclical Assurance report in December 2024.
Increased expenditure on delivering day-to-day housing management service	Housing management assumptions have been updated to reflect the latest operating environment and market intelligence. Updates on CPI inflation and electricity inflation assumption have helped to offset most of the increased costs identified to date. Work to review current General Fund recharges to the HRA is ongoing, including the staff costs allocation between the General Fund and HRA in some service areas following the Housing and Homelessness Service Review. This aims to improve/ confirm value to money for the HRA from the recharges.
Reductions in Grant funding	Officers will continue to work with government to maximise grant funding for new supply. As stated in paragraph 4.13 to 4.24, various workstreams are being progressed to reduce reliance on grant funding while supporting a sustainable programme Council housebuilding in the future, including reviewing the treatment of loan interests and approach to borrowing; accessing other funding streams (e.g. UK Tariff fund, Visitor Levy and commuted sum); considering sale of constrained sites; reviewing the building and construction standards of new homes; and progressing the procurement of a new housebuilding framework.

9.2 All current and emerging risks will be subject to ongoing tracking, development of mitigation measures and review for the remainder of 2024/25 and will be reported to senior management teams and Committees as required. The 2024/25 HRA Month Three forecast provides a projected outturn based on the financial performance and conditions as of 30 June 2024. There remains a risk that changing circumstances and events will result in further budget pressures in 2024/25, affecting the budget planning for 2025/26 and beyond.

9.3 Each year the views of tenants are sought on the HRA budget strategy, investment plan, services and associated rent levels. With a five-year rent strategy approved by the Council in February 2024, this year's consultation will not be on rent level. It will focus on how tenants' rent is spent and the key investment priorities within the context of the reduced government grant funding for new affordable housing.

9.4 The consultation proposal has been reviewed by the Consultation Advisory Panel and will run from 4 October to 29 November 2024.

9.5 The draft consultation document in Appendix 3 was developed with input from Edinburgh Tenant's Federation (ETF) and will be incorporated into the next issue of the Tenants' Courier newsletter, which will be posted to all Council tenants during the consultation period. Tenants would be able to respond the survey by post using the Freepost envelope provided. Alternatively, tenants could respond to the consultation survey online through the Consultation and Engagement Hub.

9.6 The consultation will be promoted through email footers and targeted social media posts. Registered Tenant Organisations (including Living Rent) will receive an email prompt to complete the survey and promote it to tenants within their groups. Where an email address is available, tenants will be sent email reminders to respond to the survey during the consultation period.

10. Background reading/external references

10.1 Strategic Housing Investment Plan (SHIP) 2024-29 – Housing, Homelessness and Fair Work Committee, 5 December 2023.

10.2 Housing Revenue Account (HRA) Budget Strategy 2024/25 – 2028/29 – City of Edinburgh Council, 22 February 2024.

10.3 Increasing Affordable Homes Delivery – Housing, Homelessness and Fair Work Committee, 27 February 2024.

10.4 2024/25 Housing Revenue Account Capital Programme – Housing, Homelessness and Fair Work Committee, 14 May 2024.

10.5 Update: Strategic Housing Investment Plan 2024/25 – 2028/29 – Housing, Homelessness and Fair Work Committee, 14 May 2024.

10.6 Affordable Housing Programme Update 2024/25 – Housing, Homelessness and Fair Work Committee, 27 August 2024.

11. Appendices

Appendix 1 – Housing Revenue Account (HRA) – provisional outturn 2023/24.

Appendix 2 – Housing Revenue Account (HRA) – month three forecast 2024/25 .

Appendix 3 – Draft consultation document.

Appendix 1 - Housing Revenue Account (HRA) Provisional Outturn 2023/24

The annual HRA budget is derived from the longer-term strategy, approved by Council. In 2023/24 it comprised a budgeted revenue income of £106.523m and expenditure of £99.545m; enabling a budgeted contribution of £6.978m to the SHIF in accordance with the finance strategy for the capital investment programme and wider HRA business plan.

The provisional out-turn shows a negative variance to budget of £8.676m resulting in a requirement to drawdown £1.698m from the SHIF reserve to deliver a balanced outturn position.

The £8.678m variance can be attributed in the main to additional expenditure on repairs and maintenance of £6.7m related to bringing void property into use, additional debt servicing costs of £0.844m due to higher interest rates, higher than budgeted utility costs of £0.826m due to inflationary factors and additional Council Tax payments of £0.727m due to higher than budgeted void properties.

Income was a £0.38m positive variance. Gross rental income was a £1.855m negative variance due to delays in void properties and new build properties coming into use. This income shortfall was offset with lower than budgeted rent arrears and doubtful debts of £1.15m, additional income from interest on revenue balances of £0.417, fire insurance of £0.27m and other smaller variances.

The reduction in void properties, despite being behind target, delivered £0.475m of additional rental income in 2023/24 with a full year impact of £1.36m for 2024/25.

The budget and variance analysis are shown below.

	Revised Budget	Projected Outturn	Projected Variance	Movement from M8	Adverse / Favourable
	£'000	£'000	£'000	£'000	
Income	**-106,523**	**-106,903**	**-380**	**-780**	**Fav**
Expenditure					
Housing Management	37,927	39,855	1,928	30	Adv
Repairs and Maintenance	22,384	29,084	6,700	3,760	Adv
Environmental Maintenance	2,558	2,142	-416	-756	Fav
Debt Service	36,676	37,520	844	-556	Adv
Total Expenditure	**99,545**	**108,601**	**9,056**	**2,478**	**Adv**
Strategic Housing Investment Fund	6,978	-1,698	-8,676	-1,698	Adv
Total Net Expenditure	**0**	**0**	**0**	**0**	**-**

Appendix 2 - Housing Revenue Account (HRA) Month Three forecast 2024/25

The annual HRA budget is derived from the longer-term strategy, approved by Council. In 2024/25 it comprises a budgeted revenue income of £116.331m and expenditure of £114.163m; enabling a budgeted contribution of £2.168m to the SHIF in accordance with the finance strategy for the capital investment programme and wider HRA business plan. The month three forecast shows a negative variance to budget of £4.536m which will require a drawdown of £2.368m from the SHIF reserve to deliver a balanced outturn position. The budget and forecast variance analysis is shown below.

	Approved Budget	Forecast Outturn	Forecast Variance	Adverse / Favourable
	£000	**£000**	**£000**	
Income	-116.331	-115.903	0.428	Adv
Expenditure				
Housing Management	41.445	41.245	-0.200	Fav
Repairs and Maintenance	25.242	29.084	3.842	Adv
Environmental Maintenance	2.887	2.887	0.000	
Debt Service	44.589	45.055	0.466	Adv
Sub-Total	**114.163**	**118.271**	**4.108**	
Strategic Housing Investment Fund (SHIF)	2.168	-2.368	-4.536	Adv
	116.331	**115.903**	**-0.428**	
Net Expenditure	**0.000**	**0.000**	**0.000**	

Appendix 3 – Draft consultation document

Summary

Every year we ask your views about the rent you pay.

In February this year, Councillors agreed to increase rent by 7% every year, for five years, starting in April 2024. We therefore don't need to consult you on the rent increase this time round, but we still want to hear your views on how you want your rent to be spent. We hope this longer-term strategy has given you more certainty about rent you will pay, as well as allowing us to better plan our spending to improve homes and services.

In the next few pages, we've provided you with some information on how your rent is currently spent and the investment priorities planned for the next 10 years. Please read the information provided and let us know your thoughts by completing the short survey at the end.

You can either complete and return the survey on page XXX using the Freepost HOUSING RESEARCH envelope provided (no other address details such as road, city or postcode are required) or do it online by going to www.edinburgh.gov.uk/tenantsconsultation or scan the QR code below **by 29 November 2024.**

2024/25 Council housing rent consultation - results overview

Last year's consultation ran between 9 October and 17 December 2023. It received a record high of 2,159 responses. We want to thank everyone who took the time to respond to the consultation.

Key findings from the consultation include:

- There was an understanding of the need to increase rents to pay for increased costs, but financial pressure from the cost-of-living crisis remained a concern to some tenants.
- Nearly 60% of respondents thought the Council should consider charging a higher rent for new built homes and/or newly modernised homes.
- There was support for investing in new homes, but tenants also believed investment priority should be given to improving existing homes.
- Just over a third of the respondents had found it more difficult to pay rent over the last 12 months, but less than half of them had sought advice or help.

In addition to the rent increase, Councillors also agreed to continue the Tenant Hardship Fund, to support tenants facing financial hardship, including those who cannot access benefits. If you need help paying your rent, please contact your local Housing Officer and speak to them about what help is available to you, or visit www.edinburgh.gov.uk/costofliving

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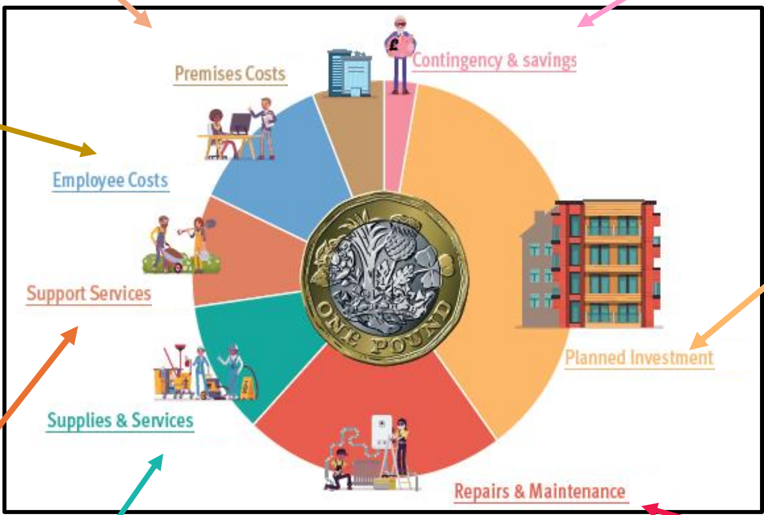
Your rent

Almost all of the funding for the housing service comes from your rents and we must balance keeping rents affordable with having enough money to spend on improving homes and services. The diagram below show how your rent was spent in 2023/24.

Premises costs 6% : These are the costs for running the offices and other places used by staff.

Contingency and savings <1% : After paying out all expenses, any money left is set aside for unforeseen circumstances & future investment.

Employee costs 12% : These include the concierge teams and housing officers, and all the training and equipment staff need to do their jobs.



Planned investment 35% : Building new homes and improving existing homes are funded mainly by borrowing. We repay the borrowing using the rent collected from tenants.

Support services 7% : Support from other Council teams makes sure housing services run well, such as, Finance, Human Resources, and the Contact Centre helpline.

Supplies and services 11% : This includes important services provided by other parts of the Council and/or contractors to make sure homes are safe and well maintained, such as grass cutting and pest control.

Repairing and maintaining homes 29% : Responsive repairs and maintenance to all our 20,000 council homes. They are one of the main reasons you get in touch with us and we're working hard to improve the service.

Our priorities

Our investment priorities have remained the same in the last few years and aim to deliver the following core commitments:

- Continue to deliver and improve housing management and maintenance services and support tenants to sustain tenancies;
- Continue the programme to build new social rented Council homes to meet housing need;
- Make homes more energy efficient and easier to heat and contribute to the city's ambition to be net zero carbon;
- Deliver improvements to mixed tenure blocks to make all Council tenancies warm, energy efficient, modern and secure;
- Deliver improvements to your estates i.e. the areas surrounding our homes, to align with the investment made to the new and existing homes; and

- Support and enable large scale regeneration in the city (such as the regeneration of Granton waterfront).

Planned investment in the next ten years

Earlier this year, the Council agreed to a £3.8 billion 10-year capital investment programme to support the delivery of the core commitments by building new homes and improving existing homes and surrounding areas. This investment is to be supported by a 7% annual rent increase for five years, with an assumption that 7% annual rent increase for the following five years.

The money we invest in the capital programme is mostly funded through borrowing, which is repaid by rents over 20-30 years. This is like a mortgage, where the repayments include both the money used to invest and interests on the loan.

Housing Service repays its borrowing using the rental income we collect from tenants. As shown under the **Your rent** section, repaying borrowing for previous investment accounted for about 35% of the housing budget in 2023/24.

For every £1 million of additional rental income we raise, we are able to borrow and invest around £16.5 million. In other words, if we borrow £16.5 million to invest in new and existing homes, it will require a repayment of £1 million every year for 30 years.

The investment is also funded in other ways, which helps reduce the amount of money we need to borrow. These other ways of funding include government grants, receipts from sale of assets and using savings we have. This is similar to a deposit for a mortgage, the more deposit we can raise, the less borrowing we would require.

Unfortunately, the grant funding we get from Scottish Government for delivering new affordable homes, has been reduced. When this is combined with increased costs, it means we either need to look at new ways to fund homes or different funding sources or we will have to reduce the number of homes we can deliver overall.

Have your say

You could win a £100 shopping voucher by completing our short survey to tell us about your views on rent. You can either complete and return the survey below using the Freepost HOUSING RESEARCH envelope provided (no other address details such as road, city or post code are required) or do it online by going to www.edinburgh.gov.uk/tenantsconsultation or scan the QR code on page xxx **by 29 November 2024.**

1. Looking at the core commitments we want to deliver, where do you think we should be prioritising investment? Please rank your options from 1 to 6, with 1 being your top priority.

Deliver and improve housing management and repairs and maintenance services	
Build more new social rented homes	
Improve energy efficiency standards of existing homes and meet net zero target	

Deliver improvement in mixed tenure blocks to make them more warm, modern and secure	
Improve wider estates for areas surrounding our homes	
Support and enable large scale regeneration of strategic importance to the city	

2. Do you have any additional comments on the investment priorities?

3. Have you found it more difficult to pay for your rent over the last 12 months?

Yes ☐ No ☐ Not applicable ☐

4. If yes, have you sought any advice or help to assist you with paying your rent in the last 12 months?

Yes ☐ No ☐ Don't know ☐

5. If yes, how satisfied were you with the assistance you received meeting your needs?

Very satisfied		Fairly dissatisfied	
Fairly satisfied		Very dissatisfied	
Neither satisfied nor dissatisfied			

6. In addition to the Tenant Hardship Fund, what more could we do to help you with financial advice and support?

About You

This information is really helpful for us. It tells us a bit more about who is responding to our consultation. **Your response will still be completely confidential**.

The Council uses this information to make sure responses to consultations are genuine and that each person is submitting only one response. The Council will also use the contact information provided to contact the winner of the prize draw. For more information about your rights and the City of Edinburgh Council's Privacy Notice visit *www.edinburgh.gov.uk/privacynotices*

Name:	Phone/Email:
Address:	
Postcode:	

☐	Please tick this box if you want to enter the £100 shopping voucher prize draw. We will use the information provided to contact the winner.
☐	Please tick this box if you are happy to be contacted by the Council to help shape and improve services and plan investment.

What age group are you?

14-24		25-34		35-44	
45-54		55-64		65+	

How long have you been a tenant with the City of Edinburgh Council?

Less than 1 year		1-2 years		3-5 years		6-10 years		10 + years	

Do you get help from government to pay your rent through Housing Benefits (HB) or Universal Credits (UC)?

Yes, all of my rent by HB		Yes, all of my rent by UC	
Yes, some of my rent by HB		Yes, some of my rent by UC	
No, none of my rent		Prefer not to say	