

Report

Report to:	Housing & Technical Resources Committee
Date of Meeting:	7 February 2024
Report by:	Chief Executive and Executive Director (Housing and Technical Resources)

Subject:	Housing Revenue and Capital Account Budget 2024/2025
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ outline the revenue estimate proposals for the Housing Revenue Account (HRA) for 2024/2025
- ♦ request approval for the 2024/2025 Housing Capital Programme totalling £77.303 million

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the proposed rent increase of 6.50% to be applied in 2024/2025 with a further 6.50% increase in 2025/2026 and again in 2026/2027 (reviewed annually), to all Council houses, Gypsy/Traveller sites, lock-ups and garage sites and the revenue estimate proposals for the HRA, as detailed in Appendix 1, be endorsed
- (2) that the findings of the HRA Loans Fund Review be implemented (Section 4), be endorsed
- (3) that based on the rent increase of 6.50%, the 2024/2025 Housing Capital Programme of £77.303 million, as detailed in Appendix 2, be endorsed; and
- (4) that the recommendations be referred to Executive Committee, for endorsement, then to Council for approval

3. Proposals for Housing Revenue and Capital Account Budget 2024/2025

3.1. The HRA revenue budget for 2024/2025 has been prepared in line with the 30-year HRA Business Plan. This has been developed to reflect the investment priority to maintain and improve the housing stock to meet national housing quality and energy efficiency standards. The programme also includes projects to increase the supply of council housing as well as environmental works and legislative compliance programmes to ensure that all safety requirement standards are met.

3.2. The movement from the original 2023/2024 revenue budget is outlined in Appendix 1. The main expenditure movements are:-

- ♦ Supervision and Management Costs increased for pay award and other inflationary pressures and efficiency saving targets (as detailed further in Paragraph 3.7)

- ◆ Housing Repairs and Maintenance reflecting a prudent allocation for expected costs and demands for these services
- ◆ Financing Costs Loan Charges reflects the costs associated with the planned investment requirements and the HRA Loans Fund Review (as detailed further in Section 4)
- ◆ House Rents are inclusive of additional new stock and the proposed rent increase
- ◆ A planned transfer from reserves reflects requirement within the 2024/2025 budget for the long term investments included in the 30-year HRA Business Plan

- 3.3. The 2024/2025 budget proposal also includes a provision of £3.743 million for bad debt which is required to continue to provide for the potential impact on rent collection and arrears. This includes contingency for the ongoing uncertainty on rental collections in the coming year due to cost-of-living pressures and an allocation of £0.300 million for tenancy sustainment mitigation.
- 3.4. In previous rounds of budget engagement, tenants have favoured multi-year agreements on the basis that they provided some clarity regarding rent levels over the medium term. A rent increase of 6.50% is proposed from 2024/2025 with a further 6.50% increase in 2025/2026 and again in 2026/2027. In accordance with statutory requirements, this 3-year commitment will be subject to annual review and customer engagement. This approach will allow the Council and tenants to plan and budget on a longer-term basis. To achieve this level of rent increase, a re-profiling of the long-term investment priorities has been undertaken. Short-term investment priorities and current service levels will be maintained.
- 3.5. One of the headlines from the recently published Scottish Government draft budget for 2024/2025 is a reduction in funding available for the Affordable Housing Supply Programme. The 2024/2025 budget represents a decrease of 22% on the previous published figure for 2024/2025. At this time, it is still unclear how the Scottish Government will reduce individual Council's funding. Further discussions are planned with the More Homes Team at the Scottish Government for further clarity on the situation. Any reduction in Scottish Government grant available for the Council may impact the planned investment to increase the overall supply of Council housing. We will report back to committee when we have information on the impact for the Council which may affect the 2024/2025 and future years capital programmes.
- 3.6. It should be noted that, based on the latest Scottish Social Housing Charter returns, the average rent charges for South Lanarkshire Council tenants remain affordable and are currently the seventh lowest of local authority landlords in Scotland. In addition, South Lanarkshire Council tenants' rent charges are the lowest of all the social landlords operating in South Lanarkshire.
- 3.7. In line with the HRA Business Plan, a reduction of £0.300 million for efficiencies has been included within the Resources Supervision and Management and Other Income budgets. £0.100 million of the efficiencies do not affect the delivery of services to our tenants and relate to the removal of vacant posts from the current establishment. The remaining £0.200 million is anticipated to come from standardising charges for washing and drying facilities across all Council areas (as approved at the Housing and Technical Resources Committee on 8 November 2023).

4. Housing Revenue Account – Loans Fund Review

- 4.1. **Background:** The Council approved the implementation of the findings from the Loans Fund Review in 2020 (Executive Committee on 24 June 2020). As part of this exercise, Link Asset Services completed work to analyse the impact on the HRA loans fund principal repayments if we were to implement a Loans Fund Review for the HRA. This work has been refreshed to bring it up to date as at end March 2023.
- 4.2. In summary, the review relates to how HRA debt is written off in our accounts. Members will be aware that the HRA capital programme is partly funded by planned borrowing. This borrowing is taken from the Council's Loans Fund (which is a fund identified to manage the external borrowing for the Council and the subsequent onward 'lending' to fund the HRA capital programme). The funding for capital spend is known as Loans Fund Advances. Repayment of these advances is made each year and these repayments form part of the HRA revenue expenditure. Therefore, borrowing to fund the HRA capital programme creates a liability to repay those advances from future years' budgets.
- 4.3. Implementing the Loans Fund Review means looking at the repayment term of loans and the lifespan of the related assets. The main focus is on the assets that transferred from the former district councils. The balance of Loans Fund Advances outstanding as at 31 March 2004 are recalculated to reflect a 40 year life using a standard rate of interest of 5%. The anticipated remaining life previously was 13 years. This means that we are assuming as at 31 March 2004, our housing stock, including that inherited from the former district councils, could be expected to last another 40 years and this has been endorsed by Property Services as realistic. All subsequent advances are repaid over a 40 year life using a standard rate of interest of 5%.
- 4.4. **Proposed Approach:** As at 31 March 2023, outstanding Loans Fund Advances for the HRA totalled £292.694 million. However, by applying the Loans Fund Review, the Loans Fund Advances as at 31 March 2023 should have been £407.126 million, meaning that the accounting for repaying debt resulted in an overpayment of £114.432 million. This is referred to as a recalculation adjustment. Table 1 below details how the overpayment is calculated.

Table 1: Loans Fund Advances Calculations

	Actual Loans Fund Repayments			Revised Loans Fund Repayments			Difference
	Opening Advances £m	Repayments £m	Closing Advances £m	Opening Advances £m	Repayments £m	Closing Advances £m	£m
2004/2005 (Opening Balance)	246.822	190.120	56.702	246.822	62.399	184.423	127.721
2004/2005 – 2022/2023	240.260	4.268	235.992	240.260	17.557	222.703	-13.289
Total	487.082	194.388	292.694	487.082	79.956	407.126	114.432

- 4.5. It is proposed that the recalculation adjustment is applied over the financial years 2023/2024 to 2025/2026 to reduce the HRA repayments in these years by £22.000 million, compared to current repayment profiles.

- 4.6. **Utilising the Benefits of the Loans Fund Review:** This will realise an in-year benefit in 2023/2024 and a reduction in the level of budget required for Loan Charges in the next 2 years. This can then support other spend within the HRA to the value of £22.000 million including the increasing cost of housing repairs and maintenance and the annual contribution to the capital programme for housing investment works.
- 4.7. The remainder of the recalculation adjustment can be applied over the financial years 2026/2027 to 2043/2044. This reduces the principal repayments in these years but they are still higher than current repayment profiles. This begins at £0.002 million in 2026/2027 and increases incrementally to £0.969 million in 2043/2044.
- 4.8. Over the whole time period, the principal repayments that the HRA make remain the same. We are reprofiling these to give the HRA benefit of £22.000 million over the period 2023/2024 to 2025/2026. This benefit will then be repaid through increased charges over the period 2026/2027 to 2066/2067. Further details are shown in Appendix 2.
- 4.9. **Additional Debt Repayments:** While the HRA will repay the same level of debt, it will be over a longer period of time. Repaying over a longer timeframe means incurring additional interest payments. These equate to approximately £1 million per annum on average. The total cost of the reprofiling of the Loans Fund Advances is circa £41 million over the debt repayment period and has been factored into the 30-year HRA Business Plan.

5. Housing Revenue Account – Capital Programme Estimates

- 5.1. The 2024/2025 capital programme is compiled in line with the 30-year HRA Business Plan. As well as continuing to plan and undertake the works needed to maintain and improve the housing stock to meet national housing quality and energy efficiency standards, a significant workstream in this year's Housing Investment Programme will be to continue our investment to increase the overall supply of Council housing in line with the target to deliver an additional 1,300 council homes by 2027. The full HRA capital programme for 2024/2025, including expected costs and funding for the new housing supply target, is detailed in Appendix 3.
- 5.2. Further key investment activities in relation to these priorities include heating replacements and insulation, external fabric upgrading, windows and doors replacement, legislative compliance works and other external environmental improvements.
- 5.3. The funding for this programme is detailed in Table 2 below:-

Table 2: Capital Programme Funding

	£m
Revenue Contribution to 2024/2025 Capital Programme	33.506
Borrowing	20.259
Scottish Government Grant – Additional Council Houses	23.418
Scottish Government Grant – Mortgage to Rent	0.120
Total Capital Programme Funding	77.303

- 5.4. As per Section 3.5., the Scottish Government grant anticipated in Table 1 above will be impacted by the funding available to the Council for Affordable Housing Supply Programme. The grant and borrowing assumptions above are based on the anticipated 143 units and 120 acquisitions expected to be completed during 2024/2025. Delivery of the Council target of 1,300 properties will involve significant higher levels of completion in the following 2 years (2025/2026 and 2026/2027).
- 5.5. Borrowing for the £20.259 million noted in Table 1 includes previously approved borrowing of £3.085 million carried forward from previous years. An additional £17.174 million of new borrowing for additional housing supply is included within the borrowing total which will result in an increase to the annual Loan Charges of circa £0.770 million per annum starting in 2025/2026. These costs are included within the HRA Business Plan, with the overall rental income from the additional stock numbers and the annual rent increase meeting the additional costs.

6. Consultation Arrangements

- 6.1. The Budget Scrutiny Group (BSG) provides the main vehicle for discussion between the Council and tenant representatives on the housing budgetary process and the financial challenges and opportunities facing Housing Services. Each year, the Council and the BSG work together to develop and co-ordinate the consultation programme on setting Council rent levels for the year ahead.
- 6.2. This year's consultation programme followed a similar approach to previous years with the main focus on an on-line survey, open to all Council tenants which was widely promoted via the South Lanarkshire View and through the Council's social media channels. In addition, other engagement opportunities and events were held including local area focus group meetings, specific focus group meetings with Gypsy/Traveller residents and homelessness service users and direct contact with tenants via email and text, seeking views and encouraging completion of the survey.
- 6.3. During the consultation, the BSG and Tenant Participation Co-ordination Group (TPCG) participated in open discussions with senior Council officers on key issues and challenges facing the Council, including the ongoing economic uncertainty and impact of the cost-of-living-crisis, increased costs associated with delivering frontline services and the Council's commitment to ensuring rents remain affordable.
- 6.4. A summary of the feedback received from the TPCG/BSG is provided below:-
- ◆ the various challenges facing the Council were recognised and it was understood that the Council cannot continue to absorb the high cost of delivering services
 - ◆ the need to increase rent levels in line with inflation to reduce borrowing and increase reserves was understood
 - ◆ the group was supportive of the Council's commitment to rents remaining affordable
 - ◆ support was expressed for the proposal to set rents for a 3-year period with an annual review
 - ◆ it was recognised that the continuing economic uncertainty presents additional risks to the Council in relation to the investment and new build programmes
- 6.5. Feedback received from the various engagement events and the on-line survey is set out below:-
- ◆ there was strong agreement from respondents that the proposed investment priorities are the right ones

- ◆ the BSG and focus group attendees were broadly supportive of the 6.50% rent increase and the proposal to set rent levels for 3 years
- ◆ over 1,200 surveys were completed during the consultation
- ◆ 37% of respondents supported the rent level to be increased by 6.50%
- ◆ a significant majority (77%) of respondents supported setting rent levels for the next 3 years with an annual review

7. Employee Implications

- 7.1. There are no employee implications as a result of this report.

8. Financial Implications

- 8.1. The financial implications are as detailed in the report.

9. Climate Change, Sustainability and Environmental Implications

- 9.1. The impact which capital investment will have upon climate change and sustainability is appropriately considered through the Resource's approach to project design, procurement, project management and delivery. Works will be progressed in such a way to support a positive impact on the environment. Appropriate mitigation actions will be put in place where any potential negative impact is identified.

10. Other Implications

- 10.1. The risks associated with this report are in relation to the Council's ability to collect rents and charges following the increases. These risks have been assessed and added to the Resource Risk Register.

- 10.2. Social landlords, such as the Council, are required to submit an Annual Assurance Statement to the Scottish Housing Regulator. This provides assurance that the organisation is compliant with the relevant requirements of Chapter 3 of the Regulatory Framework, all relevant standards and outcomes in the Scottish Social Housing Charter and all relevant legislative duties. The content of this report will contribute to the evidence to support this Statement.

11. Equality Impact Assessment and Consultation Arrangements

- 11.1. Equality Impact Assessments are not required for the management and operational efficiencies included in the proposed budget. In addition, an assessment has been carried out in line with the Fairer Scotland Duty. For details, please contact the Strategy and Support Manager, Housing and Technical Resources.

- 11.2. Details of the consultation arrangements are set out in section 6 above.

Paul Manning
Chief Executive

Stephen Gibson
Executive Director (Housing and Technical Resources)

12 January 2024

Link(s) to Council Values/Priorities/Outcomes

- ◆ Good quality, suitable and sustainable places to live
- ◆ Accountable, effective, efficient and transparent

Previous References

- ◆ Executive Committee, 24 June 2020, 2021/2022 Revenue Budget Strategy and Savings Requirement
- ◆ Housing and Technical Resources Committee, 23 January 2023, Housing Revenue and Capital Account Budget 2023/2024
- ◆ Housing and Technical Resources Committee, 8 November 2023, Laundry Facilities – Introduction of Charging 2024/2025

List of Background Papers

- ◆ Revenue Budget Working Papers 2024/2025

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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**SOUTH LANARKSHIRE COUNCIL
HOUSING REVENUE ACCOUNT
REVENUE ESTIMATES YEAR 2024/2025**

2023/2024 Estimate			2024/2025 Estimate		Movement £m
£m			£m		£m
		<u>Expenditure</u>			
31.093		Supervision and Management	33.677		2.584
41.380		Housing Repairs and Maintenance	47.600		6.220
2.445		Void Rents	2.588		0.143
19.230		Financing Costs Loan Charges	10.729		(8.501)
27.162		Contribution to Capital Programme	33.506		6.344
0.000		Reserves to C/F	0.000		0.000
121.310		Total Expenditure	128.100		6.790
		<u>Income</u>			
104.668		House Rents	111.801		7.133
2.679		Other Rents	2.802		0.123
0.067		Interest	0.067		0.000
8.989		Other Income	9.201		0.212
4.907		Use of B/F Reserves	4.229		(0.678)
121.310		Total Income	128.100		6.790

Appendix 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7) [(1) + (4)]	(8) [(2) + (5)]	(9) [(3) + (6)]	(10)	(11)	(12)	(13)	(14)
	Existing Borrowing as at 31 March 2023			Future Borrowing			Total Borrowing			Principal Repayments				
	Reprofiled Loans Fund Advances	Existing Repayments	Difference	Future Repfiled Loans Fund Advances	Future Repayments	Difference	Reprofiled Loans Fund Advances	Repayments	Difference	Reprofiled Loans Fund Advances	Apply Recalculation Adjustment	Actual Repayments	Benefit (Difference to Existing Repayments)	Cumulative Benefit
2023/2024	8.030	8.348	-0.318	0.000	0.000	0.000	8.030	8.348	-0.318	8.030	-8.030	0.000	8.348	8.348
2024/2025	8.431	8.508	-0.077	0.193	0.287	-0.094	8.624	8.795	-0.171	8.624	-8.624	0.000	8.795	17.143
2025/2026	8.853	8.798	0.055	0.458	0.660	-0.202	9.311	9.458	-0.147	9.311	-4.710	4.601	4.857	22.000
2026/2027	9.295	8.970	0.325	0.704	0.997	-0.293	9.999	9.967	0.032	9.999	-0.030	9.969	-0.002	21.998
2027/2028	9.760	9.308	0.452	0.961	1.330	-0.369	10.721	10.638	0.083	10.721	-0.078	10.643	-0.005	21.993
2028/2029	10.248	9.626	0.622	1.010	1.377	-0.367	11.258	11.003	0.255	11.258	-0.236	11.022	-0.019	21.974
2029/2030	10.761	9.973	0.788	1.060	1.426	-0.366	11.821	11.399	0.422	11.821	-0.391	11.430	-0.031	21.943
2030/2031	11.299	9.524	1.775	1.113	1.476	-0.363	12.412	11.000	1.412	12.412	-1.310	11.102	-0.102	21.841
2031/2032	11.864	9.153	2.711	1.169	1.529	-0.360	13.033	10.682	2.351	13.033	-2.181	10.852	-0.170	21.671
2032/2033	12.457	9.511	2.946	1.227	1.583	-0.356	13.684	11.094	2.590	13.684	-2.404	11.280	-0.186	21.485
2033/2034	13.080	9.787	3.293	1.288	1.639	-0.351	14.368	11.426	2.942	14.368	-2.731	11.637	-0.211	21.274
2034/2035	13.734	10.173	3.561	1.353	1.697	-0.344	15.087	11.870	3.217	15.087	-2.986	12.101	-0.231	21.043
2035/2036	14.420	10.574	3.846	1.421	1.757	-0.336	15.841	12.331	3.510	15.841	-3.258	12.583	-0.252	20.791
2036/2037	15.141	10.991	4.150	1.492	1.819	-0.327	16.633	12.810	3.823	16.633	-3.548	13.085	-0.275	20.516
2037/2038	15.898	6.102	9.796	1.566	1.883	-0.317	17.464	7.985	9.479	17.464	-8.798	8.666	-0.681	19.835
2038/2039	16.693	6.338	10.355	1.644	1.950	-0.306	18.337	8.288	10.049	18.337	-9.327	9.010	-0.722	19.113
2039/2040	17.528	6.581	10.947	1.727	2.019	-0.292	19.255	8.600	10.655	19.255	-9.888	9.367	-0.767	18.346
2040/2041	18.404	6.843	11.561	1.813	2.090	-0.277	20.217	8.933	11.284	20.217	-10.473	9.744	-0.811	17.535
2041/2042	19.325	7.102	12.223	1.904	2.165	-0.261	21.229	9.267	11.962	21.229	-11.101	10.128	-0.861	16.674
2042/2043	20.291	7.320	12.971	1.999	2.241	-0.242	22.290	9.561	12.729	22.290	-11.813	10.477	-0.916	15.758
2043/2044	21.305	7.601	13.704	2.099	2.321	-0.222	23.404	9.922	13.482	23.404	-12.515	10.889	-0.967	14.791
2044/2045 - 2066/2067	120.309	111.563	8.746	81.764	75.719	6.045	202.073	187.282	14.791	202.073	0.000	202.073	-14.791	0.000
Totals	407.126	292.694	114.432	107.965	107.965	0.000	515.091	400.659	114.432	515.091	-114.432	400.659	0.000	

Columns 1-3 show the reprofiled loans fund advances outstanding as at 31 March 2023 along with existing repayments and the recalculation adjustment as shown in Table 1.

Columns 4-6 show the repayment of estimated future borrowing while columns 7-9 show total borrowing.

Columns 10-12 show the reprofiled advances and the application of the recalculation adjustment over the years 2023/2024 to 2043/2024 to leave the actual repayments that will be made from the HRA.

Column 12 is the same as Column 8 showing that the HRA will repay the same level of debt that is actually outstanding.

Column 13 shows the annual benefit while the cumulative benefit is shown in Column 14 with this reaching £22.000m by 2025/2026.

**SOUTH LANARKSHIRE COUNCIL
HOUSING REVENUE ACCOUNT
CAPITAL ESTIMATES YEAR 2024/2025**

Area	Project Title	Budget	
Provision of Council Housing			
SLC Wide	Provision of Council Housing		£43,397,000
SLC Wide	Mortgage To Rent		£400,000
Provision of Council Housing Sub Total			£43,797,000
Refurbishment works			
Kitchen & Bathrooms			
SLC Wide	Kitchens & Bathrooms	£10,000,000	
Kitchen & Bathrooms Sub Total		£10,000,000	
Heating Replacements			
SLC Wide	Central Heating Upgrades/Installations	£5,000,000	
Heating Replacements Sub Total		£5,000,000	
External Fabric Upgrading Works			
SLC Wide	External Fabric Upgrading - Various Blocks	£6,000,000	
External Fabric Upgrading Works Sub Total		£6,000,000	
Environmental Works			
SLC Wide	Environmental Improvements	£1,200,000	
Environmental Works Sub Total		£1,200,000	
Energy Efficiency Works			
SLC Wide	External Wall Insulation	£1,250,000	
Energy Efficiency Works Sub Total		£1,250,000	
Miscellaneous Projects			
SLC Wide	Legislative Compliance Works	£2,700,000	
SLC Wide	Window and Door Replacement Programme	£5,520,000	
SLC Wide	Sheltered Housing Schemes Refurbishment Works	£876,000	
SLC Wide	Services Upgrades	£660,000	
SLC Wide	Area Regeneration	£100,000	
SLC Wide	Council House Adaptations	£150,000	
SLC Wide	Alterations including DDA	£50,000	
Miscellaneous Projects Sub Total		£10,056,000	
Refurbishment Works Sub Total			£33,506,000
Total Capital Programme 2024/2025			£77,303,000