

Report

Report to:	Housing and Technical Resources Committee (Special)
Date of Meeting:	23 January 2023
Report by:	Executive Director (Housing and Technical Resources) Executive Director (Finance and Corporate Resources)

Subject:	Housing Revenue and Capital Account Budget 2023/2024
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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 2023/2024
- ♦ request approval for the 2023/2024 Housing Capital Programme totalling £63.916 million

2. Recommendation(s)

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

- (1) that the proposed rent increase of 3.50% 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 based on the rent increase of 3.50%, the 2023/2024 Housing Capital Programme of £63.916 million, as detailed in Appendix 2, be endorsed; and
- (3) that the recommendations be referred to the Executive Committee, for endorsement, then to Council for approval.

3. Proposals for Housing Revenue and Capital Account Budget 2023/2024

3.1. The HRA revenue budget submission for 2023/2024 has been prepared in line with the thirty-year HRA Business Plan. This has been developed to reflect investment priorities of maintaining and improving the housing stock to the Scottish Housing Quality Standard (SHQS) and the updated Energy Efficiency Standard for Social Housing (ESSH2). 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 2022/2023 revenue budget, is outlined in Appendix 1. The main expenditure movements are:-

- ♦ Supervision and Management Costs, increased costs for pay award and other inflationary pressures, an increase in bad debt provision (as detailed further in Paragraph 3.3) and efficiency saving targets (as detailed further in Paragraph 3.8)
- ♦ 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
- ◆ House Rents are inclusive of additional new stock and the proposed rent increase
- ◆ A planned transfer from reserves reflects requirement within the 2023/2024 budget for the long term investments included in the thirty-year HRA Business Plan

- 3.3. The 2023/2024 budget proposal also includes a provision of £3.524 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 £0.150 million for tenancy sustainment mitigation.
- 3.4. In October 2022, the Scottish Government passed The Cost of Living (Tenant Protection) (Scotland) Act. The Act prevented private and social sector landlords from increasing rent charges until at least 31 March 2023. The Act had no immediate impact on tenants within the social rented sector but there was uncertainty about the position beyond the end of March 2023 which presented challenges for the Council in fulfilling statutory consultation requirements for the annual rent setting process. However, the well-established collaborative approach between the Council and tenant representatives through the Budget Scrutiny Group supported a programme of tenant engagement on rents and the wider budget for 2023/2024, as detailed in section 5 below.
- 3.5. On 20 December 2022 the Scottish Government indicated that it intended to end the rent control provisions in the social rented sector from the end of March 2023. This position follows the agreement of a “statement of intent” by COSLA, confirming that local authorities are committed to keeping rent increases to an average of no more than £5 per week (exclusive of service charges) and that Scottish Federation of Housing Associations members are consulting on increases which would average at 6.1%. On 12 January 2023, the Scottish Government formally confirmed in a ministerial statement that the current rent control provisions for the social rented sector will no longer apply from 1 April 2023.
- 3.6. A 1-year rent increase of 3.50% is proposed for 2023/2024. 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. This equates to a weekly increase on the average Council rent of £2.67 which is significantly below the £5 maximum agreed by COSLA.
- 3.7. 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 8th 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.
- 3.8. In line with the HRA Business Plan, a reduction of £0.278 million for efficiencies has been included within the Resources Supervision and Management budget. The efficiencies do not affect the delivery of services to our tenants.

- 3.9. A savings option will be presented to Council on 18 January 2023 in relation to the potential redirection of funds from second home council tax income to meet wider Council budget gaps. This option is part of the list of flexibilities presented by COSLA and Local Authorities to the Scottish Government in relation to specific Government policies (such as second home council tax) that could be called upon which may release funding that can help with councils' funding pressures.

The Scottish Government has, via the Depute First Minister, issued councils with a letter that says 'It is for individual councils, as democratically elected bodies, to consider the needs of their communities with a focus on the most vulnerable, their legal obligations and the totality of resource funding available to them, and to then take the decisions necessary, openly and transparently, to operate as effectively as possible within this context. In doing so, I would request that councils remain mindful of our shared priorities in the National Performance Framework. Where funding is provided as specific revenue grant (and therefore legally ring-fenced), councils should engage with the relevant Scottish Government directorate.' The second home council tax is not legally ring fenced.

It will be for the Council to decide if this saving option is agreed. Should this proposal be approved, it will have the impact of reducing funds available to the Housing Revenue Account for investment and would require a reduction of £0.500 million in the capital programme detailed in section 4 and Appendix 2. This reduction could be managed in 2023/2024 though reviewing the timing of when projects are undertaken, however, longer investment plans would require to be reviewed.

4. Housing Revenue Account – Capital Programme Estimates

- 4.1. The 2023/2024 capital programme is compiled in line with the thirty-year HRA Business Plan. As well as continuing to plan and undertake the works needed to keep Council homes to the SHQS and to improve the quality of housing for tenants in line with the requirements of EESSH, a significant work stream in this year's Housing Investment Programme will be to continue our investment to increase the overall supply of Council housing. At the Executive Committee on 30 November 2022, a new Council Housing Supply programme target of 1,300 additional Council homes was approved. The full HRA capital programme for 2023/2024, including expected costs and funding for the new housing supply target, is detailed in Appendix 2.
- 4.2. 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.
- 4.3. The funding for this programme is detailed in Table 1 below:-

Table 1: Capital Programme Funding

	£m
Revenue Contribution to 2023/2024 Capital Programme	27.162
Borrowing	17.302
Scottish Government Grant – Additional Council Houses	19.332
Scottish Government Grant – Mortgage to Rent	0.120
Total Capital Programme Funding	63.916

- 4.4. Borrowing for the £17.302 million noted in Table 1 includes previously approved borrowing of £4.614 million carried forward from previous years. An additional £12.688 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 £0.500 million per annum starting in 2024/2025. 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.

5. Consultation Arrangements

- 5.1. The Budget Scrutiny Group (BSG) takes a lead role in co-ordinating and delivering the consultation for setting rent levels on an annual basis. The Group provides the vehicle for discussion between the Council and tenants on the budgetary process and the financial challenges and opportunities facing housing services on an ongoing basis.
- 5.2. During November 2022, the Council undertook a Tenants' Satisfaction Survey which included a specific question on value for money. The survey results, received in December 2022, showed that 94.77% of Council tenants feel that their rent represents good value for money (an increase from 89.38% in the previous survey undertaken in 2018). Nationally, this compares well against the average of 80.96% for other local authorities which was recorded in 2021/2022.
- 5.3. As part of initial meetings to commence this year's programme of engagement, the BSG has had open discussions with senior Council officers on a number of key issues and challenges facing the Council, including:-
- ◆ current economic climate and impact of the cost-of-living-crisis
 - ◆ potential impact of the Scottish Government rent control provisions on the Housing Revenue Account
 - ◆ Council's commitment to ensuring rents remain affordable
 - ◆ future investment priorities
 - ◆ increased costs associated with delivering services
 - ◆ challenges in meeting national energy efficiency targets
- 5.4. Due to the ongoing impact of the cost-of-living crisis and the uncertainty surrounding the position in relation to the rent control provisions, the BSG recognised that there is a need for a slightly different approach to be taken to this year's consultation programme.

In general, it was agreed, that the engagement programme should continue to be fundamentally based on the successful approach utilised in previous years, including in-person and virtual local meetings open to all Council tenants.

However, given the uncertainty of the position in relation to the rent control provisions and considering the ongoing cost-of-living crisis, it was considered appropriate that the wider survey of tenants focused on the service and investment priorities.

- 5.5. During the initial meetings with both the BSG and the Tenant Participation Coordination Group (TPCG), there was broad support of a further 1-year rent increase, of the proposed 3.5% increase in 2023/2024, and, support for the Council to maintain its position as one of the most affordable local authority rents in Scotland.

A summary of the feedback received from the consultation process co-ordinated by the Tenants Information Service (TIS) is set out below:-

- ◆ investment in core aspects of current homes such as kitchen replacement and external fabric upgrades should be prioritised over other long term investment programmes including EESSH2 and energy efficiency requirements
- ◆ it was recognised that the proposed rent increase may impact on achievement of longer-term national targets such as EESSH2
- ◆ decarbonisation and energy efficiency requirements should be supported using alternative funding i.e., not only through the rents of current tenants
- ◆ it was recognised that if a national rent cap was applied below the level of increase identified by the Council, there would have been significant implications for the delivery of the capital programme and future investment priorities
- ◆ tenants were aware that the current economic uncertainty presents additional risks to the Council in terms of service provision, its investment programme and future years rent levels

6. Employee Implications

- 6.1. There are no employee implications because of this report.

7. Financial Implications

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

8. Climate Change, Sustainability and Environmental Implications

- 8.1. 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.

9. Other Implications

- 9.1. 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.
- 9.2. 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.

10. Equality Impact Assessment and Consultation Arrangements

- 10.1. 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.
- 10.2. Details of the consultation arrangements are set out in section 5 above.

Stephen Gibson
Executive Director (Housing and Technical Resources)

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Executive Director (Finance and Corporate Resources)

12 January 2023

Link(s) to Council Values/Priorities/Outcomes

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

Previous References

- ◆ Housing and Technical Resources Committee (Special), 19 January 2022, Housing Revenue and Capital Account Budget 2022/2023
- ◆ Executive Committee, 30 November 2022, South Lanarkshire Council Housing Supply Target

List of Background Papers

- ◆ Revenue Budget Working Papers 2023/2024

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 2023/2024**

2022/2023 Estimate			2023/2024 Estimate		Movement £m
£m			£m		£m
		<u>Expenditure</u>			
30.176		Supervision and Management	31.093		0.917
37.787		Housing Repairs and Maintenance	41.380		3.593
2.354		Void Rents	2.445		0.091
18.325		Financing Costs Loan Charges	19.230		0.905
26.050		Contribution to Capital Programme	27.162		1.112
0.000		Reserves to C/F	0.000		0.000
114.692		Total Expenditure	121.310		6.618
		<u>Income</u>			
100.503		House Rents	104.668		4.165
2.589		Other Rents	2.679		0.090
0.067		Interest	0.067		0.000
8.908		Other Income	8.989		0.081
2.625		Use of B/F Reserves	4.907		2.282
114.692		Total Income	121.310		6.618

**SOUTH LANARKSHIRE COUNCIL
HOUSING REVENUE ACCOUNT
CAPITAL ESTIMATES YEAR 2023/2024**

Area	Project Title	Budget
Provision of Council Housing		
SLC Wide	Provision of Council Housing	£31,740,000
SLC Wide	Mortgage To Rent	£400,000
Provision of Council Housing Sub Total		£32,140,000
Kitchen & Bathrooms		
SLC Wide	Kitchens & Bathrooms	£1,109,850
Kitchen & Bathrooms Sub Total		£1,109,850
Heating Replacements		
SLC Wide	Central Heating Upgrades/Installations	£6,500,000
Heating Replacements Sub Total		£6,500,000
External Fabric Upgrading Works		
SLC Wide	External Fabric Upgrading - Various Blocks	£6,975,725
External Fabric Upgrading Works Sub Total		£6,975,725
Environmental Works		
SLC Wide	Environmental Improvements	£2,270,000
Environmental Works Sub Total		£2,270,000
Energy Efficiency Works		
SLC Wide	External Wall Insulation	£1,640,889
Energy Efficiency Works Sub Total		£1,640,889
Miscellaneous Projects		
SLC Wide	Legislative Compliance Works	£2,528,300
SLC Wide	Window and Door Replacement Programme	£7,920,236
SLC Wide	Sheltered Housing Schemes Refurbishment Works	£1,650,000
SLC Wide	Services Upgrades	£881,000
SLC Wide	Area Regeneration	£100,000
SLC Wide	Council House Adaptations	£150,000
SLC Wide	Alterations including DDA	£50,000
Miscellaneous Projects Sub Total		£13,279,536
Refurbishment Works Sub Total		£31,776,000
Total Capital Programme 2023/2024		£63,916,000