

**Housing Revenue Account - Revenue Budget 2023/24 – 2024/25  
and Capital Plan 2023/24 – 2026/27****Report by David Gladwin, Chief Financial Officer****Report for Decision****1 Recommendations**

Council is recommended to:

- Approve the Housing Revenue Account (HRA) Capital Plan for 2024/25 - 2026/27 as detailed in Appendix D;
- Approve the HRA Revenue Budget for 2024/25;
- Note the indicative HRA Revenue Budget for 2025/26 and 2026/27 as detailed in Appendix E; and otherwise
- Note the remaining contents of this report.

**2 Purpose of Report / Executive Summary**

The purpose of this report is to provide Council with:

- A summary of expenditure and income to the end of quarter 3 in 2023/24 for the Capital Plan and a projected outturn for both the Revenue Account and Capital Plan for 2023/24;
- An update on the Capital Plan and Revenue budget 2024/25 - 2026/27.

The projected financial performance for 2023/24 is:

- Capital Investment in the year totalling £51.359 million;
- A net overspend of £0.124 million on the Revenue Account;
- A projected HRA general reserve at 31<sup>st</sup> March 2024 of £34.526 million.

The HRA Capital Plan 2024/25 - 2026/27 provides for:

- £151.385 million for Phases 2 - 5 of New Build Social Housing;
- £20 million for Housing- led Dalkeith Town Centre Regeneration;
- £27.908 million for investment in Energy Efficiency Standards in Social Housing; and
- £33.305 million for other investment in existing stock and off-market purchases.

The Revenue Budget Reflects:

- An update of the multi-year financial model;
- A 4.8% rent increase as approved at Council 21<sup>st</sup> Feb 2023;
- A projected HRA Reserve of £36.135 million at 31<sup>st</sup> March 2025, which will be required to finance the majority of approved investment commitment and is projected to reduce to £2.509 million at 31<sup>st</sup> March 2039.

**Date: 17<sup>th</sup> January 2024****Report Contact:** Lisa Young [lisa.young@midlothian.gov.uk](mailto:lisa.young@midlothian.gov.uk)

### **3 Background**

#### **3.1 Capital Plan 2023/24**

The Capital Plan Budget has been revised to reflect the current profile of spend as shown in Appendix B and capital investment in the year is projected to be £50.759 million. There is now a minor projected overspend of £0.007 million.

Scottish Government have awarded an additional £0.534 million grant towards the Council's investment in Net-zero in our Social Housing Stock, which was not previously budgeted for.

A project team is now in place for the Housing-led Dalkeith Town Centre project, which has budget of up to £20 million as referenced in the executive summary of this report. Whilst no material spend is projected to be incurred this financial year the outline business case is now starting to progress.

The construction industry across the UK has experienced unprecedented adverse market conditions, which led to significant rises in tender prices for a wide range of materials. There is evidence that inflation of between 10% and 15% beyond BCIS predictions was seen. Continued inflationary pressure provides a risk that the capital budgets provided for delivery of the New Social Housing project will need to be increased with a resultant impact on the funding strategy.

#### **3.2 Revenue Account 2023/24**

The underspend reported to Council on 21<sup>st</sup> November 2023 was £0.224 million. The forecast position has deteriorated by £0.348 million giving rise to a projected overspend at quarter 3 of £0.124 million against budget, as shown in Appendix C.

- This is due to an increase in both the average cost and volume of reactive repairs resulting in an increased cost of £0.256 million.
- Reflection of the most current new social housing delivery programme resulting in reduced rental income of £0.248 million.

Offset by:

- A reduction in the level of debt charges of £0.157 million. This is mainly due to the deferral of the total 2023/24 in-year borrowing requirement to later in the financial year than assumed at quarter two.

The HRA general reserve balance is projected to be £34.526 million at 31<sup>st</sup> March 2024 and this is committed to finance existing investment plans to 2038/39.

### **3.3 Capital Plan 2024/25-2026/27**

The current approved Housing Revenue Account Capital Plan provides for investment of £234.598 million over the period 2024/25 – 2026/27, of which £151.385 million is earmarked for completion of Phase 3 – Phase 5 of the New Social Housing Programme.

Initially when the new build phase 3 - 5 budget was approved it was estimated this budget would deliver 1,540 units. The amount now estimated to be delivered is 972 units. The reduction is due to inflationary pressures associated with the costs of construction and a move to Passivhaus for some sites resulting in a higher construction cost per unit. The Passivhaus programme is paused at present for a cost benefit review.

Due to the Scottish Government's recent announcement, the level of Affordable Housing Supply Programme grant monies being made available in 2024/25 has reduced. There is a risk the Council might not be awarded the full grant monies budgeted for Phase 5 of the New Social Housing Programme, potentially further reducing the level of units that can be delivered through this phase. Details of the direct impact are not yet clear.

There is further potential to receive Scottish Government Social Housing Net-zero funding of £1.5 million in 2024/25, however this is yet to be approved so no budget provided for at this time.

The HRA Capital Plan is detailed in Appendix D and has been amended to reflect the latest estimated costs of ongoing and planned projects.

### **3.4 Revenue Account 2024/25**

The HRA revenue model has been updated and projected forward to 2038/39 and reflects the revised Capital plan as well as the following key assumptions:

- The borrowing cost of the capital investment detailed in Appendix D together with estimated investment in existing properties over the remaining years of the projection.
- The impact on rental income stream as a result of a 4.8% rent increase for 2023/24 - 2025/26, longer-term assumption of 4.1% to 2031/32 to continue to support investment in EESSH and 1.30% thereafter.
- Projected provision for inflation over future years as per the available GDP Deflator and BCI Tender Prices Index.
- The longer-term requirement that the rents for new build properties will converge with that of the existing stock.

These together with a number of other minor adjustments to the previous financial projections confirm that the HRA can continue to support the existing investment plans.

The revised revenue budget for 2023/24 and indicative budget for 2025/26 - 2026/27 is detailed in Appendix E.

## **4 Report Implications**

### **4.1 Resource**

There are no direct resource implications arising from this report.

### **4.2 Digital**

There are no direct digital implications arising from this report.

### **4.3 Risk**

The principal risks are around the issue of affordability, ensuring that the investment in new build and the existing stock can be made without having to impose unacceptable increases on weekly rents. This is mitigated by the adoption of a long-term financial strategy and modelling which demonstrates that existing investment commitments are sustainable.

There is also the risk of capital spend being lower than projected due to delays on projects, particularly in the current climate of disruptive factors in material supply chains, workforce supply, economic impacts, global conflicts that could result in lower debt charges causing the Housing Revenue Account Reserve balance to increase more than projected.

### **4.4 Ensuring Equalities**

There are no equality issues arising directly from this report.

### **4.5 Additional Resource Implications**

See Appendix A.

## **Appendices**

Appendix A – Additional Resource Implications

Appendix B - Capital Plan 2023/24

Appendix C – Revenue Account 2023/24

Appendix D – Capital Plan 2024/25 – 2026/27

Appendix E – Revenue Account 2024/25 – 2026/27

## **APPENDIX A – Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Not applicable

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

- ☒ Holistic Working
- ☐ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☐ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☒ One size fits one
- ☐ None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious
- ☐ None of the above

### **A.4 Delivering Best Value**

The report does not directly impact on Delivering Best Value.

### **A.5 Involving Communities and Other Stakeholders**

The report does not directly relate to involving communities.

### **A.6 Impact on Performance and Outcomes**

The report does not directly impact on Midlothian Council's performance and outcomes.

### **A.7 Adopting a Preventative Approach**

The report does not directly relate to adopting a preventative approach.

### **A.8 Supporting Sustainable Development**

The report does not directly relate to supporting sustainable development.

# MIDLOTHIAN COUNCIL

## Appendix B

### HOUSING REVENUE ACCOUNT CAPITAL PLAN 2023/24

	Revised Budget 2023/24 £'000	Actuals to Date £'000	Projected Outturn £'000	Variation (Under)/Over £'000
<b>FUNDING</b>				
<b>Scottish Government Grants</b>				
- Affordable Housing Supply Programme Funding	9,295	3,994	9,295	0
- Off Market Purchases Funding	1,543	1,213	1,543	0
- Social Housing Net-zero Funding	0	0	534	534
Council Tax on Second Homes	110	0	110	0
Borrowing Requirement	40,404	26,565	39,877	(527)
<b>TOTAL AVAILABLE FUNDING</b>	<b>51,352</b>	<b>31,772</b>	<b>51,359</b>	<b>7</b>

	£'000	£'000	£'000	£'000
<b>APPROVED EXPENDITURE</b>				
New Build Houses Phase 2 - Phase 5	35,375	22,503	35,375	0
Backdated Developer Contribution	875	0	875	0
Off Market Purchases	4,073	3,095	4,073	0
Aids & Adaptations	499	185	499	0
Environmental Improvements	100	13	100	0
BDHS Meters	20	0	20	0
Homelessness - Temporary Accommodation Provision	67	33	74	7
<b>Scottish Housing Quality Standard</b>				0
-Upgrade Central Heating Systems	1,677	865	1,677	0
-Energy Efficiency Standard for Social Housing (EESH)	1,200	0	1,200	0
-Scottish Housing Quality Standards (SHQS) Repairs	7,466	5,078	7,466	0
<b>TOTAL EXPENDITURE</b>	<b>51,352</b>	<b>31,772</b>	<b>51,359</b>	<b>7</b>

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## Appendix C

### HOUSING REVENUE ACCOUNT 2023/24

	Revised Budget	Projected Outturn	Variation (Under)/Over
Average No of Houses	7,636	7,378	(258)
	£000's	£000's	£000's
<b>Repairs and Maintenance</b>			
General Repairs	7,492	7,956	464
Decant/Compensation	65	70	5
Grounds Maintenance	829	591	(238)
	<b>8,386</b>	<b>8,617</b>	<b>231</b>
<b>Administration and Management</b>	5,433	5,433	0
<b>Loan Charges</b>	14,484	13,627	(857)
<b>Other Expenses</b>	2,821	3,011	190
<b>TOTAL EXPENDITURE</b>	<b>31,124</b>	<b>30,688</b>	<b>(436)</b>
<b>Rents</b>			
Houses	32,819	32,258	561
Garages	647	647	0
Others	165	166	(1)
<b>TOTAL RENTS</b>	<b>33,631</b>	<b>33,071</b>	<b>560</b>
<b>NET EXPENDITURE/(INCOME)</b>	<b>(2,507)</b>	<b>(2,383)</b>	<b>124</b>
<b><u>Movement in HRA Reserve</u></b>			
Opening HRA Reserve		(32,143)	
Enhancement during 2023/24 as above		(2,383)	
Reserve Earmarked to fund capital investment plans		(34,526)	

# MIDLOTHIAN COUNCIL

## Appendix D

### HOUSING REVENUE ACCOUNT CAPITAL PLAN 2024/25-2026/27

	<b>Proposed Budget 2024/25 £'000</b>	<b>Proposed Budget 2025/26 £'000</b>	<b>Proposed Budget 2026/27 £'000</b>
<b>FUNDING</b>			
<b>Grants</b>			
- Affordable Housing Supply Programme Funding	18,783	10,801	0
- Off Market Purchases Funding	715	715	110
Council Tax on Second Homes	113	116	119
Borrowing Requirement	83,443	81,827	35,856
<b>TOTAL AVAILABLE FUNDING</b>	<b>103,054</b>	<b>93,459</b>	<b>36,085</b>

	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>APPROVED EXPENDITURE</b>			
New Build Houses Phase 2 - Phase 5	72,324	61,142	17,919
Backdated Developer Contributions	696	1,000	1,000
Housing Led Town Centre Regeneration	10,000	10,000	0
Off Market Purchases	1,950	1,950	265
Aids & Adaptations	519	529	537
Bonnyrigg District Heating Scheme Meters	1,280	0	0
Environmental Improvements	3,900	2,000	2,000
<b>Scottish Housing Quality Standard</b>			
-Upgrade Central Heating Systems	1,677	2,791	0
-Energy Efficiency Standard for Social Housing	6,445	10,573	10,890
-SHQS Upgrades	4,263	3,474	3,474
<b>TOTAL EXPENDITURE</b>	<b>103,054</b>	<b>93,459</b>	<b>36,085</b>



# MIDLOTHIAN COUNCIL

## HOUSING REVENUE ACCOUNT 2024/25- 2026/27

### Appendix E

	2024/25 Proposed Budget	2025/26 Indicative Budget	2026/27 Indicative Budget
<b>Average No of Houses</b>	<b>7,664</b>	<b>8,029</b>	<b>8,284</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Repairs and Maintenance</b>			
General Repairs	8,237	8,578	8,806
Decant/Compensation	71	73	74
Grounds Maintenance	603	614	624
	<b>8,911</b>	<b>9,265</b>	<b>9,504</b>
<b>Administration and Management</b>	5,537	5,643	5,750
<b>Loan Charges</b>	16,568	20,131	23,081
<b>Other Expenses</b>	2,856	2,949	3,038
<b>TOTAL EXPENDITURE</b>	<b>33,872</b>	<b>37,987</b>	<b>41,373</b>
<b>Income</b>			
Houses Rents	34,631	38,546	41,828
Garages Rents	677	723	738
Other Income	173	184	188
<b>TOTAL RENTS</b>	<b>35,481</b>	<b>39,453</b>	<b>42,754</b>
<b>NET EXPENDITURE/(INCOME)</b>	<b>(1,609)</b>	<b>(1,466)</b>	<b>(1,381)</b>
<b>BALANCE BROUGHT FORWARD</b>	<b>(34,526)</b>	<b>(36,135)</b>	<b>(37,601)</b>
<b>BALANCE CARRIED FORWARD</b>	<b>(36,135)</b>	<b>(37,601)</b>	<b>(38,981)</b>