

**Housing Revenue Account
Revenue Budget 2021/22 – 2022/23 and Capital Plan 2021/22-2026/27****Report by Gary Fairley, Chief Officer Corporate Solutions.****Report for Decision****1 Recommendations**

Council is recommended to:

- Note the contents of this report;
- Approve the reallocation of the £40 million approved budget for Off-Shelf New Build Purchases to be split equally between New Social Housing Phase 4 and Housing-Led Town Centre Regeneration.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Council with:

- A summary of expenditure and income to 20th December 2021 for the Capital Plan and a projected outturn for both the Housing Revenue Account (HRA) and Capital Plan for 2021/22;
- An update on the Revenue Budget for 2022/23;
- An update on the Capital Plan for 2022/23-2026/27.

The summarised financial performance for 2021/22 is:

- Capital Investment in the year totalling £45.559 million;
- A net underspend of £0.949 million on the Revenue Account;
- The HRA Reserve at 31st March 2022 is projected to be £28.579 million.

The HRA Capital Plan 2022/23-2026/27 provides for:

- £135.558 million for Phases 2-4 of New Social Housing;
- £78.819 million for investment in existing stock and provision of temporary accommodation.

The Revenue Budget Reflects:

- An update of the financial model;
- A 0% rent increase for 2022/23 as approved at Council 14th December 2021;
- A projected HRA Reserve of £32.659 million as 31st March 2023, which will be required finance the majority of the existing investment commitment and is projected to reduce to £0.991 million at 31st March 2037.

Date 21st January 2022**Report Contact:**

Name Lisa Young Tel No 0131-271-3111

lisa.young@midlothian.gov.uk

3 Background

3.1 Capital Plan 2021/22

The Capital Plan Budget has been revised to reflect the current profile of spend as shown in appendix B1. Capital investment in the year is projected to be £45.559 million and given the revised spend profile there are no material variances to be reported.

3.2 Revenue Account 2021/22

The underspend reported to Council on 16th November was £0.717 million, this has increased by £0.232 million to £0.949 million as shown in appendix B2. This is due to reflection of the most up-to-date version of the HRA capital plan including the New Social Housing Delivery plan and the £25 million Capital Financing from Current Revenue approved at Council 14th December 2021 giving rise to lower in-year borrowing costs of £0.180 million.

The HRA general reserve balance is projected to be £28.579 million at 31st March 2022, which is committed to finance existing investment commitments to 2036/37.

3.3 Capital Plan 2022/23-2026/27

The Housing Revenue Account Capital Plan, approved on 29th June 2021 allowed for investment of £152.426 million for Phase 2 to Phase 4 of New Social Housing and £40 million for the off-shelf purchase of new build units.

There are currently no opportunities to utilise the £40 million budget for off-shelf new build purchases, however additional sites have since been identified for new social housing and the project is also subject to increasing costs due to the introduction of the passivhaus standard and inflation therefore it is recommended to transfer £20 million of this budget to the New Social Housing budget with the remaining £20 million to be set aside for Housing Led Town Centre Regeneration Costs. Projected spend for the New Social Housing is £36.868 million for 2021/22 and £135.558 million for 2022/23-2026/27, which includes the additional £20 million allocation.

Retaining rents for 2022/23 at current levels together with a longer term planning assumption of average rent increases of 1.10% per annum will continue to support current investment in New Social Housing and also in existing stock with reserves modelled to fall to a contingent level of £0.991 million by 2036/37.

The HRA Capital Plan is detailed in appendix B3 and has been amended to reflect the latest estimated costs of ongoing and planned projects. There are no material changes to these.

3.4 Revenue Account 2022/23

The HRA revenue model has been updated and projected forward to 2036/37 and reflects the revised Capital plan as well as the following key assumptions:

- The borrowing cost of the capital investment detailed in appendix B3 together with estimated investment in existing properties over the remaining years of the projection;
- The impact on rental income stream as a result of the rent freeze for 2020/21 and 2021/22;
- £25 million for Capital Financing from the Current HRA Revenue Reserve;
- Projected provision for inflation over future years as per the 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. Additional investment in new build or existing stock above these planned levels would necessitate rent increases above the average 1.1% per annum used in the current financial planning assumptions.

The revised revenue budget for 2022/23 is detailed in appendix B4.

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 with the onset of Brexit and Covid-19, this 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 – Background Information

Appendix B1 – Capital Plan 2021/22

Appendix B2 – Revenue Account 2021/22

Appendix B3 – Capital Plan 2022/23-2026/27

Appendix B4 – Revenue Account 2022/23

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.

APPENDIX B**Background Papers/Resource Links**

HRA Capital Plan and Revenue Budget enclosed