

Housing Revenue Account Revenue Budget 2022/23 – 2023/24 and Capital Plan 2022/23 – 2025/26

Report by David Gladwin, Acting Chief Financial Officer

Report for Decision

1 Recommendations

Council is recommended to:

- i. Approve the Housing Revenue Account (HRA) Capital Plan for 2023/24 - 2025/26 as detailed in Appendix E;
- ii. Approve the HRA Revenue Budget for 2023/24;
- iii. Note the indicative HRA Revenue Budget for 2024/25 and 2025/26 as detailed in Appendix F; and otherwise
- iv. 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 2022/23 for the Capital Plan and a projected outturn for both the Revenue Account and Capital Plan for 2022/23;
- An update on the Capital Plan and Revenue budget 2023/24 - 2025/26 which reflects approval of the recommendation to increase rents by 4.8% as presented to Council today in the Housing Revenue Account – Rent Setting Strategy 2023-24 – 2025/26 paper at Agenda Item 8.3.

The projected financial performance for 2022/23 is:

- Capital Investment in the year totalling £41.400 million;
- A net overspend of £0.103 million on the Revenue Account;
- A projected HRA general reserve at 31st March 2023 of £31.990 million.

The HRA Capital Plan 2023/24 - 2025/26 provides for:

- £110.644 million for Phases 2 - 4 of New Build Social Housing;
- £77.640 million for a further Phase 5 of New Social Housing;
- £19.618 million for investment in Energy Efficiency Standards in Social Housing; and
- £66.425 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 presented to Council today in the Rent Strategy paper at agenda item 8.3;
- A projected HRA Reserve of £35.769 million at 31st March 2024, which will be required to finance the majority of approved investment

commitment and is projected to reduce to £2.256 million at 31st March 2038.

Date: 30th January 2023

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3 Background

3.1 Capital Plan 2022/23

The Capital Plan Budget has been revised to reflect the current profile of spend as shown in appendix C. Capital investment in the year is projected to be £41.400 million and there are currently no material variances to be reported.

Forecast capital expenditure in 22/23 has reduced by £12.442 million from that reported at quarter 2. This mainly relates to delays in the tendering process and securing prices with contractors for some of our New Social Housing sites resulting in later start dates and general delays overall.

The construction industry in Scotland and the UK is currently experiencing unprecedented adverse market conditions, which is leading 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 is affecting projects and whilst measures such as value engineering are partially mitigating cost increase there is a likely 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 2022/23

The underspend reported to Council on 15th November 2022 was £0.171 million. The forecast position has deteriorated by £0.274 million giving rise to a projected overspend at quarter 3 of £0.103 million against budget, as shown in appendix D. This is due to an increase in number of void repairs, while there is improved performance in repairs & maintenance, and consequential void rent loss due to tenants terminating tenancies from legacy properties to move into newer build properties.

This is partially offset by lower in-year borrowing costs reflecting latest projections on in-year capital spend.

The HRA general reserve balance is projected to be £31.990 million at 31st March 2023 and this is committed to finance existing investment plans to 2037/38.

3.3 Capital Plan 2023/24-2025/26

The current approved Housing Revenue Account Capital Plan provides for investment of £177.069 million over the period 2023/24 – 2025/26, of which £110.644 million is earmarked for completion of Phase 2 – Phase 4 of the New Social Housing Programme.

The proposed 4.8% rent increase per annum for 2023/24 – 2025/26 and the longer term assumption of a 4.10% annual increase to 2031/32 will continue to support current investment in new social housing and in

existing stock as well as provide additional investment of £77.640 million for a further phase of New Social Housing and £140 million for Energy Efficiency Standard for Social Housing (EESH) works for over the period of 2023/24 - 2031/32. This additional investment would fund approximately 300 new homes and contribute towards reducing emissions in our current housing stock.

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

3.4 Revenue Account 2023/24

The HRA revenue model has been updated and projected forward to 2037/38 and reflects the revised Capital Plan as well as the following key assumptions:

- The borrowing cost of the capital investment detailed in Appendix E 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 EESH and 1.30% thereafter;
- Re-alignment of temporary accommodation rent charge with new build rents;
- 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.

The revised revenue budget for 2023/24 and indicative budget for 2024/25 - 2025/26 is detailed in appendix F.

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, 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 Report Implications

See Appendix A.

Appendices

Appendix A – Additional Report Implications

Appendix B – Background Information

Appendix C - Capital Plan 2022/23

Appendix D – Revenue Account 2022/23

Appendix E – Capital Plan 2023/24 – 2025/26

Appendix F – Revenue Account 2023/24 – 2025/26

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

In the context of an increasing housing stock we have not increased the HRA funded Housing Team staff establishment and maintain a lower management and administration cost when benchmarked with neighbouring authorities.

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