

**Housing Revenue Account
Revenue Budget 2024/25 – 2025/26 and Capital Plan 2024/25 – 2027/28****Report by David Gladwin, Chief Financial Officer & Section 95 Officer****Report for Decision****1 Recommendations**

Council is recommended to:

- Approve the Housing Revenue Account (HRA) Capital Plan for 2025/26 (appendix D);
- Approve the HRA Revenue Budget for 2025/26 (appendix E);
- Note the indicative HRA Revenue and Capital Budgets for 2026/27 and 2027/28 as detailed in appendices D and 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 2024/25 for the Capital Plan and a projected outturn for both the Revenue Account and Capital Plan for 2024/25;
- Capital Plan and Revenue budgets for 2025/26 and indicative budgets for 2026/27 - 2027/28.

The projected financial performance for 2024/25 is:

- Capital Investment in the year totalling £47.459 million;
- A net overspend of £0.049 million on the Revenue Account;
- A projected HRA general reserve at 31st March 2025 of £35.094 million.

The HRA Capital Plan 2025/26 – 2027/28 provides for:

- £108.605 million for Phases 3-5 of New Build Social Housing;
- £19.5 million for Housing-led Town Centre Regeneration;
- £41.145 million for investment in Energy Efficiency Standards in Social Housing; and
- £27.134 million for other investment in existing stock and off-market purchases.

The Revenue Budget Reflects:

- An update of the multi-year financial model prepared in line with the Social Housing Investment Plan (SHIP);
- A 4.8% rent increase as approved at Council 21st February 2023;
- A projected HRA Reserve of £35.094 million at 31st March 2025, which will be required to finance the majority of approved investment commitment and is projected to reduce to £1.880 million at 31st March 2040.

Date: 20th January 2025

Report Contact: Lisa Young lisa.young@midlothian.gov.uk

3 Background

3.1 Capital Plan 2024/25

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 £47.459 million. There is a reduction in the borrowing requirement of £1.030 million due to:-

- £0.825 million in relation to grant funding from Scottish Government for contribution towards net- zero emissions in the Council's housing stock, reported to Council 27th August 2024;
- An additional capital receipt of £0.175 million received for the sale of Station House in Loanhead.

3.2 Revenue Account 2024/25

The underspend reported to Council on 12th November 2024 was £0.526 million. The forecast position has deteriorated by £0.575 million at quarter 3 to a projected overspend of £0.049 million against budget, as shown in appendix C.

The main reason for the movement is work associated with dampness and other high value repair works to bring properties up to lettable standard.

The HRA general reserve balance is projected to be £35.094 million at 31st March 2025 and this is committed to finance existing investment plans to 2039/40.

3.3 Capital Plan 2025/26-2027/28

The current approved Housing Revenue Account Capital Plan provides for investment of £196.384 million over the period 2025/26 – 2027/28, of which £108.605 million is earmarked for completion of Phases 3–5 of the New Social Housing Programme.

The estimated number of new builds in phases 3-5 is now estimated to be 959 units. The reduction from the original estimate 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 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 2025/26

The HRA revenue model has been updated and projected forward to 2039/40 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 4.49% to 2031/32 to continue to support investment in Energy Efficiency Standard in Social Housing (ESSH) and 1.69% thereafter;
- Provision of £0.330 million has been budgeted for in 2025/26 to achieve Energy Performance Certificates, which is a legal requirement to be provided every 10 years and will also aid in the delivery programme for ESSH project. There is also budgeted provision of £0.445 million for Stock Condition Surveys to be conducted to inform delivery of the future Scottish Housing Quality Standard repairs project;
- 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, show that the HRA can continue to support the existing investment plans.

The revised revenue budget for 2025/26 and indicative budget for 2026/27 - 2027/28 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, 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 - Capital Plan 2024/25

Appendix C – Revenue Account 2024/25

Appendix D – Capital Plan 2025/26 – 2027/28

Appendix E – Revenue Account 2025/26 – 2027/28

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.