

**WEST DUNBARTONSHIRE COUNCIL****Report by Chief Officer - Resources****6 March 2024**

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**Subject: Housing Revenue Account (HRA) Capital Investment Programme, Revenue Budget, and Rent Levels for 2024/25**

**1. Purpose**

**1.1** To seek Council approval of the proposed HRA capital investment programme and the HRA revenue budget for 2024/25 and to agree the level of weekly rent increase for 2024/25.

**2. Recommendations**

**2.1** It is recommended that Council:

- i) Notes the progress made in the HRA capital programme for 2023/24 as detailed in appendix 1.
- ii) Approves the HRA Capital Investment Plan 2024/25 – 2028/29 as detailed in Appendix 2.
- iii) Approves the HRA revenue budget for 2024/25 as detailed in Appendix 3 and Appendix 4.
- iv) Approves a 6.7% weekly house rent increase for 2024/25 at an average £5.94 on a 52-week basis (£6.58 on a 47-week basis) inclusive of homes used as emergency homeless temporary accommodation.
- v) Approves a 6.7% weekly Gypsy Travellers site rent increase, increasing pitch rent by £5.37 to £85.46 on a 52-week basis (£5.94 to £94.55 per week on a 47-week basis).
- vi) Approves a 6.7% lock up rent increase, increasing rent by £0.38 to £6.04 per week on a 52-week basis (£0.42 on a 47-week basis to £6.68).
- vii) Notes the outcome of the tenant consultation process as detailed in Appendix 5.

- viii) Notes the increase in the prudential reserve target for 2024/25 (from £0.984m to £1.064m).
- ix) Notes that the HRA continues to face considerable cost pressures and that the latest forecast is for HRA to draw reserves of £2.140m to balance the 2023/24 revenue budget with closing reserves forecast at circa £0.500m.
- x) Notes that work will continue in 2023/24 and 2024/25 to identify and deliver further general efficiencies across all areas of the housing budget that will allow reserves to be replenished and maintained in line with the prudential target.

### **3. Background**

**3.1** West Dunbartonshire Council (the Council) is the landlord for 10,468 homes located in communities across West Dunbartonshire. In delivering this role, good quality, affordable, safe, secure, and warm housing is fundamental to the health and well-being of individuals and families as well as the sustainability of local communities and the success of the local economy.

**3.2** The Council has a legal requirement under the Housing (Scotland) Act 2001 to consult Council tenants and have regards to their views before considering any proposal to increase rents. Approval of this report will demonstrate this obligation has been fulfilled. Full details of the consultative exercise are included as Appendix 5 of this report.

The recommended rent increase for 2024/25 will contribute towards the funding of the Housing Revenue Account Capital Investment Programme, The additional revenue will fund a rise in costs to the Housing Revenue Account and will allow for

- Continued investment in tenant priorities.
- Delivery of the Affordable Housing Supply Programme.
- Investment in improving our homes including energy efficiency measures.
- Investment in measures to meet compliance with the proposed Social Housing Net Zero Standard. This investment will reduce carbon emissions from Council homes.

**3.3** In considering the structure of the budget consideration has been given to:

- Increasing revenues and reducing costs by:
  - Focused strategic asset management of our council housing stock.
  - A housing led regeneration approach.
  - improving estate management generally; and
  - Improved void performance.

- Financial Impact
  - Ongoing implementation of various welfare reform changes.

**3.4** In preparing the 2024/25 estimates the following factors have been considered:

- Inflation has been applied on relevant revenue and capital budget lines.
- Provision has been made for a 3% pay increase in line with Scottish Government's commitments on public sector pay.
- A 4% turnover allowance has been applied to employee costs.
- Debt interest rates have been assumed in line with projected Council borrowing costs.

**3.5** For budget year 2023/2024, West Dunbartonshire's weekly rent (with regards to lettable self-contained units) of £88.66 was £17.51 lower than the average highest local authority rent in Scotland.

## **4. Main Issues**

### **4.1 HRA Capital Investment Programme**

**4.1.1** On 1 March 2023, Council approved a five-year programme of HRA capital work to 2027/28. Progress on 2023/24 work is shown in Appendix 1. Excluding the Affordable Supply New Build Programme, the value of projects that will require re-profiling onto 24/25 is projected to be £4.911m.

**4.1.2** The Affordable Supply New Build Programme is forecasting a £68m underspend against its brought forward budget. Council has been previously advised of the significant underspend within the programme. The Affordable Supply New Build Programme has been refreshed this year, as opposed to re-profiled, to take account of progress on site and the latest information around land acquisition, construction costs and inflation, and expected grant funding.

**4.1.3** The HRA capital investment programme is derived from data from the current stock condition survey and our annual stock assessment exercise. The main drivers for the programme are for the Council to deliver on the key objectives of the Council's Better Homes Strategic Housing Asset Management Strategy and health and safety responsibilities. In addition to the core stock, the programme includes the Council's ambitious ongoing new house build programme 'More Homes West Dunbartonshire.'

**4.1.4** Due to the long-term nature of HRA capital investment, a 30-year financial business planning model is used to determine if these investments are affordable in the longer-term taking account of expected inflation, cost pressures, savings opportunities, and changes to debt interest rates.

This report outlines ambitious proposals for a major programme of investment in housing led regeneration and renewal in West Dunbartonshire. The proposed investment will significantly enhance the Council’s housing stock, contribute to the wider transformation of West Dunbartonshire as a place and will be central to improving West Dunbartonshire’s economic and social wellbeing.

**4.1.5** The Council’s new house build and housing supply programme ‘More Homes West Dunbartonshire’ will see significant resources invested in the creation and acquisition of new homes. The Council’s commitment to increasing the housing supply, as evidenced within the Local Housing Strategy, is further reinforced through planned open market acquisitions, and is incorporated into the future programme. An expenditure budget of £106.280m for the affordable housing supply programme is factored into the five-year capital plan, together with a projected minimum of £25.209m of Scottish Government Grant Funding available through the Affordable Housing Supply Programme. Therefore, for new builds, there is a net capital cost to the HRA of £81.071m. The borrowing cost of financing new builds is spread over 60 years and will be part of the figures contained in 4.2.4 below.

**4.1.6** The More Homes West Dunbartonshire programme aims to contribute towards the manifesto commitment of the current Administration for 2,500 new homes over a 10-year period. Quarterly updates on progress including changes in programme will continue to be reported to the Housing and Communities Committee.

**4.1.7** The five-year investment plan has now been reviewed and rolled forward a year to 2028/29 with the plan recognising any necessary re-profiling of projects and anticipated funding. The result of this review is shown in Appendix 2, summarised as follows.

<b>5 Year Capital Investment Plan</b>			
<b>Financial Year</b>	<b>Expenditure £m</b>	<b>Income £m</b>	<b>Net £m</b>
2024/2025	73.385	13.004	60.381
2025/2026	77.676	8.941	68.735
2026/2027	55.760	4,573	51.187
2027/2028	47.898	4.010	43.888
2028/2029	33.450	3.074	30.376
<b>5 Year Total</b>	<b>288.169</b>	<b>33.602</b>	<b>254.567</b>

<b>Capital Investment Plan - 2024/2025</b>			
<b>Programme</b>	<b>Expenditure £m</b>	<b>Income £m</b>	<b>Net £m</b>
Other Capital Expenditure	5.771	-	5.771
Major Component Replacements	17.963	-	17.963
Void Capital	5.202	-	5.202
Contingencies	0.100	-	0.100
Structural & Environmental	2.767	-	2.767
Support Costs	2.761	-	2.761
Buy Back Programme	4.000	1.800	2.200
Affordable Supply Programme	34.821	11.204	23.617
Prudential Borrowing	-	60.381	(60.381)
<b>Total</b>	<b>73.385</b>	<b>73.385</b>	<b>-</b>

**4.1.8** The planned investment will deliver against the ongoing commitment to improve housing for tenants and future tenants of Council homes and will also support the delivery of wider Strategic Plan and Local Housing Strategy priorities, including:

- Provide a pipeline of construction work with opportunities for job creation, community benefits, training, and benefits to the local supply chain as a means of contributing to the wider pandemic economic recovery plan and with the potential to lever in significant external investment.
- Contribute to the wider recovery plan from the pandemic, with the investment programme providing a catalyst for engagement with local communities in the development and delivery of these ambitious plans through our strong tenant participation mechanisms.
- Ensure that the design and specification of improvements maximises opportunities to future proof homes. This includes the use of new technology to improve the health and wellbeing of tenants. Improving the quality of housing, and the places people live, helps to improve the quality of people's lives, with positive benefits for both physical and mental health and general wellbeing.
- Contribute to the Council's place making agenda, providing a framework for improving the quality of the places where people live and supporting tenants to be actively involved in shaping change, impacting positively on the attractiveness of West Dunbartonshire as a place to live and encouraging economic investment.
- Improve the quality and appearance of neighborhoods and deliver a consistent and cost-effective approach to the maintenance and management of areas. As well as benefiting local tenants and residents, this will bring positive benefits for a range of Council services, such as open space maintenance, waste collection and recycling. Improvements to the physical environment will encourage more people to use outside spaces and encourage physical activity.

- Contribute to the achievement of climate change ambitions and the Council's Climate Change Strategy and address fuel poverty using the highest standards of energy efficiency practices in new build construction and retrofit technologies, along with future proposed demonstration innovation projects which will be reported to the Housing and Communities Committee.

## **4.2 HRA Business Plan**

- 4.2.1** The HRA operates a 30-year Business Plan model. The model reflects the need for a long term planned approach to the replacement of major components (heating, kitchens, doors / windows etc.) aligned to the lifecycle of these components. The model ensures planned rental income is sufficient over the term of the plan to cover the debt servicing costs associated with capital investment along with funding all revenue costs for operating and maintaining HRA properties.
- 4.2.2** The Business Plan model has been reviewed and updated to take account of the latest financial plans and the factors that are expected to impact on the HRA budget in 2024/25 and beyond. The HRA is facing significant affordability challenges in the short term around
- Increased interest rates linked to funding for the HRA capital plan.
  - Higher costs across capital and maintenance programmes due to increased contractor and material prices and increasing payroll costs within Building Services
  - Higher HRA direct payroll costs across supervision and management services
  - Increasing energy cost, in particular electricity costs
- 4.2.3** The Business Plan assumes an easing in inflationary pressures after 2024/25 with CPI returning and remaining at the 2% Bank of England target over the medium to long term.
- 4.2.4** A key challenge is the increase in debt charges because of the current economic climate with higher interest rates. The Business Plan is modelling increasing debt servicing costs over the next 5 years, as detailed below. Note that these costs reflect the borrowing costs of both current projects and past projects where some debt remains outstanding. The Business Plan assumes that interest rates normalise in the medium term with a long-term rate of 3.5% on new borrowing.

Year	Amount
2024/25	£22.092m
2025/26	£20.214m
2026/27	£20.314m
2027/28	£23.034m
2024/25	£25.629m

**4.2.5** In considering debt affordability, the HRA business model assesses the percentage of rental income that is required to fund debt charges. This is an indicator of the amount of prudential borrowing that can be undertaken without putting undue stress on the remainder of the HRA revenue budget. When the decision was taken to retain all the housing stock in West Dunbartonshire the investment requirement needed to achieve the Scottish Housing Quality Standard, coupled with the historic HRA debt structure, suggested that the “debt affordability” percentage in West Dunbartonshire should not exceed 50%. Additionally, each year of the 30-year plan must have a surplus or break-even revenue position. The recent model update based on the recommended 6.7% rent increase for 2024/25 has an average percentage of 42.5% with a peak of 46.7% in 2040/41.

**4.2.6** The annual debt affordability percentages under the most recent HRA business model update as outlined above continue to be within acceptable range and the model therefore remains robust and viable in terms of debt affordability.

### **4.3 HRA Revenue Estimates and Rent Levels**

**4.3.1** The revenue estimates for 2024/25 are attached in summary form in Appendix 3 with a more detailed analysis explaining budget movements provided in Appendix 4. The estimates show an increase in net expenditure of £3.572m in 2024/25. This is the amount which needs to be recovered via the proposed rent increase and equates to 6.7% based on expected housing stock and occupancy levels.

**4.3.2** The Council is required to consider the level of weekly rent increase for the budget year 2024/25 and agree an appropriate rent that meets the estimated costs of providing the Housing Service as identified in Appendix 3.

**4.3.3** In determining the level of weekly rent increase, consideration needs to be given to changing service demands and cost pressures as well as the requirements for investment as highlighted in the Housing Asset Management Strategy. The Council also needs robust financial planning and management to ensure that the Council delivers on its investment commitments.

- 4.3.4** The required weekly rent increase contained within the attached HRA estimate is an average £5.94 on a 52-week basis (£6.58 on a 47-week basis) which equates to 6.7%. This increase is in line with the August 23 Consumer Price inflation (CPI) figure.
- 4.3.5** It is also recommended that Council increase rents at the Gypsy Travellers site, Homeless Temporary Accommodation and lock ups by the same percentage as the housing rents at 6.7%.
- 4.3.6** The proposed rent increases continue the trend for West Dunbartonshire Council to set rent increases that are at or below inflation.

#### **4.4 Tenant Consultation**

- 4.4.1** The Council has a statutory duty to consult tenants before increasing rents. The formal consultation was launched at a meeting of the Joint Rent Group on 15 November where draft HRA spending plans for 2024/25 were presented. Information was also posted on the Council's website at the same time. Discussions centred on keeping rent rise as low as possible without having to reduce service. The tenants agreed to consult on two rent increase options of 6.7% and 7.2%. Both options maintained current service levels and supported the delivery of the enhanced capital programme, with the 7.2% option also providing for an enhanced tenant support fund.
- 4.4.2** The consultation was open to all tenants and those residing in homeless temporary accommodation. A wide range of accessible consultation methods were chosen to gather the views of as many tenants as possible. Information was provided in a clear and understandable way with staff across Housing Services promoting the survey and explaining the two options to tenants.
- 4.4.3** The Council Administration extended the consultation period to a 10-week period, a total of 1,724 responses were received – a response rate of 17.3%. This is the highest ever response to a rent consultation by West Dunbartonshire Council. Responses indicated a 76% preference for the 6.7% rent increase option, with 24% of respondents supporting the higher 7.2% increase. A more detailed analysis of the rent consultation is attached at appendix 5.



## 4.5 Reserves

4.5.1 On 31 March 2023, the HRA reserve was £2.634m, consisting of:

<b>Reserves</b>	<b>£m</b>
Service improvements / Welfare Reform	1.650
2022/23 prudential reserve	0.984
<b>Total</b>	<b>2.634</b>

4.5.2 The standing Council policy is to target a HRA Prudential Reserve of 2% of gross expenditure. Based upon the recommended budget for 2024/25, this equates to a prudential reserve target of £1.064m (previously £0.984m). The increase in the prudential reserve target is therefore £0.080m for 2024/25

4.5.3 Previous reports to Council have highlighted the significant HRA cost pressures in 2023/24. The main pressure area are loan charges where interest rate rises have led to a substantial increase in debt interest payments, the 2023/24 pay settlement that was significantly above the budgeted allowance, and the rising cost of energy, particularly electricity. Whilst steps have been taken in year to mitigate cost pressures through the active management of repair and Capital from Current Revenue (CFCR) budgets, the current forecast has a £2.140m draw on reserves in 2023/24 leading to closing HRA reserves of circa £0.500m on 31 March 2024.

4.5.4 In terms of the adequacy of reserves, the forecast closing level of reserves of £0.500m is below the prudential target and is viewed as insufficient to deal with future financial shocks to the budget. Accordingly, work will continue in 2023/24 and 2024/25 to identify and deliver further general efficiencies across all areas of the housing budget with a focus on efficient service delivery so that there is minimum impact on the current service. The aim is to identify further budget savings that will allow reserves to be replenished and maintained in line with the prudential target. In the event of HRA reserves being insufficient to offset future cost pressures, then the Housing (Scotland) Act 1987 specifies that the Council must make a General Fund contribution to make good any deficit.

## 5 People Implications

5.1 There are no personnel issues.

## 6 Financial and Procurement Implications

6.1 The financial implications are as detailed within the report and appendices.

- 6.2** All procurement activity carried out by the Council in excess of £50,000 is subject to a contract strategy. The contract strategy for the HRA Capital Programme will be developed by the Corporate Procurement Unit in consultation with Housing officers. The contract strategy will include, but is not limited to; contract scope, service forward plan, the market, procurement model and routes – including existing delivery vehicles, roles and responsibilities, risks, issues and opportunities and on-going contract management. Opportunities to maximise the positive social, economic, and environmental impact for the Council through the relevant procurement processes will be developed in line with procurement policy.

## **7 Risk Analysis**

- 7.1** The key driver for determining rents for Council properties is the HRA investment plan. Failure to set rents consistent with the delivery of this plan will potentially result in insufficient funding being available to meet the aspirations highlighted above.
- 7.2** In producing the revenue budget, a number of assumptions have been made in relation to performance around rent recovery, voids, and the impact of welfare reform. These issues will be closely monitored during 2024/25 and members advised of any significant variations that will impact materially on the sufficiency of the budget as proposed.
- 7.3** In terms of the capital programme, the main financial risks relate to:
- 7.3.1** whether inflation increases costs, resulting in plans requiring to be reviewed upwards.
  - 7.3.2** Longer-term affordability requires to be considered in determining appropriate levels of capital funding.

Ongoing budgetary control processes will monitor the above issues and any issues will be reported to a future Council meeting for consideration.

## **8 Equalities Impact Assessment (EIA)**

- 8.1** An EIA screening has been undertaken by officers and no issues were identified.

## **9 Consultation**

- 9.1** The Council has a statutory requirement to carry out a rent consultation exercise. Details of the consultation can be seen in Appendix 5.

**9.2** A HRA budget scrutiny group (Joint Rent Group) is now well-established involving tenant representatives. This group meet with officers and the Convenor monthly and examines the HRA to ensure increased transparency and demonstrate Value for Money to tenants.

## **10 Strategic Assessment**

**10.1** The proposals contained in this report directly address all the Council's strategic priorities. The investment in and provision of attractive affordable housing will also indirectly support the objective of economic growth and employability through supporting employment and improving place attractiveness.

**10.2** Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and Officers to pursue the five strategic priorities of the Council's Strategic Plan. This report forms part of the financial governance of the Council.

**Peter Barry**  
**Chief Officer**  
**Housing and Employability**  
**6 March 2024**

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**Appendices:**

Appendix 1: HRA Capital Projects Forecast  
Outturn and Slippage 2023/24

Appendix 2: HRA Capital Investment Plan  
2024/25 – 2028/29

Appendix 3: HRA Draft Revenue Estimate  
2024/25 Summary

Appendix 4: HRA Draft Revenue Estimate  
2024/25 Explanation of Movements

Appendix 5: Consultation Information

**Background Papers:** EIA screening  
Consultation Planning Sheet

**Wards Affected** **All**