

The background of the slide features a large, light blue watermark of the Coat of Arms of the City of Edinburgh. The crest includes a crown with four thistles, a shield divided into four quarters (top-left: a saltire, top-right: a stag's head, bottom-left: a ship, bottom-right: a bird), and a motto scroll at the bottom with the text 'ANE FOR A'.

Agenda Item 4

**Housing Investment Programme
2023/24 to 2027/28**

Falkirk Council

Title: **Housing Investment Programme 2023/24 to 2027/28**

Meeting: **Falkirk Council**

Date: **23 February 2023**

Submitted By: **Director of Transformation, Communities & Corporate Services**

1. Purpose of Report

- 1.1 The purpose of this report is to provide Members with details of housing investment requirements for the period 2023/24 to 2027/28. The Programme covers 5 years.
- 1.2 The report also sets out the resultant financial impacts of housing investment on housing rents. This will enable Members to clearly see the rent increases that will be required to support this level of investment. The Housing Investment Programme should be considered alongside the separate Housing Revenue Account and Council House Rents report, also on this agenda.
- 1.3 The delivery of quality and affordable housing directly impacts on each of the Council's three priorities in particular supporting stronger and healthier communities. It also impacts on reducing inequality and supporting a green transition.

2. Recommendations

Council is asked to:

- 2.1 **Consider the housing investment requirements set out in Appendix 1 and agree a Housing Investment Programme for 2023/24 to 2027/28, recognising the resultant impact on Council House Rents.**

3. Climate Change Implications

- 3.1 The recommended decisions in this report and expenditure outlined in Appendix 1 will have a positive impact on Falkirk's area wide emissions. The improvement of energy efficiency in council houses will reduce carbon emissions as well as reducing fuel costs for tenants. In line with Local Heat and Energy Strategies, the HIP seeks to improve the fabric of properties before decarbonising the heating system. It will be important to consider the impact that fuel poverty could have on tenants before any improvements are made.

- 3.2 The Housing Investment Plan (HIP) is developed with reference to the Council's Climate Emergency declaration and will enable the Council to monitor progress in reducing carbon emissions and assist the Council's aim to achieve net zero by 2030.
- 3.3 Projects within the Housing Investment Programme that have a positive impact in reducing carbon emissions are included in the Council's Climate Emergency Action Plan.

4. Background

- 4.1 The Council is required to provide homes that meet the Scottish Housing Quality Standard (SHQS). To ensure this standard is maintained, stock condition information informs the Council's Housing Asset Management Plan and future investment.
- 4.2 As previously reported to Executive Committee on 4 October 2022 as at 31st March 2022, 60% of the Council's housing stock met the SHQS criteria. The reduction in performance is due to a change from a 10-year Electrical Inspection Condition Report (EICR) to a 5-year cycle. EICR checks that were not undertaken during 2021/22 have been prioritised for completion in 2022/23. This work was previously reported to the Executive on 4 October 2022 as part of the approval of the Annual Assurance Statement submitted to the Scottish Housing Regulator.
- 4.3 As at 31st March 2022, 97% of housing stock met the Energy Efficiency Standard for Social Housing (ESSH). This standard is aimed at reducing carbon emissions and reducing fuel poverty.
- 4.4 The Housing Investment Programme has been adversely affected by increased costs due to rising inflation, affecting the viability of some projects and a shortage in materials and labour. The Council is projected to spend £59.5m in 2022/23, an underspend of £12.5m against budget.
- 4.5 Projects that are to be progressed will be carried over into the new programme for 2023/24 - 2027/28. Officers have applied financial viability and affordable models to scrutinise costs, and colleagues in Place Services have undertaken a review of Housing specification to consider where costs can be reduced.

5. Housing Improvement Work (£184m)

- 5.1 A total of £184m is required over the next 5 years for priority housing improvement work, to maintain these properties to specified standards (ESSH) and (EICR).
- 5.2 The main areas of investment for the HIP are detailed below with the proposed spend for 2023/24 shown in brackets. Total proposed spend on housing improvement works for 2023/24 is £39.9m.

Elemental Improvements (£28.5m)

- 5.3 It is estimated that £7m is required for fabric improvements, e.g., re-roofing, roughcasting. Electrical upgrading works require £2.5m. The programme of kitchen and bathroom replacement works has been increased to £4m. It is anticipated that this level of investment will allow the upgrade of c8,500 properties.
- 5.4 The replacement programme for doors and windows across all Council houses commenced in January 2022. It is estimated that £15m per annum will be required over the next 7 years, with an average of 2,000 properties being completed per annum from 2022/23 onwards.

Energy Efficiency Works (£8.0m)

- 5.5 An on-going programme of heating system upgrades to c1,100 Council homes is estimated at £2.3m
- 5.6 The provision of Air Source Heating Pumps (ASHP) to c170 properties within 3 high rise blocks was due to commence in 2022/23. Due to significant increased contract costs, this work has been delayed and options will be considered early in 2023/24. £2m is allocated in 2023/24 to progress this initiative.
- 5.7 Provision of £1.5m has been allowed for the installation of ASHP in the off gas areas in 2023/24.
- 5.8 Provision of £0.75m in 2023/24 has been made to install more cost effective and efficient heating systems for tenants within off-gas areas.
- 5.9 Provision of £1.5m is required to replace the external cladding at Glenfuir Court. This project has been delayed, allowing for the findings of the Scottish Government fire safety review to be considered. This project is now expected to commence in 2023/24 and conclude the following year.

Estate Improvements (£3m)

- 5.10 A rolling programme of estate improvement works is currently in place, e.g.: fencing; walls and path upgrades. A provision of £3m has been made to support this programme of improvement works in 2023/24, aligned with the fabric improvement programme. In addition to capital investment, fencing is also carried out as part of our cyclical maintenance regime.

Health & Safety (£0.35m)

- 5.11 A provision of £0.35m has been included to address any new or ad-hoc health and safety requirements.

6. Non-SHQS Investment (£143m)

- 6.1 A total of £143m has been assessed as being required over the next 5 years for non SHQS investment.

- 6.2 The key areas of investment for non SHQS expenditure in 2023/24, are detailed below. The proposed expenditure figures for 2023/24 are shown in brackets. Total proposed spend on Non-SQHS investment works for 2023/24 is £36.5m.

New Build Council Housing (£27m)

- 6.3 Executive approved the Strategic Housing Investment Plan (SHIP) on 4 October 2022. This covers investment plans from both the Council and Registered Social Landlords (RSLs) over the next 5 years.
- 6.4 In line with the SHIP, it is anticipated that the following Council projects will provide a further 555 new homes. These developments will increase the total Council's new build programme to over 1,000 new houses.

Project	Est. Site Start Date	Est. Site Completion date	Total Units
Woodend Farm	July-22	May-25	111
Seabegs Road, Bonnybridge	Apr-27	Sept 28	31
Old Torwood School, Torwood	July-20	Sept-22	24
Old Denny High School, Denny (Phase 1)	Apr-27	May-30	139
Banknock South, Banknock	Apr-26	Nov-28	106
Main Street, Bonnybridge	May-21	Mar-23	22
Oakbank, Polmont	Dec-22	April-24	28
Waverley Street, Bainsford (Persia Court)	Aug-21	Jan-23	19
Haugh Gardens, Langlees	May-23	Nov-24	40
King Street, S'muir	Apr-26	Aug 27	21
Gerald Terrace, S'muir	Apr-26	Oct-27	14
Council New Build Totals			555

- 6.5 It is anticipated that a total of £96.4m will be required over the next 5 years to enable the completion of 555 units by the end of 2027/28.
- 6.6 In recognition of the rising construction costs for the new build programme a cost savings exercise is underway to review the Council's Housing specification.
- ### **Buy-Backs Scheme (£8.5m)**
- 6.7 The Buy Back Scheme contributes significantly to our affordable housing target, particularly in recent years due to the challenges faced with rising costs in the council new build programme.
- 6.8 In 2022/23 the Council exceeded a target to purchase 80 properties by March 2023 and purchased 83 properties by November 2022.
- 6.9 The Local Housing Strategy and the recently approved Housing Need and Demand Assessment (2023-28) highlighted an acute need for larger and wheelchair accessible properties. Therefore, the Scheme has adopted a strategic approach and purchased more larger style properties and properties that can be adapted to be wheelchair accessible.

- 6.10 House prices have increased across all property types by an average of 16% from 2021/22 to 2022/23. During 2022/23 the Council has purchased more 3 and 4 bedroom properties which have increased in cost by 20% and 21% respectively. This has increased the cost of the Buy Back scheme to £9.6m.
- 6.11 To maintain and develop this approach to meeting the affordable housing need an additional £1m funding has been allocated and Scottish Government have agreed to increase the grant per unit level from £40k per unit to £45k per unit plus additional grant for larger properties. Therefore, Scottish Government grant funding of £3.6m is assumed per annum, subject to annual review.
- 6.12 Further increased costs will be incurred for Land Building Transaction Tax (LBTT), additional dwelling supplement payment as the rate rose from 4% to 6% payable following the Scottish Government budget announcement in December 2022.

Other Works – LHS Initiatives (£1m)

- 6.13 To make best use of existing stock and those purchased through the Buy Back scheme £1m has been allocated to re-design, re-configure and adapt properties to meet specific housing needs. Scottish Government has confirmed that 2nd stage adaptation funding can also be allocated in specific circumstances. This will be a priority initiative to be developed collaboratively with colleagues across Housing and Place services.

7. Consultation

- 7.1 The Housing (Scotland) Act 2001, makes provision for tenants & Registered Tenants' Organisations to be consulted, and for the landlord to have regard to any representations made in relation to changes to housing management policy that significantly affects tenants, including changes in rent. Compliance with consultation requirements is monitored by the Scottish Housing Regulator.
- 7.2 The Council also considers the findings from other consultation exercises, such as the Tenant Satisfaction Survey, to inform the HIP and to ensure the Council is improving what matters to tenants, as well as meeting the statutory housing requirements.

8. Implications

Financial

- 8.1 Appendix 1 provides a summary of the expenditure plans noted in this report and the projected resources. Based on these expenditure requirements, it has been estimated that approximately £49.3m of funding support and borrowing of £278.8m will be needed over the next 5 years. Expenditure in 2023/24 is expected to be approximately £76.4m.

- 8.2 Although the investment requirements have been based on the next 5 years, consideration has also been given to future investment requirements outwith this timeframe. This includes a programme of door and window replacement, estimated to cost an average of c£15m per annum, over the next 7 years. This programme reflects tenant feedback.
- 8.3 Prudential indicators are shown in Appendix 2. Based on the planned investment going forward, these indicators reflect the significant increase in investment planned for the next 5 years. This will result in more rental income being used to repay loan charges associated with the investment (from 32.0% in 2023/24 to 39.6% in 2027/28). The prudential indicators also show that the underlying need to borrow for HRA capital investment will grow significantly from £300.7m in 2023/24 to £465.1m in 2027/28.
- 8.4 In considering an appropriate level of housing investment, Members are reminded that the main consideration must be that the investment is affordable, prudent and sustainable. All borrowing undertaken will result in revenue costs which will need to be supported by housing rental income. It is, therefore, essential that housing investment is considered within the context of the HRA budget and that appropriate rent levels are set.
- 8.5 The separate Housing Rent Account (HRA) rent setting report sets out different options for rent levels, together with the associated financial implications arising from each option. Long-term financial modelling has also been carried out to consider the financial implications of future housing investment, whilst maintaining a viable HRA, coupled with affordable rent levels.
- 8.6 As the HRA must be self-financing from rents, all costs must be met from rental income and/or the utilisation of reserves.
- 8.7 In considering utilisation of reserves, Members must consider how and when these are used, as they can only be used once. Use of reserves must also comply with the Council's reserves policy. The level of reserves is projected to be £6.6m by 31 March 2022/23, reflecting the budgeted application of c£600k in January 2022. A reserve balance of c£5m-£6m is considered to be prudent to meet future revenue and capital investment requirements.
- 8.8 The use of approximately £600k of reserves in 2022/23 allowed a 2% rent increase in line with the Rent Consultation undertaken. The rent consultation exercise set out a 2% increase each year for 2021/22 to 2023/24. Based on current projections this would mean a modest £0.1m going to reserves at the end of 2023/24. However, to ensure projected capital investment levels are maintained, future rent increases of around 4% per annum will be required over the remaining period. If a decision is made that rent levels will not increase by 4% in the short term, it is likely that the proposed HIP will become unaffordable.

Resources

- 8.9 The Housing Investment Programme will be initiated and monitored by Housing Services. Design, procurement and contract management will be undertaken by Place Services in accordance with the Council's Contract Standing Orders. A combination of competitive tendering and single tendering arrangements are expected to be used, the latter involving the Council's Building Maintenance Division, when Best Value can be clearly evidenced.

Legal

- 8.10 There are no legal implications anticipated.

Risk

- 8.11 The factors outlined in 4.4 above could continue to impact on the delivery of the programme. Furthermore, there is added uncertainty in relation to budget allocation from Scottish Government and the rising costs of living could impact on the amount of income available. The Housing Regulator acknowledges the ongoing impact of the COVID-19 pandemic and subsequent challenges may adversely impact on meeting the SHQS and housing need.

Equalities

- 8.12 As outlined in the Housing Revenue Account the equality impact assessment will be complete for future reports.

9. Conclusions

- 9.1 The key priorities in respect of housing investment are outlined in this report along with a proposed expenditure profile covering the next 5 financial years 2023/24 – 2027/28. It is estimated that a total of c£328m will be required over the next 5 years, an average of c£66m per annum.
- 9.2 This level of housing investment is considered necessary to maintain a programme of improvements to our housing stock, to meet SHQS and EESSH, in line with the Housing Asset Management Plan. Additionally, expenditure is required to deliver new affordable homes and to expand the scope of housing options to help meet tenants' housing needs.
- 9.3 As detailed in the HRA and Council House Rent report on this agenda the level of housing investment is based on a 2% increase for 2023/24, with financial modelling indicating that an increase of 4% per annum in future years will be necessary to deliver the levels of investment going forward. If Members are minded to consider the lower rent increases, consideration would be required to either reduce revenue/capital expenditure or to use reserves.

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Appendices

1. Housing Investment Programme 2023/24 to 2027/28
2. HRA Prudential Code Indicators

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

None

APPENDIX 1							
2023/24 to 2027/28 HOUSING INVESTMENT PROGRAMME							
PROPOSED EXPENDITURE PROFILE							
		2023/24	2024/25	2025/26	2026/27	2027/28	Totals For 5 Yrs
HOUSING QUALITY STANDARD WORK							
		£'000	£'000	£'000	£'000	£'000	£'000
Elemental Maintenance & Improvements							
External Fabric Improvements (incl. fees)		£7,000	£7,000	£7,000	£7,000	£7,000	£35,000
Windows & Doors Replacement (Incl. Fees)		£15,000	£15,000	£15,000	£15,000	£15,000	£75,000
Kitchen Renewal		£3,200	£3,200	£3,200	£3,200	£3,200	£16,000
Bathroom Renewal		£825	£825	£825	£825	£825	£4,125
Electrical Works		£2,500	£2,500	£2,500	£2,500	£2,500	£12,500
	Sub-Total	£28,525	£28,525	£28,525	£28,525	£28,525	£142,625
Energy Efficiency Works							
Replacement Heating/Controls (incl. fees)		£2,300	£2,300	£2,300	£2,300	£2,300	£11,500
Replacement Gas Heating - Off Gas Areas (incl. fees)		£750	£1,250	£0	£0	£0	£2,000
Replacement ASHP Heating - Off Gas (Incl. fees)		£1,500	£0	£0	£0	£0	£1,500
Renewable Technology (Incl. fees)		£0	£1,000	£1,000	£1,000	£1,000	£4,000
ASHP (3 Towers) (incl. fees)		£2,000	£0	£0	£0	£0	£2,000
Glenfuir Court External Cladding (EWI) (incl. fees)		£1,500	£2,300	£0	£0	£0	£3,800
	Sub-Total	£8,050	£6,850	£3,300	£3,300	£3,300	£24,800
Estate Improvements							
Estate Landscaping Improvement Work (incl. fees)		£3,000	£3,000	£3,000	£3,000	£3,000	£15,000
	Sub-Total	£3,000	£3,000	£3,000	£3,000	£3,000	£15,000
Health & Safety							
General H&S work (incl. fees)		£350	£350	£350	£350	£350	£1,750
	Sub-Total	£350	£350	£350	£350	£350	£1,750
Total HQS Expenditure		£39,925	£38,725	£35,175	£35,175	£35,175	£184,175
NON HOUSING QUALITY STANDARD WORK							
New Build Housing							
Construction Works (incl. fees)		£26,945	£11,692	£3,975	£19,603	£34,123	£96,338
	Sub-Total	£26,945	£11,692	£3,975	£19,603	£34,123	£96,338
Property Buy-Backs							
Other Works (LHS Initiatives)		£1,000	£1,000	£1,000	£1,000	£1,000	£5,000
	Sub-Total	£9,500	£9,500	£9,500	£9,500	£9,500	£47,500
Total Non-HQS Expenditure		£36,445	£21,192	£13,475	£29,103	£43,623	£143,838
Total Expenditure		£76,370	£59,917	£48,650	£64,278	£78,798	£328,013
RESOURCES							
Prudential Borrowing							
SG Grant - New Build		£6,119	£4,788	£446	£6,100	£11,840	£29,293
New Build - Other funding Source		£0	£1,000	£0	£0	£0	£1,000
SG Grant - Buy Backs		£3,600	£3,600	£3,600	£3,600	£3,600	£18,000
SG Grant - Energy Efficiency		£976	£0	£0	£0	£0	£976
Total Income		£10,695	£9,388	£4,046	£9,700	£15,440	£49,269
Total Expenditure		£76,370	£59,917	£48,650	£64,278	£78,798	£328,013
Prudential Borrowing		£65,675	£50,529	£44,604	£54,578	£63,358	£278,744

FALKIRK COUNCIL
HRA PRUDENTIAL CODE INDICATORS

	PRUDENTIAL INDICATOR	2023/24	2024/25	2025/26	2026/27	2027/28	COMMENTS
1.	Ratio of financing costs to net revenue stream	32.0%	34.8%	35.6%	36.8%	39.6%	Shows how much of the Council's HRS income is committed to repaying debt arising from capital investment
2.	Capital expenditure	£76.4m	£59.9m	£48.7m	£64.3m	£78.8m	Simply the planned capital expenditure per the appended HRA capital programme
3.	Capital Financing Requirement	£300.7m	£341.5m	£374.8m	£416.5m	£465.1m	The Capital Financing Requirement (CFR) reflects the underlying need to borrow for HRA capital investment