

THE HIGHLAND COUNCIL

Agenda Item	9
Report No	FHR/06/14

Finance, Housing and Resources Committee – 22 January 2014

Housing Revenue Account Estimates 2014/2015

Report by Interim Director of Housing and Property

Summary

This report presents draft Housing Revenue Account estimates for 2014/2015 together with recommendations on the level of increase to be applied to council house rents, other rents and service charges.

1. Background

- 1.1 The Council is required to maintain a separate Housing Revenue Account (HRA) covering income and expenditure in respect of specified houses, buildings and land. There is a legal requirement for Housing Revenue Account income and expenditure to be in balance at the end of each financial year.
- 1.2 The Committee approved an annual update of the Council's Standard Delivery Plan on 9 October 2013. This sets out the capital investment required to meet the Scottish Housing Quality Standard by 2015. The Committee has also agreed a council house building involving significant HRA borrowing. The estimated new borrowing in 2013/4 is £27.907m. On current commitments estimated HRA borrowing will be £53m in 2014/15 and £17m in 2015/16. This additional borrowing will result in additional loan charges to be met from the HRA in future years.
- 1.3 This report provides details of the Housing Revenue Account (HRA) revenue estimates for 2014/2015 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2014/2015.

2 Overall HRA Position

- 2.1 Until 2009/10 the Council had a general policy of rent increases of Retail Price Index (RPI) +1%, and our rents were consistently the 2nd highest in Scotland.
- 2.2 Since 2010/11 significant efforts have been made to achieve efficiencies in expenditure and ensure best value in HRA expenditure. The success of this approach is illustrated by the following key trends:
 - Average rents have increased by £4.04 in Highland (6.7%) compared to £6.89 (12.7%) nationally in the last 4 years (to 2013/14).
 - Average Management and Maintenance costs per house increased by 1.1% in Highland last year compared to 4.9% nationally.

- 2.3 In order to provide best value for tenants we will continue to identify annual efficiency savings aimed at reducing unit management and maintenance costs and without compromising service quality.

3. Rent Increase Recommended for 2014/15

- 3.1 As noted above the Council considers rent increases with reference to inflation although there is no longer a policy of automatically linking rents to an inflation index. As context, the Consumer Prices Index (CPI) for November 2013 was 2.1% and the Retail Prices Index (RPI) was 2.6%. There has been a downward trend in inflation over the last 2 months.

- 3.2 Housing Revenue Account estimates for 2014/15 have been produced on the basis of a 2% rent increase, which is 0.6% below the retail price index for November 2013. A 2% rent increase would mean the average Council house rent increasing from **£68.99** per week to **£70.37** per week, an average increase of **£1.38** per week charged over 48 weeks.

4 Estimates of Expenditure for 2014/2015

- 4.1 The key elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2014/15 are set out below. The draft budget for 2014/15 with a comparison to the 2013/14 budget is summarised in **Appendix 1**.

4.2 Supervision and Management

- 4.2.1 This budget heading covers the salaries, overheads and other running costs for housing related activities. Based on the Council's overall budget assumptions the budget for staff has been increased by 1%.

- 4.2.2 Direct Supervision and Management costs are estimated to reduce by £0.690m. A number of minor efficiency savings have been applied where possible, and a 1% increase in staff costs assumed. However the biggest change relates to moving the budget for shared business support from direct HRA Supervision and Management to Central Support cost. The result is a budget of £5.934m for 2014/15, a reduction of 10.4%.

- 4.2.3 Savings on staff costs are projected on Sheltered Housing next year. The budget for homelessness has been increased to reflect the commitment to increasing the number of Council owned temporary accommodation, based on business case assumptions on management costs funded through rents. This is matched by additional income through "other rents" shown in **Appendix 1**.

4.3 Repairs and Maintenance

- 4.3.1 This budget covers the cost of carrying out revenue funded day to day repairs and planned maintenance to council houses, including repairs to empty houses.

- 4.3.2 A budget of £15.577m is recommended for 2014/15. This is an increase of £0.217m (1.4%) compared to 2013/14. There have been increased costs associated with building materials and subcontractor rates during the year. There are additional pressures relating to remediation work on radon gas and additional

HRA costs in relation to Building Maintenance apprentices. In addition new housing stock requires additional revenue expenditure, particularly in relation to routine servicing. It should be noted that building inflation for repairs and maintenance costs was 3.8% for the 3rd quarter of 2013/14.

4.4 Void Rent Loss

4.4.1 At any time the Council will have some properties empty as part of its normal letting operations. The budget for rent loss is based on actual rents for vacant council houses, garages, garage sites and HRA homelessness accommodation. As rents increase rent loss due to voids will increase even if there is no change to reletting times. In previous years this budget has been rolled forward or reduced, rather than being set as a proportion of rent income. The national average for rent loss due to voids is 1.4% of rent income. A rent loss budget based on this national average is recommended.

4.5 Central Administration

4.5.1 This budget relates to corporate recharges and overheads applied in relation to housing activities. It is estimated that charges will be £3.544m for 2014/2015. This represents an increase of £0.701m, however £0.680m of this relates to accounting for shared business support staff as a central support rather than direct HRA cost.

4.6 Loan charges

4.6.1 Loan charge estimates take account of expected borrowing to fund the committed new build programme for mainstream and temporary accommodation as well as SHQS investment. Based on previously approved capital commitments, loan charge estimates for 2014/15 are £1.718m (11%) more than the budgeted figure for 2013/14, with a further increase of £2.717m projected in 2015/16.

5 Estimate of Income for 2014/2015

5.1 Housing Revenue Account income is generated mainly from Council house rents. Income is also received through a number of other sources, such as:

- service charges;
- garage and garage site rentals;
- other rents;
- other income from sources such as re-charges to tenants.

5.2 There are other non-HRA rents that are usually set annually with reference to Council house rent increases. These are also dealt with below.

5.3 Estimates for 2014/15 are based on a rent increase of **2%**. Rent income has been projected based on current assumptions on house sales and new builds. For new builds the increased rent supplement of £10 per week agreed at Finance, Housing and Resources Committee on 27 November 2013 has been applied. Income from other rents has been adjusted to take account of the expected reduction in garage rents and an increase in temporary accommodation rent income.

- 5.4 As well as the proposed rent increase, some rents will be further adjusted by +/- £2.50 per week to continue to phase in the Council house rent structure agreed in November 2010. Based on the estimates set out in this report 10,089 tenants will have reached the new rent structure level in April 2014, compared to 8,138 last year. It is anticipated that 1,300 tenants will remain above the target rent and 2,149 tenants below the target rent on 1 April 2014.
- 5.5 It is recommended that service charges, including those for caretaking and CCTV services are also increased by 2%.
- 5.6 Sheltered housing tenants are subject to a weekly charge relating to the cost of delivering sheltered housing warden services. It is recommended that there should be no increase in charges for 2014/15. If this recommendation is agreed that would mean that Sheltered Housing Warden costs will have been frozen for 4 years.
- 5.7 It is recommended that rents for garages and garage sites should also be increased by 2%.
- 5.8 The HRA receives income in relation to shops held on the housing revenue account. Shop rents are set on the same basis as commercial rents and subject to periodic review rather than a percentage annual increase. The budget for income from shops has been set taking account of current rents.
- 5.9 Rents for Gypsy/Traveller Site pitches have traditionally followed council house rents, and it is recommended that this is continued, with an increase of 2% for 2014/15.
- 5.10 A number of properties are rented from other social landlords. In these cases rents will increase by the percentage increase agreed by the social landlord or by the contractual amount set out in the rental agreement.
- 5.11 The Council leases a number of properties from private landlords. Following a review of the private leasing scheme in 2009, all leases from April 2010 allow for rent increases equal to that applying to council house rents. There are a number of older leases which make specific provision for annual rent increase on a different basis, mainly RPI +1%. These rents will increase as set out in the contract / rental agreement.
- 5.12 For Leased Properties used as temporary accommodation service charges also apply. It is recommended that rents and service charges are increased by 2% unless this would take total charges above the housing benefit rate.

6 Interest on Revenue Balances

- 6.1 The Council has HRA reserves of £6.804m. There has been no use of balances during 2013/14, and no current approval for use of balances during 2014/15. The interest on revenue balances is likely to generate around £80,000 of income during 2014/2015 net of shared debt premium costs, an increase of £30,000.

7 Capital from Current Revenue

7.1 The HRA capital programme assumes a planned use of Capital from Current Revenue. The assumption for 2014/15 is for CFCR of £4.324m. Estimates have been produced on that basis.

8 Affordability

8.1 In considering possible rent levels in 2014/2015 it should be noted that Highland Council rents are currently the 6th highest in Scotland, compared to 5th the previous year. Average household earnings in Highland are below the national average.

8.2 Housing Benefit take up is currently as follows:

- 4,244 households (32%) are currently receiving full Housing Benefit;
- 3,457 households (26%) are currently receiving partial Housing Benefit;
- 5,689 households (42%) are not currently in receipt of Housing Benefit and pay the full rent charge.

8.3 At present Housing Benefit will cover the whole of any rent increase where tenants are already entitled to full benefit. Where tenants are on partial housing benefit they will get a pro rata increase in their housing benefit. The Council will continue to support and encourage tenants to claim housing benefit.

8.4 The changes to the welfare benefit system continue to be a concern. At present the impact of the under occupancy charges and the benefit cap are being mitigated in the main by discretionary housing payments. However, the uncertainty of future Discretionary Housing Payment funding and the potential impact of Universal Credit on both tenants and council house rental income present a risk. Direct payments of housing costs to tenants are likely to result in increased rent arrears. Similarly the implementation of sanctions associated with the 'claimant commitment' for welfare benefits may impact on tenants' ability to pay their rent, and have a greater impact on remote and rural areas. Regular reports on Welfare Reform will continue to be provided to Committee.

9. Tenant Consultation

9.1 The Council is required to consult with and take account of the views of tenants in making decisions about matters that affect them, such as rent level

9.2 We know from previous consultation that around 67% of tenants think that their rents are value for money, although 76% support continuing efficiencies to keep rent increases at a minimum. We also know that many tenants are concerned about the impact of council house building on rents. This issue has been addressed by the new funding model for new build approved by Committee in November 2013.

9.3 All tenants were invited to comment on rents through the last edition of the tenant newsletter. An update on feedback received will be provided at the meeting.

10 Conclusion

10.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2014/2015.

- 10.2 Based on the assumptions set out in this report the overall average weekly house rent would increase from **£68.99** to **£70.37** per week over 48 weeks, an average increase of **£1.38**.
- 10.3 The report highlights rising loan charges and ongoing implementation of Welfare Reform, particularly the roll-out of Universal Credit, as the two biggest issues affecting the HRA. Regular reports on HRA capital and revenue budgets will continue to be presented to Committee.

11 Recommendations

11.1 It is recommended that the Committee:

- a) Agree a **2%** increase for council house rents for 2014/2015.
- b) Agree that this percentage increase (2%) is applied to; hostel rents; Gypsy/Traveller site pitches, garage and garage site rents.
- c) Agree that there should be no increase in sheltered housing warden charges in 2014/15.
- d) Agree that other service charges, including those for caretaking and CCTV are increased by 2% in 2014/15.
- e) Note that rents for leased property should increase as stipulated in existing contracts;
- f) Agree that the estimated HRA surplus of £4.325m in 2014/2015 be applied as Capital from Current Revenue to fund HRA capital investment in 2014/2015;

Signature

Designation Interim Director of Housing and Property

Date 8 January 2014

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HRA Draft Budget 2014/2015 - 2% rent increase**Appendix 1**

	2013/14	2014/15		
	Annual Budget	Draft	movement	%
	£'000		on budget	movement
BY ACTIVITY				
Expenditure:-				
Supervision & Management	6,624,251	5,934,248	-690,003	-10.4%
Tenant Participation	203,088	205,197	2,109	1.0%
Sheltered Housing	721,472	696,432	-25,040	-3.5%
Homelessness	410,850	554,575	143,725	35.0%
Repairs & Maintenance	15,359,265	15,576,920	217,655	1.4%
Voids	726,526	744,671	18,145	2.5%
Central Support	2,843,000	3,544,155	701,155	24.7%
Loan Charges	15,629,000	17,347,000	1,718,000	11.0%
CFCR	4,324,712	4,324,712	0	0.0%
Gross Expenditure	46,842,164	48,927,911	2,085,747	4.5%
Income:-				
House Rents	-45,306,607	-46,912,919	-1,606,312	3.5%
Other Rents	-1,219,090	-1,614,775	-395,685	32.5%
Other Income	-266,467	-320,217	-53,750	20.2%
Interest on Revenue Balances	-50,000	-80,000	-30,000	60.0%
Gross Income	-46,842,164	-48,927,911	-2,085,747	4.5%