

THE HIGHLAND COUNCIL
Community Services Committee

5 February 2015

Agenda Item	6
Report No	COM 3/15

Housing Revenue Account Estimates 2015/2016

Report by Director of Community Services

Summary

This report presents draft Housing Revenue Account estimates for 2015/2016 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 This report provides details of the Housing Revenue Account (HRA) revenue estimates for 2015/2016 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2015/2016.

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 Highland Council rents increased by £1.28 for 2014/15 (2%) against a national average of £2.32 (3.77%);
 - Highland Council currently has the 11th highest average rent of the 26 Councils with housing in Scotland, compared to 8th highest in 2013/14;
 - loan charges to fund capital investment continue to be the main item of expenditure. Current estimated loan charges per house are £1,270 compared to a national average of £840 for 2013/14;
 - repairs and maintenance expenditure per house is £1,141 this year compared to a national average of £1,104 in 2013/14; and
 - supervision and management costs are £799 per house this year compared to a national average of £758 in 2013/14.
- 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 without compromising service quality.

3. Rent Increase Recommended for 2015/16

3.1 Rents need to reflect the running costs of housing services whilst being sensitive to affordability. In relation to this:

- 63% of tenants in Highland receive housing benefit compared to 61% nationally.
- the Consumer Prices Index (CPI) for December 2014 was 0.5% and the Retail Prices Index (RPI) was 1.6%; and
- most Welfare Benefits for 2015/16 will increase by 1.2% (the CPI figure for September 2014)

3.2 In order to develop Housing Revenue estimates for 2015/16 we reviewed current expenditure budgets, identified savings and pressures, and assessed what the minimum budget requirements were to maintain current service levels. We then calculated the rent level required to match income to this level of expenditure. On that basis a 1% rent increase is required to rents and service charges, but with no increase to sheltered housing warden charges. Draft estimates on that basis are summarised in **Appendix 1**. This would involve an increase in the average weekly council house rent from **£70.26 to £70.97 (£0.71p)**.

4 Estimates of Expenditure for 2015/2016

4.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2015/16 are set out below. The draft budget for 2015/16 with a comparison to the 2014/15 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. It includes tenant participation, sheltered housing and the costs of providing HRA homelessness accommodation. Based on the Council's overall budget assumptions the budget for staff has been increased by 1%, but other budgets have not been increased.

4.2.2 There are pressures on rent arrears due to welfare reform, and we are also committed to undertake a comprehensive tenant survey in 2015 to comply with the Scottish Social Housing Charter. There will also be additional management costs associated with increased housing stock, including additional Council owned temporary accommodation.

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 The draft budget is set at the same level as 2014/15. The quarterly Construction Price Index for Repairs and Maintenance to Public Sector Housing was 4.1% to September 2014. A standstill budget therefore involves finding efficiency savings to take account of rising building costs and increased housing stock. We expect to achieve efficiencies through reducing the average cost of repairing void houses and introducing on-line repairs reporting.

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.
- 4.4.2 As with last year it is proposed to set the budget for void rent loss as a percentage of rent income, using the national average of 1.4%. There is a projected overspend against budget this year to date, so an improvement in current performance on reletting empty homes is required to achieve this budget.

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 remain at £3.544m for 2015/2016.

4.6 Loan charges

- 4.6.1 The Committee approved an annual update of the Council's Standard Delivery Plan in August 2014. This set out the capital investment required to meet the Scottish Housing Quality Standard by 2015. The Council has also agreed a council house building programme involving significant HRA borrowing.
- 4.6.2 Borrowing to fund HRA investment results in loan charges to be met from the HRA revenue in future years. Loan charge estimates for 2015/16 take account of expected borrowing to fund the committed new build programme for mainstream houses as well as Scottish Housing Quality Standard investment. Based on previously approved capital commitments, loan charge estimates are £18.282m for 2015/16, an increase of 5.39%.

5 Estimate of Income for 2015/2016

- 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; and
 - 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 2015/16 are based on a rent increase of 1%. Rent income has been projected based on current assumptions on house sales and new builds. Rent income for HRA temporary accommodation has been moved from "other rents" to "house rents" for reporting purposes. Income from other rents has been adjusted to take account of the expected reduction in garage rents.
- 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 13,087 tenants will have reached the new rent structure level in April 2015, compared to 12,360 last

year. It is anticipated that 305 tenants will remain above the target rent and 352 tenants below the target rent on 1 April 2015.

- 5.5 It is recommended that service charges, including those for caretaking and CCTV services are also increased by 1%.
- 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 2015/16. If this recommendation is agreed that would mean that Sheltered Housing service charges will have been frozen for 5 years.
- 5.7 It is recommended that rents for garages and garage sites should also be increased by 1%.
- 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 rent review rather than a percentage annual increase. The budget for income from shops has been set taking account of current rents and projected reviews.
- 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 1% for 2015/16. The average rent for a pitch would increase from £71.85 to £72.57.
- 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 1%.

6 Interest on Revenue Balances

- 6.1 The Council has HRA reserves of £7.328m. There has been no use of balances during 2014/15, and no current approval for use of balances during 2015/16. The interest on revenue balances is likely to generate around £80,000 of income during 2015/2016 net of shared debt premium costs.

7 Capital from Current Revenue

- 7.1 The Current HRA Capital Plan is based on £4m of revenue support to HRA Capital Programme costs in 2015/16. This is a reduction of £0.325m on the current year.

8 Affordability

- 8.1 In considering possible rent levels in 2015/2016 it should be noted that Highland

Council rents are currently the 11th highest in Scotland. Average household earnings in Highland are below the national average.

8.2 Housing Benefit take up is currently as follows:

- 4,191 households (31%) are currently receiving full Housing Benefit;
- 3,466 households (26%) are currently receiving partial Housing Benefit;
- 5,882 households (43%) are not currently in receipt of Housing Benefit and pay the full rent charge; and
- we are aware of 31 households currently receiving Universal Credit.

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 funding and the potential impact of Universal Credit on both tenants and Council house rental income present a risk. Direct payments of housing costs as a result of Universal Credit are already resulting in increased rent arrears amongst tenants affected.

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 levels.

9.2 We know from consultation in 2014 that around 65% of tenants think that their rent charge represents value for money. At that time 56% also felt keeping any increase below the rate of inflation represented good value for money.

9.3 All tenants were invited to comment on rents for 2015/15 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 2015/2016.

10.2 A rent increase of 1% is recommended for 2015/16. This involves continuing efficiencies to deliver the same level of services across a larger housing stock and will allow us to retain existing service levels broadly within inflation.

10.3 Based on the assumptions set out in this report the overall average weekly house rent would increase from **£70.26** to **£70.97** (£0.71p). A table of rent values by property size and type is attached as **Appendix 2**.

11 Implications

5.1 Resources – This report recommends rent levels for 2015/16 that will generate sufficient income to fund Housing Revenue Account activity in the year.

- 5.2 Legal – This report contains recommendations that will allow the Council to comply with legal requirements relating to the Housing Revenue Account.
- 5.3 Equalities – There are potential affordability impacts for individuals associated with any rent increase. In arriving at a recommended rent increase for 2015/16 this has been balanced against the availability of housing benefit to help meet housing costs and the need to fund front line housing services through rents.
- 5.4 Climate Change/Carbon Clever – there are no direct implications arising from this report.
- 5.5 Risks – the recommendations in the report are based on a series of assumptions and projections, many of which are subject to change. Risk is managed through regular review and reporting of budgets and expenditure to allow corrective action to be taken if necessary during the year.
- 5.6 Gaelic and Rural implications - no impact arising from this report

11 Recommendations

The Committee is invited to:

- a) **agree** a 1% increase for council house rents for 2015/2016;
- b) **agree** that this percentage increase (1%) 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 2015/16;
- d) **agree** that other service charges, including those for caretaking and CCTV are increased by 1% in 2015/16;
- e) **note** that rents for leased property should increase as stipulated in existing contracts; and
- f) **agree** that the estimated HRA surplus of £4.0m in 2015/2016 be applied as Capital from Current Revenue to fund HRA capital investment.

Designation	Director of Community Services
Date	23 January 2015
Author/Reference	David Goldie, Head of Housing

Appendix 1

Housing Revenue Account - Revenue Estimates 2015/16

BY ACTIVITY	2014-15	2015-16	Change (£)	Change (%)
	Annual Budget	Draft Budget		
	£000	£000	£000	%
<u>Expenditure</u>				
Supervision & Management	5,886	5,926	40	0.67%
Tenant Participation	205	205	0	0.12%
Sheltered Housing	725	730	5	0.68%
Homelessness	558	559	1	0.15%
Repairs & Maintenance	15,577	15,577	0	0.00%
Void Rent Loss	741	750	9	1.21%
Central Support	3,544	3,544	0	0.00%
Loan Charges	17,347	18,282	935	5.39%
CFCR	4,325	4,000	325	-7.51%
Gross Expenditure	48,908	49,573	665	1.36%
<u>Income</u>				
House Rents	46,913	47,943	1,030	2.20%
Other Rents	1,615	1,250	(365)	-22.59%
Other Income	300	300	(0)	-0.05%
Interest on Revenue Balances	80	80	0	0.00%
Gross Income	48,908	49,573	665	1.36%

Appendix 2

Rent structure 2015/16

Rent Structure						
Type/Size	Bedsit	1 bed	2 bed	3 bed	4 bed	5 bed
Flat/Maisonette	50.51	58.71	66.91	75.11	83.30	91.51
House/Bungalow	54.88	63.09	71.29	79.49	87.68	95.88
New Build element 1*	3.83	4.92	6.01	7.11	8.20	9.29
New Build element 2 **	10.10	10.10	10.10	10.10	10.10	10.10

* applied from November 2010

**applied from November 2013