

The Highland Council
Community Services Committee
4 February 2016

Agenda Item	7
Report No	COM 4/16

Housing Revenue Account Estimates 2016/2017

Report by Director of Community Services

Summary

This report presents draft Housing Revenue Account estimates for 2016/2017 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 2016/2017 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2016/2017.

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 £0.65 for 2015/16 (1%) against a national average of £2.05 (3.2%) (average over 52 weeks).
 - Highland Council currently has the 17th highest average rent of the 26 Councils with housing in Scotland, compared to 8th highest in 2013/14 and 11th in 2014/15.
- 2.3 In order to provide best value for tenants we continue to identify annual efficiency savings aimed at reducing unit management and maintenance costs without compromising service quality.

3. Rent Increase Recommended for 2016/17

- 3.1 In order to develop Housing Revenue estimates for 2016/17 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 **1.9%** rent increase is required to rents and service charges. Draft

estimates on that basis are summarised in **Appendix 1**. This would involve an increase in the average weekly council house rent from **£70.95** to **£72.30 (£1.35p)**.

4. Estimates of Expenditure for 2016/2017

4.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2016/17 are set out below. The draft budget for 2016/17 with a comparison to the 2015/16 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. The budget has been reduced to reflect a reduction in management costs associated with service restructuring. Efficiency savings have been budgeted in relation to a number of activities including overtime and staff travel and out-of-hours calls. A budget pressure has also been applied in relation to bad debt provision and to fund half of current Antisocial Behaviour Officer and Community Warden posts to allow a General Fund saving without a staff reduction. Direct staff costs have been increased by 1% in line with the Council general budget assumptions. A saving of 1.7% has been achieved in main supervision and management costs.

4.2.2 Tenant Participation and Sheltered Housing are separate budget headings within the overall category of Supervision and Management costs. These budgets have been increased in relation to staff cost inflation only.

4.2.3 The budget for homelessness has been revised to account for slower than anticipated progress on re-provisioning temporary accommodation, and changes to the organisation of homelessness services resulting in lower than anticipated management costs on the HRA.

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. The draft budget for 2016/17 has been increased by £153k to account for increased costs associated with servicing heating systems. Other budgets are unchanged. We expect to achieve efficiencies through the restructuring of Community Services.

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 For mainstream housing the draft budget for 2016/17 has been increased to 1.5% of gross rent, adjusted to reflect the proposed rent increase. For other rent income the draft budget has been increased based on proposed rent increases, and to account for continuing difficulty in letting garages and garage sites in some locations.

4.5 **Central Administration**

4.5.1 The draft budget is based on current estimates for central support services in relation to HRA functions and a 2% reduction is estimated for 2016/17 as a result of efficiencies.

4.6 **Loan charges**

4.6.1 The main source of funding for capital investment in Council housing is prudential borrowing. This results in loan charges to be met from the HRA revenue in future years. Loan charges remain the greatest pressure on the HRA budget for 2016/17. Loan charges have increased as a result of a significant HRA capital programme over the last 5 years in order to meet the Scottish Housing Quality Standard. Based on current estimates loan charges will increase by £2.3m (13%) in 2016/17. The current 5 year capital plan shows a much slower increase in charges from 2017/18 in line with a more modest HRA capital programme.

4.6.2 Loan charge estimates for 2016/17 take account of expected borrowing to fund the committed new build programme for mainstream houses as well as improvements to the Council's housing stock. It should be noted that the Council has adopted a model for funding Council house building that is "cost neutral" for existing tenants, so there is no additional general rent increase for 2016/17 as a result of Council House building.

4.6.3 The Council has combined below inflation rent increases with higher than normal levels of capital expenditure in the last 3 years. This has resulted in an increase in the ratio of housing debt to rent income: one of the key indicators for prudential borrowing. The ratio of loan charges to income for March 2015 was 36.81%, and the estimate for March 2016 is 39.56%. Current revenue estimates would see the ratio increase to 41.58% by March 2017. It is considered prudent to begin to reduce the proportion of loan charges to rent income to below 40% in future years and revised 5 year HRA projections are being prepared on that basis.

5. **Estimate of Income for 2016/2017**

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;
- 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 2016/17 are based on a rent increase of 1.9%. Rent income has been projected based on current assumptions on house sales and new builds.

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 it is anticipated that 334 tenants will be subject to an adjustment, compared to 657 last year: of which 242 will have rents adjusted down and 92 will have rents adjusted up.

- 5.5 It is recommended that service charges, including those for sheltered housing wardens, caretaking and CCTV services are also increased by 1.9%.
- 5.6 It is recommended that rents for garages and garage sites should also be increased by 1.9%.
- 5.7 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.
- 5.8 Rents for Gypsy/Traveller Site pitches have traditionally followed council house rents, and it is recommended that this is continued, with an increase of 1.9% for 2016/17. The average rent for a pitch would increase from £74.02 to £75.42.
- 5.9 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.
- 5.10 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.
- 5.11 For Leased Properties used as temporary accommodation service charges also apply. It is recommended that rents and service charges are increased by 1.9%.

6. Interest on Revenue Balances

- 6.1 The Council has HRA reserves of £7.328m. There has been no use of balances during 2015/16, and no current approval for use of balances during 2016/17. Interest on revenue balances, net of shared debt premium costs, is estimated to reduce to £45,000 during 2016/2017 based on interest rate trends and actual income received in 2014/15.

7. Capital from Current Revenue

- 7.1 This is a planned revenue surplus which can be used to fund HRA capital works. The HRA Capital Plan estimated £3m of Capital from Current Revenue for 2016/17. Given increased loan charge estimates, and other changes to assumptions on the HRA revenue budget the amount available from CFCR based on a 1.9% rent increase is around £2.790m.

8. Affordability

- 8.1 In considering possible rent levels in 2016/2017 it should be noted that Highland Council rents are currently the 17th highest of the 26 Councils that retain Council housing Scotland. The Highland Council has consistently applied one of the lowest levels of annual rent increase nationally in recent years, and based on informal consultation with other Councils a 1.9% rent increase for 2016/17 would continue this trend.

- 8.2 The number of households currently in receipt of Housing Benefit is as follows:
- 4,086 tenants (30%) are receiving full Housing Benefit
 - 3,319 tenants (24%) are receiving partial Housing Benefit;
 - 6278 tenants (46%) 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 As the number of Universal Credit cases increases the number of households in receipt of Housing Benefit will reduce. We have seen a reduction in the number of tenants receiving housing benefit this year. The lack of data relating to the flow of Universal Credit claims means it is becoming more difficult to quantify the take up of benefits to assist households to pay their rent.
- 8.4.1 Direct payments of housing costs to tenants as a result of Universal Credit are already resulting in increased rent arrears amongst tenants affected. Other changes to the welfare benefit system continue to be a concern. At present the impact of under occupancy and the “benefit cap” are being mitigated in the main by discretionary housing payments. However, a reduction in the “benefit cap” from April 2016, uncertainty over future discretionary housing payment funding, and the expansion of Universal Credit present continuing risks to affordability and rent income.

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 previous consultation in 2015 that around 65% of tenants think that their rent charge represents value for money. This year we also consulted on rents through social media. Consultation is ongoing at the time of writing this report and a verbal update / summary of responses 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 2016/2017.
- 10.2 A rent increase of 1.9% is recommended for 2016/17. This involves continuing to achieve efficiencies to deliver the same level of service across a larger housing stock and will allow us to retain existing service levels.
- 10.3 Based on the assumptions set out in this report the overall average weekly house rent would increase from £70.95 to £72.30 (£1.35p).
- 10.3 In line with the Council’s commitment to localism the HRA revenue budget will be disaggregated and subject to reports to local committees.

11. Implications

- 11.1 Resources – This report recommends rent levels for 2016/17 that will generate sufficient income to fund Housing Revenue Account activity in the year.
- 11.2 Legal – This report contains recommendations that will allow the Council to comply with legal requirements relating to the Housing Revenue Account.
- 11.3 Equalities – There are potential affordability impacts for individuals associated with any rent increase. In arriving at a recommended rent increase for 2016/17 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.
- 11.4 Climate Change/Carbon Clever – there are no direct implications arising from this report.
- 11.5 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.
- 11.6 Gaelic and Rural implications - no impact arising from this report

Recommendations

It is recommended that the Committee:

- a) **Agree** a 1.9% increase for council house rents for 2016/2017.
- b) **Agree** that this percentage increase (1.9%) is applied to all HRA rents and service charges and to Gypsy/Traveller site pitches.
- c) **Agree** that non-HRA rents for leased property should increase as stipulated in existing contracts.
- d) **Agree** that the estimated HRA surplus of £2.790m in 2016/2017 be applied as Capital from Current Revenue to fund HRA capital investment.

Designation Director of Community Services

Date 18 January 2015

Author/Reference David Goldie, Head of Housing

Appendix 1

Housing Revenue Account - Revenue Expenditure Monitoring Report

Summary

£000 2015-16 Budget	£000 2016-17 Draft Budget	Variance	%
---------------------------	---------------------------------	----------	---

BY ACTIVITY

Expenditure				
Supervision & Management	6,158	6,052	(106)	-1.7%
Tenant Participation	206	210	3	1.6%
Sheltered Housing	659	682	23	3.4%
Homelessness	553	445	(108)	-19.6%
Repairs & Maintenance	15,577	15,730	153	1.0%
House Rent Voids	711	722	11	1.6%
Other Rent Voids	268	278	10	3.6%
Central Support	3,671	3,610	(61)	-1.7%
Loan Charges	18,000	20,300	2,300	12.8%
CFCR	3,770	2,790	(980)	-26.0%
Gross Expenditure	49,573	50,818	1,245	2.5%
Income				
House Rents	(47,906)	(48,769)	(863)	1.8%
Other Rents	(1,288)	(1,649)	(361)	28.0%
Other Income	(300)	(356)	(55)	18.5%
Interest on Revenue Balances	(80)	(45)	35	-43.8%
Gross Income	(49,573)	(50,818)	(1,245)	2.5%