The Highland Council	Agenda Item	**7**
Community Services Committee	Report No	**COM 4/17**

15 February 2017

Housing Revenue Account Estimates 2017/2018

Report by Director of Community Services

Summary

This report presents draft Housing Revenue Account estimates for 2017/2018 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 2017/2018 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2017/2018.

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 1.9% in 2016/17 against a national average of 2.7%; and
- average Highland Council rents are currently below the Scottish average, having reduced from the 2nd highest over the last 6 years.

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 2017/18

3.1 In order to develop Housing Revenue estimates for 2017/18 we have reviewed current expenditure budgets and identified savings and pressures.

3.2 The key factors in relation to the HRA budget over the coming year are:

- a significant reduction in loan charge estimates in 2017/18 as a result of reduced borrowing and treasury management;

- a projected net reduction in housing stock numbers as a result of the exceptional / one-off volume of Council House Sales;
- continuing pressure on rent income arising from the roll out of Universal Credit, resulting in a requirement for increased bad debt provision;
- a proposal to increase HRA funded staffing to provide two dedicated Intensive Support Officers within the Finance Team and two additional Housing Management Officers to deal with increased preventative work on managing rent arrears; and
- a planned increase in the number of HRA properties being used as temporary accommodation as part of our strategy to reduce the use of expensive private sector accommodation, resulting in an increase in management and repair costs for HRA temporary accommodation.

3.3 Taking these and other factors considered in more detail in the remainder of this report into account a 1% rent increase is recommended for 2017/18. Draft estimates on that basis are summarised in **Appendix 1**. This would involve an increase in the average weekly council house rent from **£72.22 to £72.94 (£0.72p)**.

4. Estimates of Expenditure for 2017/2018

4.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2017/18 are set out below. The draft budget for 2017/18 with a comparison to the 2016/17 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. We have achieved savings in management costs as a result of service restructuring and a number of other efficiency savings in day to day running costs, including overtime, staff travel and out-of-hours calls. In producing estimates for 2017/18 direct staff costs have been increased by 1% in line with the Council general budget assumptions A budget pressure has also been applied in relation to bad debt provision as a result of continuing trends in rent arrears and assumptions about the impact of the full roll out of Universal Credit during the next year. In order to respond to this pressure we have budgeted for an additional 2 Housing Management staff, who will focus on front line preventative work on rent arrears, including following up on notified Universal Benefit Claimants in order to provide advice and implement secure payment arrangements.

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 with some efficiency savings on running costs.

4.2.3 The budget for homelessness has been revised to take account of the planned increase in the number of HRA properties used as temporary accommodation. In line with the Committee’s agreed strategy for temporary accommodation we expect an increase of 50 properties being used as temporary accommodation during 2017/18. This will increase management and maintenance costs. In relation to management costs and in line with the business case for temporary accommodation re-provisioning it is also proposed to increase the staff team managing this accommodation. As will be seen below, the additional HRA temporary accommodation means higher rental income in relation to ‘other rents’.

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 core budget for 2017/18 is unchanged. This is the net result of additional costs for servicing new heating systems, offset by continuing efficiencies arising from the service restructuring and having a single housing repairs and building maintenance structure. We have also reallocated the repairs and maintenance budget across this heading and the Homelessness heading to reflect the projected balance of properties used as mainstream and temporary accommodation.

4.3.2 Favourable loan charge estimates for 2017/18 have resulted in scope to increase investment in repairs and maintenance this year. This provides an opportunity to increase our investment in the environment of our housing estates and address concerns raised by both tenants and Members over the lack of recent investment in these areas. It is therefore recommended that the repairs budget should be increased by £750k for 2017/18 with this additional budget ring fenced for additional estates works prioritising repairs and improvement to fencing, pathways, bin storage areas and repairs to other hard landscaped communal areas. This budget would be allocated to areas in proportion to housing stock.

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 2017/18 has remained at 1.48% 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 the increase in the number of properties to be used as temporary accommodation and 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 reduction is expected. This includes an additional budget to allow two Intensive Support Officers to contact and assist 'hard to reach' clients affected by welfare reform in order to reduce debt and rent arrears.

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 HRA revenue in future years. Loan charges have increased as a result of a significant HRA capital programme over the last 5 years. Following the end of the major investment programme required to achieve the Scottish Housing Quality Standard the current 5 year HRA Capital Plan shows a lower level of capital expenditure. This has coincided with savings achieved through changes in treasury management borrowing strategy which has resulted in lower borrowing costs. The overall effect of this is an estimated reduction of loan charges of £1.357m (6.7%) for 2017/18.

4.6.2 Loan charge estimates for 2017/18 take account of the Council's HRA Capital Plan, including 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 in 2017/18 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 recent years. This has resulted in an increase in the ratio of housing debt to rent income: one of the key indicators for prudential borrowing. Although the level of HRA capital expenditure will stabilise over the next 5 years, as the Scottish Housing Quality Standard investment programme has ended, the ratio of loan charges to rent income for March 2016 was 36.99% compared to 23% nationally. Based on the current estimates loan charges will account for 37.7% of rent income in 2018/19, the same as the current estimated outturn for 2016/17. It is considered prudent to continue to manage a reduction in loan charges as a proportion of rent income over the next 5 years.

4.6.4 Five year HRA revenue projections have also been updated in relation to the impact of the end of Right to Buy. Once outstanding applications are dealt with the Council will no longer receive capital receipts from house sales. Receipts from sales have previously contributed to funding the HRA capital programme. The additional receipts received this year and next will allow us to reduce prudential borrowing in the short term, however from 2019/20 we will have to increase borrowing to fund the same level of HRA Capital Programme. As a result it is projected that we will see an increase in loan charges in 2019/20 (currently estimated at £2.2m). Taking into account other assumptions it is projected that there will be a deficit of around £1.3m on the HRA in 2019/20 if rents remain at current levels. To address this level of deficit in a single year would require a rent increase or around 3%. It is considered more prudent to apply modest rent increases in the next 3 years rather than apply a single larger increase in 2019/20.

5. Estimate of Income for 2017/2018

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
- income from sources such as re-charges to tenants.

5.2 Rental income in 2017/18 will be affected by the impact of the end of Right to Buy. We expect a net reduction in housing stock over the next year, as sales are likely to exceed new builds for the first time in recent years. Although this will have a negative impact on revenue income over this year and next the fact that Right to Buy has now been abolished means that in future years we should see rental income increase.

5.3 As stated earlier, draft estimates have been developed on the basis of a 1% rent increase. That would involve an increase in the average weekly council house rent from **£72.22 to £72.94 (£0.72p)**.

5.3 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 322 tenants will be subject to an adjustment, leaving 150 tenants with rents outwith the current structure. Of these 95 will be below the standard rent and 55 above the standard rent for the property.

5.4 It is recommended that service charges, including those for sheltered housing wardens, caretaking and CCTV services are also increased by 1%.

5.5 It is recommended that rents for garages and garage sites should also be increased by 1%.

5.6 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.

5.7 The Council has a number of properties on the non-HRA, and rent increases have traditionally been applied with reference to Council house rents. These are dealt with below.

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% 2017/18. The average rent for a pitch would increase from £76.09 to £76.85.

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 service charges are increased by 1%.

5.12 It should be noted that work is ongoing to seek a reduction in rents paid to private landlords to bring them into line with Local Housing Allowance rates.

6. Interest on Revenue Balances

6.1 The Council has HRA reserves of £7.328m. There has been no use of balances during 2016/17, and no current approval for use of balances during 2017/18. Interest on revenue balances, net of shared debt premium costs, is estimated to reduce to increase to £62,000 in 2017/2018 based on interest rate trends and actual income received in 2016/17.

7. Capital from Current Revenue

7.1 This is a planned revenue surplus which can be used to fund HRA capital works. Given reduced loan charge estimates, and other changes to assumptions on the HRA revenue budget the amount available from CFCR based on a 1% rent increase is around £3.344m. It is recommended that this is utilised to fund HRA Capital investment during 2017/18. This will minimise new prudential borrowing and contribute to the longer term strategy of reducing loan charges as a percentage of rental income.

8. Affordability / Tenant Consultation

8.1 In considering possible rent levels in 2017/2018 it should be noted that Highland Council rents are currently the 16th highest of the 26 Councils with housing stock, and below the national average. 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% rent increase for 2017/18 would continue this trend.

8.2 The number of households currently in receipt of Housing Benefit is as follows:

- 3,940 tenants (29%) are receiving full Housing Benefit;
- 3,133 tenants (23%) are receiving partial Housing Benefit; and
- 6,638 tenants (48%) 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 and this will be a continuing trend. 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. However we do know that the rollout of Universal Credit is resulting in increased rent arrears amongst tenants affected. Other changes to the welfare benefit system continue to be a concern.

8.5 We know from previous consultation that around 65% of tenants think that their rent charge represents value for money. This year we also consulted on tenants perceptions of rent affordability. We had a limited return from a postal survey for tenants, however this showed that 77% of respondents thought their rent was affordable or very affordable, and 23% that they were unaffordable. Within the same sample 61% of respondents said that they had never struggled to pay their rent, 26% said this had happened sometimes and 13% reported that they always struggled to pay their rent.

8.6 We have also tried to establish the level of rent increase likely to be applied by other Councils and Highland housing associations. Based on information currently available a 1% rent increase would be the 3rd lowest of all Scottish Councils, where the average increase is predicted to be 2.55%. It would also be lower than all of the Highland housing associations.

9 Conclusion

9.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2017/2018. A rent increase of 1% is recommended for 2017/18.

9.2 Based on the assumptions set out in this report the overall average weekly house rent would increase from £72.22 to £72.94 (£0.72p).

10. Implications

10.1 Resources: This report recommends rent levels for 2017/18 that will generate sufficient income to fund Housing Revenue Account activity in the year.

10.2 Legal: This report contains recommendations that will allow the Council to comply with legal requirements relating to the Housing Revenue Account.

10.3 Equalities: There are potential affordability impacts for individuals associated with any rent increase. In arriving at a recommended rent increase for 2017/18 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. We have also recommended an increase in resources to identify and help people who are affected by Welfare Reform or are finding it difficult to pay their rent.

10.4 Climate Change/Carbon Clever: There are no direct implications arising from this report.

10.5 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.

10.6 Gaelic and Rural implications: No impact arising from this report

Recommendations

It is recommended that the Committee:

- **agree** a 1% increase for council house rents for 2017/2018;
- **agree** that this percentage increase (1%) is applied to all HRA rents, to all service charges and to Gypsy/Traveller site pitches;
- **agree** that non-HRA rents for leased property should increase as stipulated in existing contracts;
- **agree** that the repairs budget should be increased by £750k for 2017/18 with this additional budget ring fenced for additional estates works prioritising repairs and improvement to fencing, pathways, bin storage areas and repairs to other hard landscaped communal areas;
- **agree** that the estimated HRA surplus of £3.344m in 2017/2018 be applied as Capital from Current Revenue to fund HRA capital investment.

Designation Director of Community Services

Date 6 February 2017

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Appendix 1: Housing Revenue Account Estimates 2017/18

	2016-17 Budget £000	2017-18 Draft Budget £000	Variance £000	%
Expenditure				
Supervision & Management	6,021	6,403	382	6.3%
Tenant Participation	210	211	2	0.8%
Sheltered Housing	682	704	23	3.4%
Homelessness	476	580	104	21.8%
Repairs & Maintenance	15,730	16,480	750	4.8%
House Rent Voids	722	723	2	0.2%
Other Rent Voids	278	323	46	16.5%
Central Support	3,610	3,520	(90)	-2.5%
Loan Charges	20,300	18,943	(1,357)	-6.7%
CFCR	2,790	3,344	554	19.9%
Gross Expenditure	**50,818**	**51,234**	416	0.8%
Income				
House Rents	48,769	48,862	93	0.2%
Other Rents	1,649	1,955	306	18.6%
Other Income	356	356	0	0.0%
Interest on Revenue Balances	45	62	17	36.7%
Gross Income	**50,818**	**51,234**	416	0.8%