

Agenda Item	5.
Report No	PEO 02/18

HIGHLAND COUNCIL

Committee: People Committee

Date: 25 January 2018

Report Title: Housing Avenue Account Estimates 2018/19

Report By: Director of Community Services

1 Purpose/Executive Summary

- 1.1 This report presents draft Housing Revenue Account estimates for 2018/2019 together with recommendations on the level of increase to be applied to Council house rents, other rents and service charges.

2 Recommendations

2.1 Members are asked to:

- **agree** a 0.5% increase for council house rents for 2018/2019;
- **agree** that this percentage increase (0.5%) is applied to all residential HRA rents and service charges and to Gypsy/Traveller site pitches;
- **agree** that rents for garages and garage sites be increase by 3%;
- **agree** that non-HRA rents for leased property should increase as stipulated in existing contracts;
- **agree** that the estimated HRA surplus of £4.722m in 2018/2019 be applied as Capital from Current Revenue to fund HRA capital investment; and
- **agree** that proposals on delegation of functions on setting garage rents to Local Committees be included as part of the next planned review of the Scheme of Delegation to Committees for approval by the Council.

3 Background

- 3.1 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.
- 3.2 This report provides details of the Housing Revenue Account (HRA) revenue estimates for 2018/2019 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2018/2019.

4 Overall HRA Position

- 4.1 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.
- 4.2 Since 2010/11 significant efforts have been made to achieve efficiencies in expenditure and ensure best value in HRA expenditure, and Highland Council rents have consistently been amongst the lowest in Scotland.
- 4.3 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.

5 Rent Increase Recommended for 2018/19

- 5.1 In order to develop Housing Revenue estimates for 2018/19 we have reviewed current expenditure budgets and identified savings and pressures.
- 5.2 The key factors in relation to the HRA budget over the coming year are:
- a significant reduction in loan charge estimates in 2017/18 and 2018/19 as a result of reduced borrowing and treasury management;
 - a projected net increase in housing stock numbers following the end of the Right to Buy;
 - continuing pressure on rent income arising from the roll out of Universal Credit, resulting in a requirement for increased bad debt provision; 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.
- 5.3 Taking these, and other factors considered in more detail in the remainder of this report, into account, a **0.5%** rent increase is recommended for 2018/19. Draft estimates on that basis are summarised in **Appendix 1**. A rent increase of 0.5% would result in an increase in the average weekly council house rent from **£72.88** to **£73.24 (£0.36p)**.

6 Estimates of Expenditure for 2018/2019

- 6.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2018/19 are set out below. The draft budget for 2018/19 with a comparison to the 2017/18 budget is summarised in **Appendix 1**.

6.2 Supervision and Management

6.2.1 This budget heading covers the salaries, overheads and other running costs for housing related activities. In producing estimates for 2018/19 direct staff costs have been increased by 1.5% in line with the Council's general budget assumptions. An increase of £0.450m has been applied in the budget for bad debt provision as a result of continuing trends in rent arrears and assumptions about the impact of full service Universal Credit.

6.2.2 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. In relation to Tenant Participation, staff costs for the Principal Tenant and Customer Engagement Officer have been moved to this heading from the Supervision and Management heading and the budget has been increased by £0.023m in order to expand work on tenant and customer engagement.

6.2.3 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 Council's agreed strategy for temporary accommodation we expect an increase of 50 properties being used as temporary accommodation during 2018/19. This will increase management and maintenance costs for these properties. 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'.

6.3 Repairs and Maintenance

6.3.1 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 repairs budget was increased by £750k in 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 was allocated to areas in proportion to housing stock. Estimates for 2018/19 have been prepared based on a further £0.257m increase in the Repairs and Maintenance budget for 2018/19 to allow further work on environmental and heating repairs.

6.4 Void Rent Loss

6.4.1 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.

6.4.2 For mainstream housing, the draft budget for 2018/19 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 as well as continuing difficulty in letting garages and garage sites in some locations.

6.5 Central Administration

6.5.1 This budget covers the costs of corporate charges to the HRA for legal, financial, IT and other corporate services in relation to the Council's landlord role. The draft budget for 2018/19 has been rolled forward at the current level.

6.6 Loan charges

- 6.6.1 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. Until last year, loan charges were increasing as a result of a significant HRA capital programme over the previous 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 and higher capital receipts through Right to Buy sales in the period leading up to and immediately following the end of the Right to Buy.
- 6.6.2 Loan charge estimates for 2018/19 take account of the Council's HRA Capital Plan, including expected borrowing to fund the committed new build programme 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 2018/19 as a result of Council House building.
- 6.6.3 The Council has combined below inflation rent increases with higher than normal levels of capital expenditure in recent years. This resulted in an increase in the ratio of loan charges to rent income: one of the key indicators for prudential borrowing. The ratio of loan charges to rent income for March 2017 was **37.8%**, with current estimates for 2017/18 indicating that the figure will be **34%**. Based on the current estimates loan charges account for **33%** of rent income in 2018/19 estimates.

7 Consultation on Rent Levels

- 7.1 The Housing (Scotland) Act 1987 places a duty on local authorities to consult with their tenants about any proposed rent increase, and to take these views into account when considering increases to the rent.
- 7.2 The Scottish Social Housing Charter also states that social landlords should set rents and service charges in consultation with their tenants and other customers.
- 7.3 Consultation on proposed rent increases for 2018/19 ran until 5 January 2018. The consultation document used was approved by the tenant representatives that form the Tenant Finance and Participation Group. The consultation was carried out by post, with 13,421 Highland Council tenants receiving a consultation leaflet. For tenants who wanted to discuss the consultation in more detail, a number of "drop-in" sessions were arranged. The consultation was also available on our website, and was promoted on Facebook and Twitter. We have received feedback on the consultation process which we will use to improve it for the 2019/20 consultation.
- 7.4 The Council has 1,241 garages and 708 garage sites. We undertook a consultation exercise on garage rents alongside the general rent consultation. Consultation was based on setting rents at a commercial level.
- 7.5 The results of this year's consultation exercise are contained in **Appendix 2**. This has been used to inform the recommendations on rent levels set out below.

8 Estimate of Income for 2018/2019

- 8.1 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;
- other rents;
- income from sources such as re-charges to tenants; and
- garage and garage site rentals.

8.2 As stated earlier, draft estimates have been developed on the basis of a **0.5%** rent increase. That would involve an increase in the average weekly council house rent from **£72.88 to £73.24 (£0.36p)**.

8.3 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. There are currently 136 tenants subject to an adjustment, which will reduce to 75 in 2018/19.

8.4 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.

8.5 For Leased Properties used as temporary accommodation service charges also apply. It is recommended that service charges are increased by 0.5%.

9 **Garage Rents**

9.1 Consultation on garage and garage site rents was based on increasing rents to commercial levels, allowing increased expenditure on repairs and improvements. Consultation responses contained in **Appendix 2** indicate strong opposition to this. Taking account of the views expressed by those responding to the consultation a much lower, and below inflation increase of **3%** is recommended. This would result in an average rent increase of **£0.28p** per week for a garage and **£0.05p** per week for a garage site to **£9.63** and **£1.62** respectively.

9.2 Garage rents, condition and demand vary considerably across Highland. Developing local priorities for garages and garage sites, including decisions on retention / disposal, rent levels and investment within delegated HRA budgets may be best undertaken at Local Committee level. It is recommended that this proposal is included as part of the next planned review of the Scheme of Delegation to Committees for approval by the Council.

10 **Conclusion**

10.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2018/2019. A rent increase of **0.5%** is recommended for residential rents and service charges, and a **3%** increase for garage and garage site rents.

11. **Implications**

11.1 Resource - This report recommends rent levels for 2018/19 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 Community (Equality, Poverty and Rural) - There are potential affordability impacts for individuals associated with any rent increase. In arriving at a recommended rent increase for 2018/19 this has been balanced against the availability of housing benefit / Universal Credit to help meet housing costs.
- 11.4 Climate Change / Carbon Clever - There are no direct implications arising from this report.
- 11.5 Risk - 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 - No impact arising from this report.

Designation: Director of Community Services

Date: 15 January 2018

Author: David Goldie, Head of Housing and Building Maintenance

Housing Revenue Account - Draft Budget 2018-19

Summary

	£000 2017-18	£000 2018-19	£000 Variance	% change
<u>Expenditure</u>				
Supervision & Management	6,401	7,172	772	12.06%
Tenant Participation	212	281	69	32.75%
Sheltered Housing	705	728	23	3.32%
Homelessness	580	733	152	26.28%
Repairs & Maintenance	16,480	16,737	257	1.56%
House Rent Voids	722	729	7	0.99%
Other Rent Voids	232	239	7	3.19%
Central Support	3,520	3,520	0	0.00%
Loan Charges	18,943	17,169	(1,775)	-9.37%
CFCR	3,439	4,722	1,283	37.31%
Gross Expenditure	51,234	52,031	797	1.56%
<u>Income</u>				
House Rents	48,863	49,456	593	1.21%
Other Rents	1,954	2,159	204	10.45%
Other Income	356	356	0	0.00%
Interest on Revenue Balances	62	62	0	0.00%
Gross Income	51,234	52,031	797	1.56%

Consultation on rent levels for 2018/19

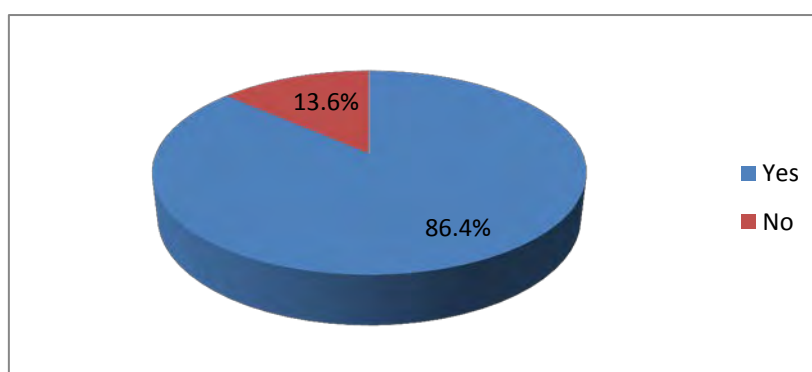
1. Background

- 1.1 The Housing (Scotland) Act 1987 requires local authorities to consult with their tenants about any proposed rent increase and take into account their views when considering rent levels.
- 1.2 The Scottish Social Housing Charter Outcomes 14 and 15 state that social landlords set rents and service charges in consultation with their tenants and other customers.
- 1.3 Consultation on proposed rent increases for 2018/19 ran until 5 January 2018. The consultation document was approved by the tenant representatives that form the Tenant Finance and Participation Group. The consultation was carried out by post, with **13,421** Highland Council tenants receiving a consultation leaflet. For tenants who wanted to discuss the consultation in more detail, “drop-in” sessions were arranged in Golspie, Inverness, Aviemore, Nairn and Dingwall. The consultation was also available on our website, and was promoted on Facebook and Twitter. We have received feedback on the consultation process which we will use to improve it for the 2019/20 consultation.

2 Responses received on Council house rents

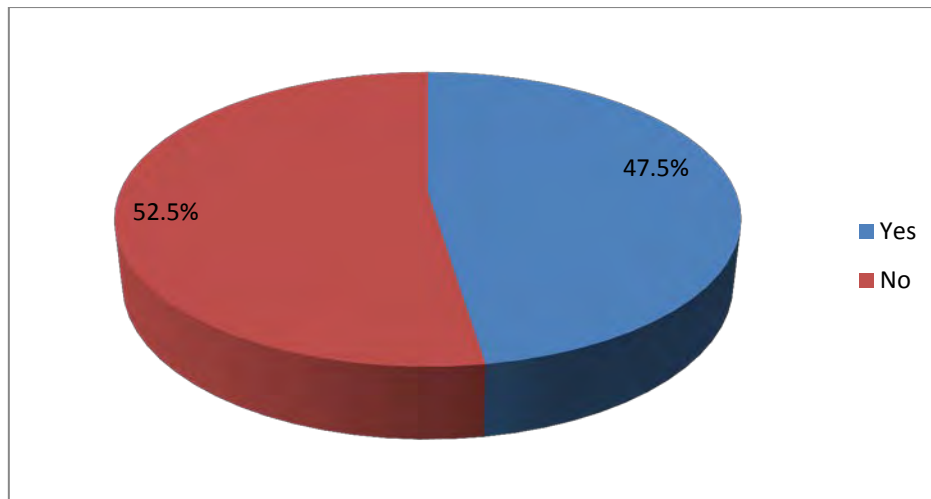
- 2.1 Overall **599** tenants responded out of **13,421 (4.4%)**. This is a large increase on previous response rates. Not all respondents answered every question, but where they did, the results are as follows:

2.2 Do you think your rent is good value for money?



- **86.4%** of the **583** people who answered this question think their rent charge represents good value for money

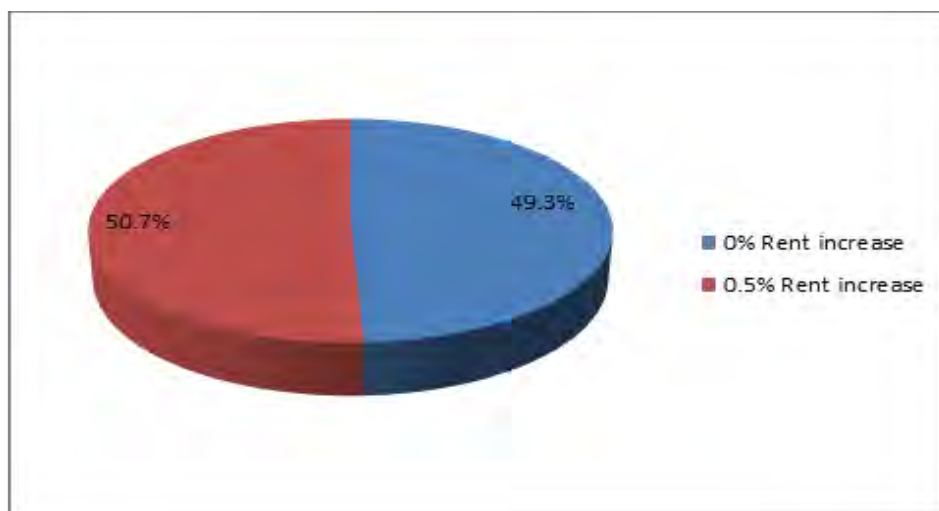
2.3 Would you like to pay your rent over 52 weeks instead of 48?



- **299 (52.4%** of the **570** who answered this question) wanted to keep the “charge free” weeks

2.4 Level of Rent Increase proposed for houses

- **596** tenants answered the question about the level of rent increase:



- **294 (49.3%** of those who answered this question) wanted to see a **0%** rent increase;
- **302 (50.7%** of those who answered this question) wanted to see a **0.5%** rent increase.

3 Responses received on garage and garage site rents

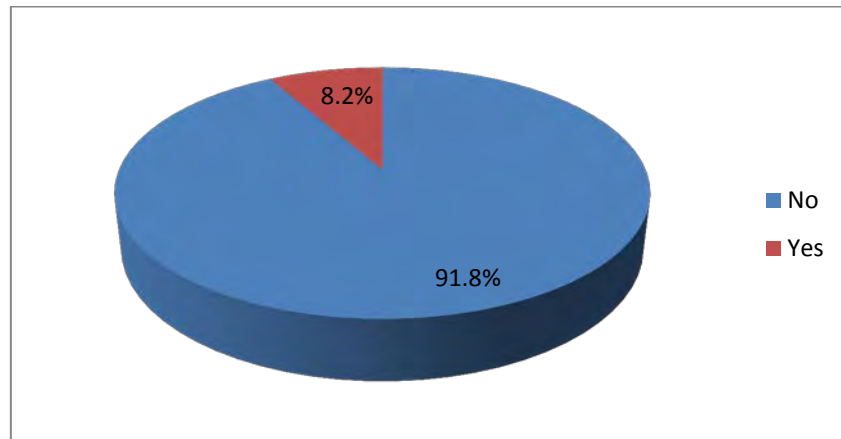
3.1 Tenants and owners renting garages or garage sites from Highland Council were also consulted on proposed increases in garage/site rents to achieve a more commercial level to allow increased investment in repairs.

3.2 The consultation was carried out by post, with all those renting a garage lock-up or garage site receiving a consultation leaflet. **1957** consultation letters were

issued, with **472** going to Highland Council tenants, and **1485** to non- Highland Council tenants.

3.3 **102 (22%)** Highland Council tenants responded and **492 (33%)** non-tenants responded. The results of the consultation are as follows:

3.4 **Are you happy to pay the increased rent charge if it means improvements to the garages/garage sites?**



3.5 **91.8%** of those who responded did not want to see the proposed level of increase in rents. Many were not against a more moderate rent increase, just not as high as the commercial rents proposed.

3.6 When split between tenant and non tenants, **81.4%** of Highland Council tenants did not agree with the proposed rent increase, and **93.9%** of non-tenants did not agree with the proposed increase.

3.7 We asked what improvements tenants of garages and garage sites would like to see and these fell into these main categories:

- Guttering repair/replacement
- External paintwork
- Doors and roofs
- Improved security on sites - lighting
- Electricity supply to garage sites/garages
- Convert garage sites by building lock-ups
- Improvements to areas around garages and garage sites – litter, dog fouling, gritting in winter, flooding
- Selling garage site land to owner occupiers in cases where the site is adjacent to the house.