

Agenda Item	5.
Report No	CLH 02/19

## HIGHLAND COUNCIL

**Committee:** Care, Learning and Housing Committee

**Date:** 24 January 2019

**Report Title:** Housing Revenue Account Estimates 2019/20

**Report By:** Director of Community Services

### **1 Purpose/Executive Summary**

- 1.1 This report presents draft Housing Revenue Account estimates for 2019/2020 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 invited to:

- agree a 3% increase for council house rents for 2019/2020;
- agree that this percentage increase (3%) is applied to all residential HRA rents and service charges and to Gypsy/Traveller site pitches;
- note that following consideration by Local Committees / Ward Members rents for garages and garage sites except in Lochaber be increased by 3%, with rents for garages and garage sites in Lochaber to be as agreed by Lochaber Members;
- agree that non-HRA rents for leased property should be increased as stipulated in existing contracts;
- agree that the estimated HRA surplus of £2.148m in 2019/2020 be applied as Capital from Current Revenue to fund HRA capital investment; and
- agree that a full review of HRA loan charges and capital planning be carried out during 2019/20 to inform future HRA rents policy and the 2021-2026 HRA Capital Plan.

### 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 2019/2020 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2019/2020.

### 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 2<sup>nd</sup> highest amongst councils in Scotland. Currently our rents are 18<sup>th</sup> highest out of the 26 councils which retain housing. Highland Council rents are the 2<sup>nd</sup> lowest of the 5 main Housing Associations operating in the Council area.
- 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 annual rent increases have consistently been amongst the lowest in Scotland. The table below provides recent trends:

	% rent increase applied			
	2015/16	2016/17	2017/18	2018/19
Highland Council	1%	1.9%	1%	0.5%
Scottish Average	3.2%	3.2%	3.2%	3.03%

- 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. Benchmarking data for 2017/18 provides the following comparisons:

	Annual Expenditure per house 2017/18		
	Housing Management	Repairs and Maintenance	Loan Charges
Highland Council	£612	£1,171	£1,386
Scottish Average	£783	£1,172	£ 867

- 4.4 The table above also illustrates the comparative level of loan charges per property in Highland compared to the Scottish Average. The implications of this are summarised later in the report.

### 5 Rent Increase Recommended for 2019/20

- 5.1 As in previous years, in order to develop Housing Revenue estimates for 2019/20 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:

- An increase of **£2.277m** in loan charge estimates in 2019/20 as a result of continuing high levels of borrowing to support the HRA capital programme, including the Council house building programme. Following the end of Right to Buy, the Council no longer has capital receipts from council house sales, which were previously used to contribute to funding the HRA capital programme. A greater proportion of the HRA capital programme is therefore now funded through borrowing.
- A projected net increase in housing stock numbers and therefore overall projected increase of **£1.997m** in rent and other income (based on a 3% rent increase) following the end of the Right to Buy and the continuing Council house building programme.
- Continuing pressure on rent income arising from the roll out of Universal Credit, resulting in a requirement for increased bad debt provision of **£0.500m**. Issues relating to rent affordability and approaches to rent arrears management are covered in section 9 of the report.
- 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 of **£0.141m** for HRA temporary accommodation. Extra management costs will be funded from additional service charge income in relation to this accommodation.
- Increased repairs and maintenance expenditure of **£0.477m** associated with the increasing housing stock and to take account of building cost inflation, with an additional **£0.510m** available in 2019/20 based on a 3% rent increase.
- A planned reduction of **£2.148m** in Capital from Current Revenue to £2.5m, in line with the current HRA Capital Plan.

5.3 Taking these, and other factors considered in more detail in the remainder of this report into account, a **3%** rent increase is recommended for 2019/20. Draft estimates on that basis are summarised in **Appendix 1**. A rent increase of **3%** would result in an increase in the average weekly council house rent from **£73.22** to **£75.42 (£2.20 per week)**.

## **6 Estimates of Expenditure for 2019/2020**

6.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2019/20 are set out below. The draft budget for 2019/20 with a comparison to the 2018/19 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 2019/20 direct staff costs have been increased by 3% in line with the Council's general budget assumptions. An increase of £0.500m 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. The budget reduction in relation to sheltered housing is associated with changes to sheltered housing warden accommodation costs.

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 2019/20. 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, which is included within the 'other rents' category.

### 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 and revenue funded environmental improvements. In order to respond to tenant and local Member feedback, the repairs budget was increased by £0.750m 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. A further increase of £0.257m was agreed for 2018/19 to allow further work on environmental and heating repairs.

6.3.2 Estimates for 2019/20 have been prepared based on an increase of £0.477m in the general revenue repairs budget to take account of rising costs and the increase in the Council's housing stock. Based on a rent increase of 3%, an additional £0.510m would be available to allow further environmental works.

6.3.3 During 2019/20 we will be progressing with the priority actions agreed as part of the Trades Services Review, which was reported as a Council Redesign project to the Council in December 2018. The priority actions are:

- Carrying out a lean review of housing and property repairs processes;
- Procurement of a new framework for external trade services; and
- To trial and pilot more effective joint working on trade services across Community Services and Development and Infrastructure.

In addition we will be developing our workforce plan with the aim of increasing in-house trade capacity and reducing our reliance on external contractors for day to day housing repairs activity. These are aimed at improving efficiency and adding value to the housing repairs service.

### 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.

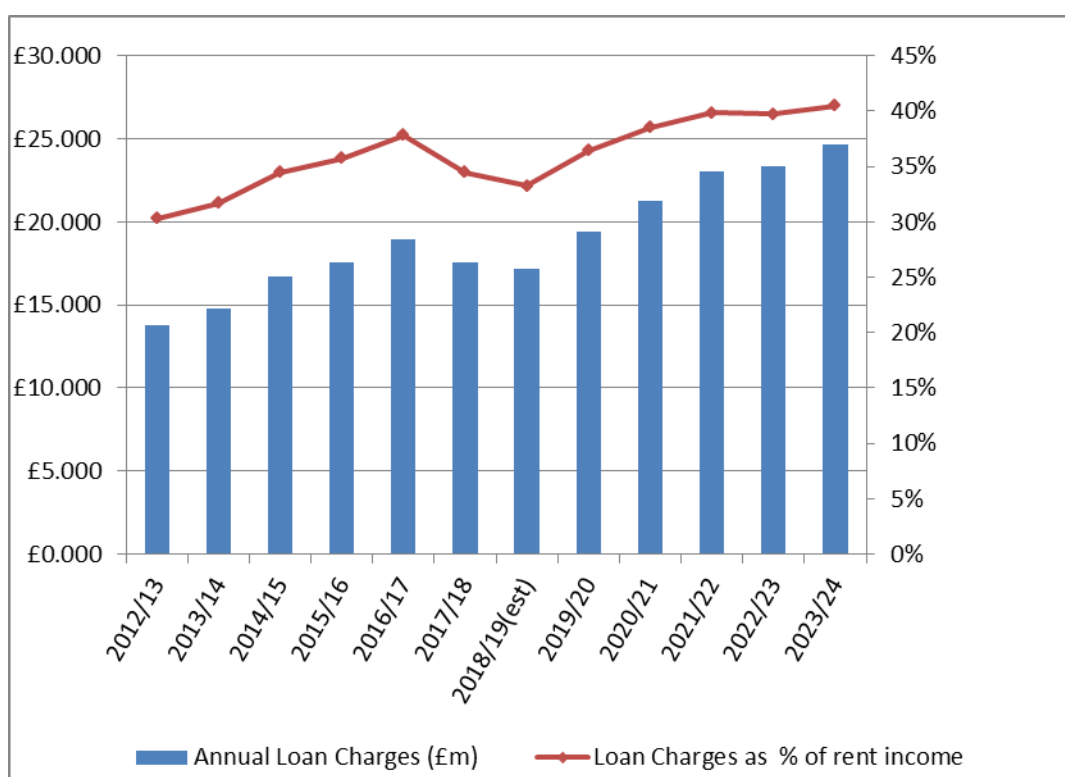
6.4.2 For mainstream housing, the draft budget for 2019/20 has remained at 1.48% of gross rent, adjusted to reflect the proposed rent increase. For other rent income the draft budget has been adjusted to take account of changes in stock levels for temporary accommodation and garages.

### 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 2019/20 has been increased by £0.057m.

## 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 2016/17 loan charges were increasing as a result of a significant HRA capital programme over the previous 5 years to achieve the Scottish Housing Quality Standard, and reflecting the Council's commitment to an ambitious Council house building programme. This is illustrated in the graph below, which shows loan charges (actual figures to 2017/18 and estimates from 2018/19 onwards) and also loan charges as a percentage of rent income:



6.6.2 The reduction in borrowing between 2016/17 and 2017/18 was a result of a planned reduction in capital spend as well as savings achieved through changes in treasury management borrowing strategy and higher capital receipts through Right to Buy sales in the period leading up to the end of the Right to Buy.

6.6.3 Loan charge estimates for 2018/19 and beyond are based on the Council's HRA Capital Plan (2016/2021) reflecting 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.

6.6.4 As shown in the graph above, loan charges are projected to increase to above 40% of rent income by 2023 based on current capital programme assumptions. As stated earlier in this report, loan charges in Highland are significantly higher than the national average and it is considered prudent to develop a clear strategy for reducing loan

charges as a proportion of rent income. A 3% rent increase for 2019/20 would be the most prudent option for long term HRA planning.

6.6.5 It is recommended that a full review of HRA loan charges and capital planning be carried out during 2019/20 to inform future HRA Revenue Budget planning and the HRA Capital Plan (2021-2026).

6.6.7 The Council currently has Housing Revenue Account balances of £7.328m. There has been no use of balances during 2018/19. The review of HRA planning should also include setting a clear policy on the level and use of HRA balances.

## 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 2019/2020 ran until 11 January 2019. The consultation was carried out by post, with 13,411 Highland Council tenants receiving a consultation leaflet. For tenants who wanted to discuss the consultation in more detail, 15 “drop-in” sessions were arranged in locations across Highland. The consultation was also available on our website, and was promoted on Facebook and Twitter. The options presented were as follows:

Rent increase option	Average weekly rent	Average weekly increase	Comments
2%	£74.68	£1.46	Minimum rent to provide services at current levels.
2.5%	£75.05	£1.83	This will generate an additional £256,000 of revenue which will give extra capacity for estate improvements.
3%	£75.42	£2.20	This will generate an additional £510,000, which will give further capacity for estate improvements.

7.4 The results of this years consultation exercise are contained in **Appendix 2**. Although the response rate was low (with 461 questionnaires returned and 55 people attending drop-in sessions) The consultation shows that most people who responded consider current rents to represent value for money (89%), and also that the majority of respondents wanted to see additional money spent on housing estate improvements (82%). However when asked about specific rent increases most people who replied said they would prefer the lowest increase option (43.4%), although a significant proportion preferred a higher rent option, with 36% saying 2.5% and 20.6% saying 3%.

7.5 Priorities for environmental improvements would be agreed locally with tenants and Ward Members through “rate your estate” visits, which were described in a recent report to the Committee on Tenant and Customer Engagement. We will also continue to work with tenants to explore ways in which we can increase participation in future rent consultations, for example through local participatory budgeting sessions.

## **8 Estimate of Income for 2019/2020**

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;
- 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 **3%** rent increase. That would involve an increase in the average weekly council house rent from **£73.22** to **£75.42** (£2.20 per week).

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 69 tenants subject to an adjustment, which will reduce to 39 in 2019/20.

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 22 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 3%.

8.6 Last year the Committee agreed that garage rents should be set locally. Consultation has taken place with Members locally and with the exception of Lochaber, it has been agreed that garage rents should increase in line with the Council house rent increase (3%). At the time of writing Lochaber Members are still to decide on local garage rents, and a verbal update on this will be presented to the Committee. This would result in an average rent increase of **£0.29** per week for a garage and **£0.05p** per week for a garage site to **£9.91** and **£1.69** respectively.

## **9 Rent affordability and rent arrears management**

9.1 As stated earlier in the report, rent affordability is a key factor in setting rents. The Council is also facing a significant challenge in relation to rent arrears, which is resulting in a significant increase in bad debt provision within the Housing Revenue Account. There is very strong evidence that the increase in rent arrears is linked to the roll out of Universal Credit in Highland. We are experiencing trends in rent arrears that are common across all Councils where Universal Credit has been introduced.

9.2 At the end of November 2018 there were 2,629 known Universal Credit claimants in mainstream Highland Council housing. Of these, 2014 (76%) are in arrears with an average arrears value of £716 per household. Tenants currently in receipt of Universal Credit have average rent arrears that are nearly 4 times higher than tenants in receipt of

full or partial Housing Benefit.

- 9.3 There continue to be gradual improvements in the administration of Universal Credit cases and the average value of arrears per known Universal Credit claimant in mainstream housing, however average arrears are still significantly higher than for other tenants. The table below provides a comparison.

	Number of tenants	% of tenants	% in arrears	Average arrears value
Housing Benefit	5,618	41	18	£183
Universal Credit	2,629	19	76	£716
No Benefit	5,460	40	38	£393

- 9.4 During the last year we have also reviewed our approaches to rent arrears management, and we are keen to modernise practice in terms of how we contact and communicate with tenants on arrears. This will be subject to a more detailed report to the Committee later this year.

## 10 Conclusion

- 10.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2019/2020. A rent increase of **3%** is recommended for residential rents and service charges.

## 11. Implications

- 11.1 Resource - This report recommends rent levels for 2019/20 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 2019/20 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 2019

Author: David Goldie, Head of Housing and Building Maintenance



Appendix 1

Housing Revenue Account - Draft Budget 2019-20

Summary

	£000	£000		
	2018-19 Budget	2019-20 Draft Budget	Variance	%
<b>Expenditure</b>				
Supervision & Management	7,149	7,846	698	9.8%
Tenant Participation	284	288	4	1.4%
Sheltered Housing	735	700	(35)	-4.8%
Homelessness	736	877	141	19.2%
Repairs & Maintenance	16,823	17,811	988	5.9%
House Rent Voids	722	747	25	3.5%
Other Rent Voids	246	236	(10)	-4.1%
Central Support	3,520	3,577	57	1.6%
Loan Charges	17,169	19,445	2,277	13.3%
CFCR	4,648	2,500	(2,148)	-46.2%
<b>Gross Expenditure</b>	<b>52,031</b>	<b>54,028</b>	<b>1,997</b>	<b>3.8%</b>
<b>Income</b>				
House Rents	(49,458)	(51,144)	(1,687)	3.4%
Other Rents	(2,159)	(2,455)	(296)	13.7%
Other Income	(353)	(367)	(14)	3.8%
Interest on Revenue Balances	(62)	(62)	0	0.0%
<b>Gross Income</b>	<b>(52,031)</b>	<b>(54,028)</b>	<b>(1,997)</b>	<b>3.8%</b>
<b>Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	

### Tenant consultation on rent levels for 2019/2020

#### 1. Background

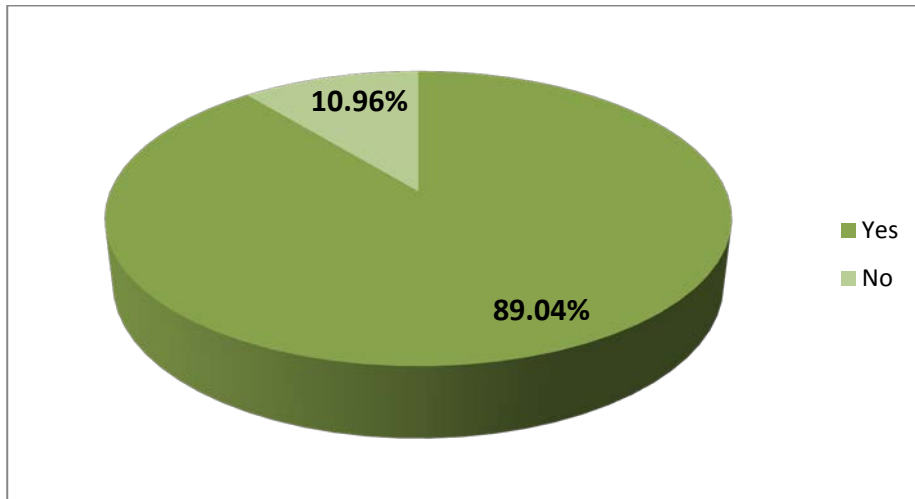
- 1.1 The Housing (Scotland) Act 1987 requires local authorities to consult with their tenants about any proposed rent increase and take into account their views when considering rent levels.
- 1.2 The Scottish Social Housing Charter Outcomes 14 and 15 state that social landlords set rents and service charges in consultation with their tenants and other customers.
- 1.3 Consultation on proposed rent increases for 2019/2020 ran until 11 January 2019. The consultation document was the same format as that approved for the 2018/2019 consultation by the tenant representatives that form the Tenant Finance and Participation Group. The consultation was carried out by post, with 13,411 Highland Council tenants receiving a consultation leaflet.
- 1.4 For tenants who wanted to discuss the consultation in more detail, “drop-in” sessions were arranged in 15 locations across Highland and 55 tenants attended these. These sessions focused on discussion of affordability of rent, access to advice and assistance, and also specific local priorities for investment.
- 1.5 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 2020/2021 consultation.

#### 2. Responses received on Council house rents

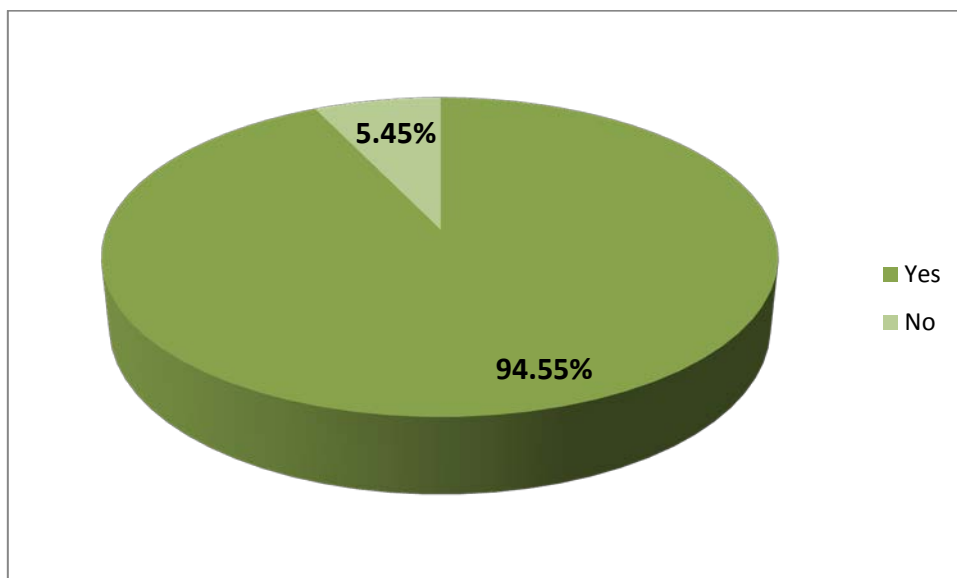
- 2.1 Overall 461 tenants responded to the postal consultation out of **13,411 tenants (3.44%)** compared to 4.4% last year. Not all respondents answered every question, but where they did, the results are as below.

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

- **438** tenants answered the question about whether they thought their rent was good value for money;
- **89.04%** of the people who answered this question think their rent charge represents good value for money.

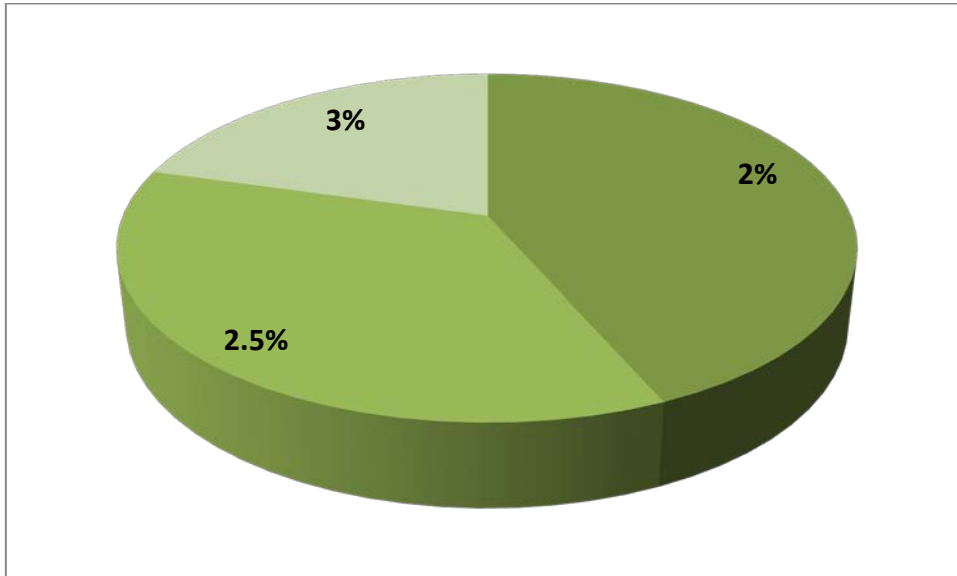


- All **55** tenants at the drop-in consultation answered the question about whether they thought their rent was affordable
- **94.55%** said their rent charge is affordable for them.



### 2.3 Level of Rent Increase proposed for houses

- **442** tenants answered the question about the level of rent increase
- **43.44%** (of those who answered this question) wanted to see a **2%** rent increase;
- **35.97%** (of those who answered this question) wanted to see a **2.5%** rent increase;
- **20.59%** (of those who answered this question) wanted to see a **3%** rent increase.



#### 2.4 Proposed spend on environmental improvements.

- **436** tenants answered the question about whether the Council should spend more money on environmental improvements;
- **81.65%** (of those who answered this question) said they thought the Council should spend more money on environmental improvements.

