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| Agenda Item | Recirculated |
| Report No | HP/02/20 |

HIGHLAND COUNCIL

Committee: Housing and Property Committee

Date: 29 January 2020

Report Title: Housing Revenue Account Estimates 2020/21

Report By: Executive Chief Officer Customer and Communities

1 Purpose/Executive Summary

- 1.1 This report presents draft Housing Revenue Account estimates for 2020/21 together with recommendations on the level of increase to be applied to Council house rents, other rents and service charges.
- 1.2 A **3%** rent increase is recommended for 2020/21. This would result in an increase in the average weekly council house rent from **£75.38** to **£77.64 (£2.26 per week)**.

2 Recommendations

2.1 Members are invited to:-

- **Agree** the draft HRA Revenue Budget for 2020/21 (attached as **Appendix 1**);
- **Agree** a **3%** increase for council house rents for 2020/21;
- **Agree** that this percentage increase (3%) is applied to all residential HRA rents and service charges and to Gypsy/Traveller site pitches;
- **Agree** that non-HRA rents for leased property should be increased as stipulated in existing contracts; and
- **Note** that a report on the HRA Capital Plan (2022/2027) will be presented to the Committee in April 2020.

3 Implications

- 3.1 Resource - This report recommends rent levels for 2020/21 that will generate sufficient income to fund Housing Revenue Account activity in the year.
- 3.2 Legal - This report contains recommendations that will allow the Council to comply with legal requirements relating to the Housing Revenue Account.

- 3.3 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 2020/21 this has been balanced against the availability of housing benefit / Universal Credit to help meet housing costs.
- 3.4 Climate Change / Carbon Clever - There are no direct implications arising from this report.
- 3.5 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.
- 3.6 Gaelic - No impact arising from this report.

4 Background

- 4.1 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.
- 4.2 This report provides details of the Housing Revenue Account (HRA) revenue estimates for 2020/21 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2020/21.

5 Overall HRA Position

- 5.1 Over the last 5 years Highland Council rents have been increasing at a much lower rate than nationally or amongst housing associations operating in Highland. Currently our rents are 8th lowest out of the 26 councils which retain housing and 2nd lowest of the 5 main Housing Associations operating in the Council area.
- 5.2 The table below provides recent trends:-

| % rent increase applied | | | | | |
|-------------------------|---------|---------|---------|---------|---------|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| Highland Council | 1% | 1.9% | 1% | 0.5% | 3% |
| Scottish Average | 3.2% | 3.2% | 3.2% | 3.03% | 3% |

- 5.3 The main elements of Housing Revenue Account expenditure relate to housing management, repairs and loan charges. Expenditure per house on these elements compared to the national average based on the last published data is summarised below:

| Annual Expenditure per house 2019/20 | | | |
|--------------------------------------|--------------------|-------------------------|--------------|
| | Housing Management | Repairs and Maintenance | Loan Charges |
| Highland Council | £623 | £1,230 | £1,399 |
| Scottish Average | £839 | £1,229 | £ 914 |

5.4 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.

6 Rent Increase Recommended for 2020/21

6.1 A draft budget based on a 3% rent increase is attached as **Appendix 1**. The key factors in relation to the HRA budget over the coming year are:-

- An overall projected increase of **£2.396m** in rent and other income based on a projected net increase in housing stock numbers and a 3% increase in rent and service charges.
- An increase of **£0.236m** on supervision and management costs the main element of which is increased pay costs.
- A planned increase of 50 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 costs of **£0.207m (23%)** for HRA temporary accommodation. This is balanced by increased rent and service charge income.
- Increased repairs and maintenance expenditure of **£1.780m (10%)**. The most significant element of this is an additional **£1m** to comply with new standards for domestic fire detection arising from changes introduced by the Scottish Government as part of the national response to the Grenfell Tower tragedy. A further **£0.462m** is included based on extra revenue available for planned maintenance based on the recommended 3% rent increase.
- An increase of **£0.195 (5.4%)** advised by the Corporate Resources team in relation to Central Support Charges.
- An increase of **£1.551m (8%)** in loan charges in 2020/21 as a result of planned borrowing to support the HRA capital programme, including meeting the target numbers of new Council houses as set out in Highland's Strategic Housing Investment Programme (2020-2025).

6.2 Taking these, and other factors considered in more detail in the remainder of this report into account, a **3%** rent increase is recommended for 2020/21. 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 **£75.38** to **£77.64 (£2.26 per week)**.

7 Estimates of Expenditure for 2020/21

7.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2020/21 are set out below. The draft budget for 2020/21 with a comparison to the 2019/20 budget is summarised in **Appendix 1**.

7.2 Supervision and Management

- 7.2.1 This budget heading covers the salaries, overheads and other running costs for housing related activities. In producing estimates for 2020/21 direct staff costs have been increased by 3% in line with the Council's general budget assumptions. Bad debt provision of £1.6m has been budgeted based on continuing trends in rent arrears and assumptions about the impact of full service Universal Credit.
- 7.2.2 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.
- 7.2.3 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 2020/21. 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.

7.3 Repairs and Maintenance

- 7.3.1 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. This includes the costs of the Council's in-house building maintenance teams.
- 7.3.2 Estimates for 2020/21 are based on increased repairs and maintenance expenditure of **£1.780m (10%)**. The most significant element of this is an additional **£1m** to comply with new standards for domestic fire detection arising from changes introduced by the Scottish Government as part of the national response to the Grenfell Tower tragedy. Based on a rent increase of 3%, an additional **£0.462m** would be available to allow further environmental works.

7.4 Void Rent Loss

- 7.4.1 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.
- 7.4.2 For mainstream housing, the draft budget for 2020/21 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.

7.5 Central Administration

- 7.5.1 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 2020/21 has been increased by **£0.195 (5.4%)** as advised by the Head of Corporate Finance.

7.6 Loan charges

- 7.6.1 Loan charge estimates for 2020/21 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.
- 7.6.2 Estimates for 2020/21 show loan charges projected to increase by **£1.551m** (7.98%). Loan charges are therefore estimated to be 36.4% of rent income in 2020/21. Although at the higher end of national loan charge to rent income ratios this level of debt is considered by the Head of Corporate Finance to be within prudential limits.
- 7.6.3 It should be noted that the Council's 5-year HRA capital plan is due to be updated during the coming year and this will provide an opportunity to review borrowing and sustainable levels of debt for future years.

7.7 Capital From Current Revenue (CFCR)

- 7.7.1 Councils are able to fund HRA Capital Projects through HRA revenue budgets, either through the use of HRA revenue balances or by a budgeting for an HRA revenue surplus in a specific year.
- 7.7.2 The Council currently has Housing Revenue Account balances of £7.328m. There has been no use of balances during 2019/20, and no use is planned for 2020/21.
- 7.7.3 Based on current HRA revenue estimates for 2020/21 an HRA surplus of £0.826m would be applied as Capital from Current Revenue.

8 Consultation on Rent Levels

- 8.1 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.
- 8.2 The Scottish Social Housing Charter also states that social landlords should set rents and service charges in consultation with their tenants and other customers.
- 8.3 Consultation on proposed rent increases for 2020/2021 ran from 28 October 2019 until 16 December 2019. The initial consultation phase involved 13,996 Highland Council tenants receiving a consultation leaflet through the post.
- 8.4 For tenants who wanted to discuss the consultation in more detail, the Tenant Participation Team visited 90 communities across Highland and carried out face-to-face consultations with more than 900 tenants. In addition to this, telephone consultations were carried out with a further 20 communities and Rent Setting workshops were held with Tenant Forums and Tenant Groups in Brora, Inverness, Lochaber and Kinlochbervie.
- 8.5 The consultation was also available to complete online with links on the Council website and promotions on social media platforms.
- 8.6 Consultation was based on options of a 2.5%; 3% or 3.5% rent increase.

- 8.7 The outcomes from the consultation are contained in **Appendix 2**. Overall the response rate was 1,406 (10%). This is a significant increase in the responses to consultation in previous years. For example last year the response rate was 3.8%. This is largely due to the changes to consultation methods developed and delivered by the Tenant Participation Team working closely with tenant representatives across Highland.
- 8.8 The consultation indicated that most tenants who responded consider current rents to represent good value for money (87.7%), and that most respondents wanted to see additional money spent on planned maintenance and other estate improvements (82.1%).
- 8.9 The option of a 3% rent increase was the preferred option of 49.9% of tenants who replied; 34.2% favoured the 2.5% rent increase option; and 15.9% of tenants favoured the 3.5% option.
- 8.10 Feedback from tenants indicated support for prioritising planned maintenance and other estate improvements and that these should be agreed locally with tenants. Increasing cyclical maintenance programmes such as gutter cleaning / replacement and external paintwork were also popular consultation responses. Work would continue to be identified and prioritised through local Rate Your Estate inspections and other tenant meetings.

9 Estimate of Income for 2020/21

- 9.1 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.
- 9.2 As stated earlier, draft estimates have been developed on the basis of a **3% increase**.
- 9.3 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 30 tenants subject to an adjustment, which will reduce to 15 in 2020/21.
- 9.4 The Council leases 215 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.
- 9.5 For Leased Properties used as temporary accommodation service charges also apply. It is recommended that service charges are increased by **3%**.
- 9.6 Garage rents are now set by area committees, and reports will be presented to Committees early in 2020 to allow garage and garage site rents to be set for 2020/21.

10 Rent affordability and rent arrears management

- 10.1 Rent affordability is a key factor in setting rents. The Council is also facing a significant challenge in relation to rent arrears. 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.
- 10.2 At the end of November 2019 there were 2,629 known Universal Credit claimants in mainstream Highland Council housing. Of these, 2,014 (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.
- 10.3 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 is reducing, however average arrears are still significantly higher than for other tenants, and the number of tenants claiming Universal Credit is increasing.
- 10.4 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 is subject to a separate report to the Committee.

11 Conclusion

- 11.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2020/21. A rent increase of **3%** is recommended for residential rents and service charges.

Designation: Executive Chief Officer Customer and Communities

Date: 16 January 2020

Author: David Goldie, Head of Housing and Building Maintenance

Appendix 1

Housing Revenue Account - Draft Budget 2020-21

| | 2019-20 Budget | 2020-21 Draft Budget | Change |
|------------------------------|---------------------|-------------------------|--------------------|
| BY ACTIVITY | | | |
| Expenditure | | | |
| Supervision & Management | 7,822,603 | 8,058,772 | 236,169 |
| Tenant Participation | 288,524 | 290,585 | 2,061 |
| Sheltered Housing | 710,567 | 721,583 | 11,016 |
| Homelessness | 877,560 | 1,085,117 | 207,557 |
| Repairs & Maintenance | 17,867,800 | 19,648,057 | 1,780,257 |
| House Rent Voids | 754,158 | 783,158 | 29,000 |
| Other Rent Voids | 229,089 | 239,904 | 10,815 |
| Central Support | 3,577,400 | 3,772,115 | 194,715 |
| Loan Charges | 19,445,258 | 20,996,524 | 1,551,266 |
| CFCR | 2,456,313 | 826,067 | (1,630,246) |
| Gross Expenditure | 54,029,272 | 56,421,882 | 2,392,610 |
| Income | | | |
| House Rents | (51,136,369) | (52,994,463) | (1,858,094) |
| Other Rents | (2,454,984) | (2,992,992) | (538,008) |
| Other Income | (376,419) | (372,927) | 3,492 |
| Interest on Revenue Balances | (61,500) | (61,500) | 0 |
| Gross Income | (54,029,272) | (56,421,882) | (2,392,610) |
| | 0 | 0 | 0 |

Tenant consultation on rent levels for 2020/2021

1. Background

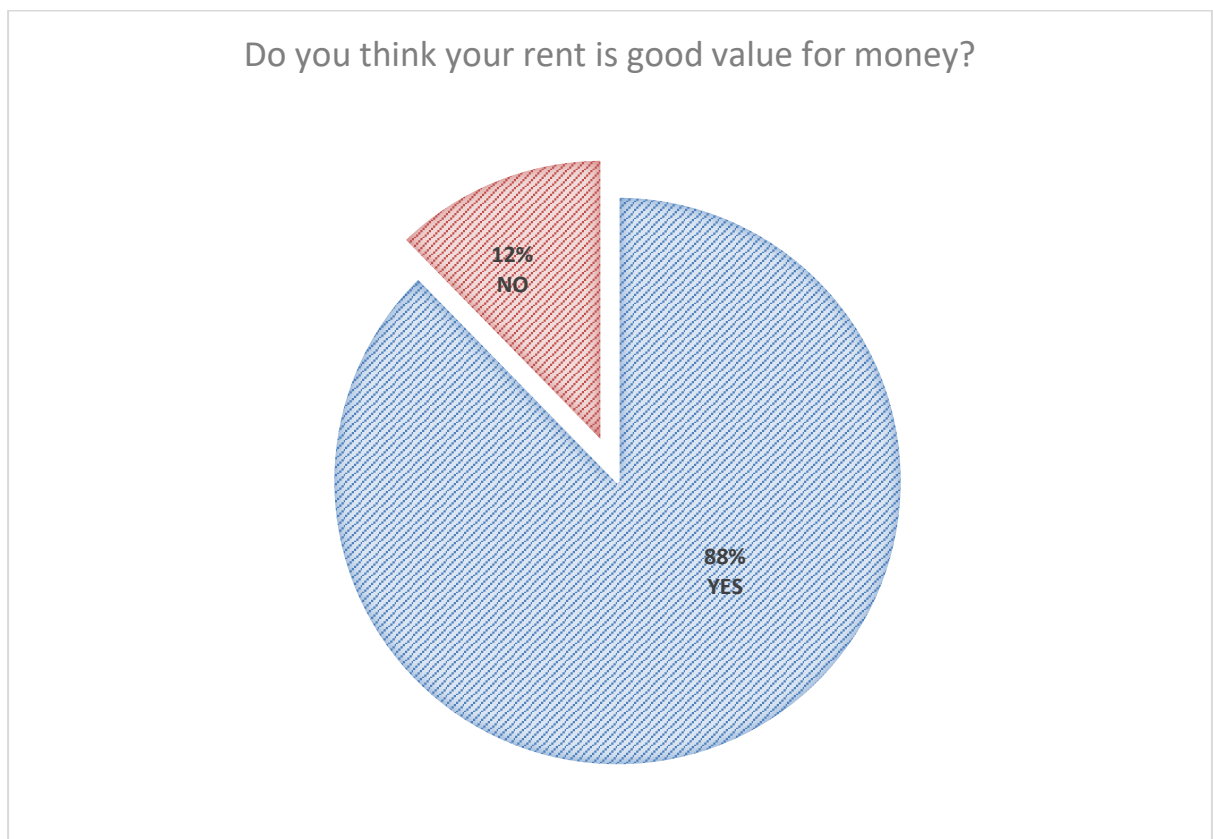
- 1.1 The Housing (Scotland) Act 1987 requires local authorities to consult with their tenants about any proposed rent increase and consider their views when considering rent levels.
- 1.2 The Scottish Social Housing Charter Outcomes 14 and 15 state that social landlords set rents and service charges in consultation with their tenants and other customers.
- 1.3 Consultation on proposed rent increases for 2020/2021 ran until 16 December 2019. The consultation was carried out by post, with 13,996 Highland Council tenants receiving a consultation leaflet.
- 1.4 The consultation was also available on our website and was promoted on Facebook and Twitter. Acting on feedback received from tenants following the 2019/2020 consultation, it was decided to take a more pro-active approach to increase the number of tenants engaging in the consultation process by taking the consultation to them in their own homes and communities.
- 1.5 To achieve this, the Tenant Participation team, supported by the area housing teams, carried out a five-week consultation “road trip” around the Highland Council area. They visited and spoke to tenants in 90 different communities and held face to face discussions with over 1000 tenants. These discussions focused on affordability of rent, access to advice and assistance, and specific local priorities for investment. A further 200 tenants were contacted directly by telephone. These direct conversations also provided an opportunity to identify tenants who needed support and assistance and several referrals were made to the Highland Council Welfare Support Team.
- 1.6 In addition to the above, rent setting workshops were held with the Area Tenant Forums / Tenant Groups in Caithness, Sutherland and East Ross; Inverness; Lochaber and Kinlochbervie. These workshops focussed in greater depth on the Housing Revenue Account (HRA), the affordability of rent and the priorities of tenants.

2. Responses received on Council house rents

2.1 Overall **1,406 (10%)** tenants responded to the consultation out of **13,996 tenants** compared to 3.4% 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?

- **1,381** tenants answered the question about whether they thought their rent was good value for money;
- **87.69%** (1,211) of the people who answered this question think their rent charge represents good value for money.

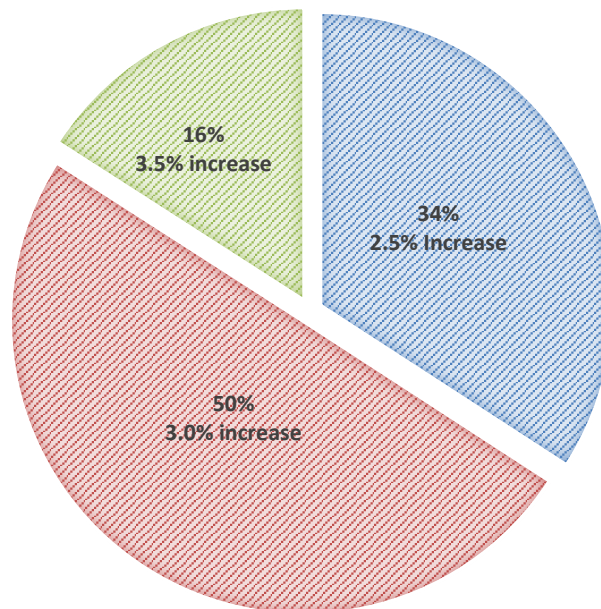


2.3 Level of Rent Increase proposed for houses

- **1,370** tenants answered the question about the level of rent increase
- **34.16%** (468) of those who answered this question wanted to see a **2.5%** rent increase;
- **49.93%** (684) of those who answered this question wanted to see a **3.0%** rent increase;
- **15.91%** (218) of those who answered this question wanted to see a **3.5%** rent increase.

Please indicate if you would be prepared to see a higher rent increase as indicated below so that we can carry out more planned maintenance and other estate improvements

- 2.5% - The minimum rent increase required in order to continue with current levels of service, and deliver the agreed level of capital investment.
- 3.0% - A rent increase of 3% would allow us to spend an extra £460,000 on planned maintenance / other estate improvements.
- 3.5% - A rent increase of 3.5% would allow us to spend an extra £920,000 on planned maintenance / other estate improvements.



2.4 Proposed spend on planned maintenance /other estate improvements.

- **1374** tenants answered the question about whether the Council should spend more money on environmental improvements;
- **82.90%** (1128) of those who answered this question said they thought the Council should spend more money on planned maintenance / estate improvements.

