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| Agenda Item | 3. |
| Report No | HP/01/21 |

HIGHLAND COUNCIL

Committee: Housing and Property Committee

Date: 27 January 2021

Report Title: Housing Revenue Account Estimates 2021/22

Report By: Executive Chief Officer Housing and Property

1 Purpose/Executive Summary

- 1.1 This report presents draft Housing Revenue Account estimates for 2021/2022 together with recommendations on the level of increase to be applied to Council house rents, other rents and service charges.
- 1.2 A **2%** rent increase is recommended for 2021/22. This would result in an increase in the average weekly council house rent from **£77.70** to **£79.25 (£1.55 per week)**.

2 Recommendations

- 2.1 Members are invited to:-
- **Agree** the draft HRA Revenue Budget for 2021/22 (attached as **Appendix 1**);
 - **Agree** a **2%** increase for council house rents for 2021/22;
 - **Agree** that this percentage increase (**2%**) is applied to all residential HRA rents and service charges (except for sheltered housing services) and to Gypsy/Traveller site pitches;
 - **Agree** that there should be no increase in service charges for sheltered housing tenants in 2021/22;
 - **Agree** that non-HRA rents for leased property should be increased as stipulated in existing contracts.

3 Implications

- 3.1 Resource - This report recommends rent levels for 2021/22 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 2021/22 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 2021/22 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2021/22.

5 Overall HRA Position

- 5.1 Over the last 5 years, Highland Council rents have been increasing at a lower rate than nationally or amongst housing associations operating in Highland. Currently we have the 7th lowest average Council house rent out of the 26 Councils that retain housing stock and the lowest of the 5 main Housing Associations operating in the Council area.
- 5.2 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 benchmark figures is summarised below:

| Annual Expenditure per house 2019/20 | | | |
|--------------------------------------|--------------------|-------------------------|--------------|
| | Housing Management | Repairs and Maintenance | Loan Charges |
| Highland Council | £725 | £1,402 | £1,499 |
| Scottish Average | £830 | £1,272 | £ 897 |

- 5.3 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 2021/22

6.1 A draft budget based on a **2%** 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 **£1.717m** in rent and other income based on a projected net increase in housing stock numbers and a **2%** increase in rent and service charges as set out in the recommendations.
- An increase of **£0.614m** on supervision and management costs. This is mainly due to increased pay costs and bad debt provision.
- 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 **£0.119m** for HRA temporary accommodation. This is balanced by increased rent and service charge income.
- A planned reduction in repairs and maintenance expenditure of **£0.741m**. The reflects the fact that the 2020/21 budget contained an additional one-off increase of £1m in relation to fire safety improvements.
- An increase of **£0.148m** advised by the Corporate Resources team in relation to Central Support Charges for HRA related activity undertaken by corporate staff.
- An increase of **£2.378m** in loan charge estimates 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.

6.2 Taking these, and other factors considered in more detail in the remainder of this report, into account, a **2%** rent increase is recommended for 2021/22. Draft estimates on that basis are summarised in **Appendix 1**. A rent increase of **2%** would result in an increase in the average weekly council house rent from **£77.70** to **£79.25 (£1.55 per week)**

7 Estimates of Expenditure for 2021/22

7.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2021/22 are set out below. The draft budget for 2021/22 with a comparison to the 2020/21 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 2021/22 direct staff costs have been increased by 1% in line with the Council's general budget assumptions. Bad debt provision has been increased by £0.400m to £2m based on continuing trends in rent arrears and assumptions about the continuing economic impact of Covid-19, including the increasing numbers of tenants claiming 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. The budget for sheltered housing has reduced slightly due to savings on operating costs for the helpcall system.
- 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 2021/22. This will increase overall management and maintenance costs for these properties. 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 2021/22 are based on increasing staff costs by 1% but maintaining the main revenue budgets at current levels. The overall revenue budget is £0.741m lower than last year. This is largely due to the removal of a one-off revenue budget of £1m, approved for 2020/21, in relation to fire safety measures to comply with new standards for domestic fire detection arising from changes introduced by the Scottish Government. The Committee previously agreed that these costs should be met from Capital rather than revenue, so the overall amount to be invested to fund compliance with the new fire safety requirements has actually been increased.
- 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 2021/22 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.
- 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 2021/22 has been increased by £0.148 as advised by the Head of Corporate Finance.
- 7.6 Loan charges
- 7.6.1 Loan charge estimates for 2021/22 are based on the Council's HRA Capital Plan 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 2021/22 show loan charges projected to increase by £2.378m. This will increase the proportion of HRA rent income required to service debt from 38% to 40%. 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.

7.7 HRA Capital Plan

7.7.1 As previously reported, the Council's HRA Capital Plan was due to be updated this year. Due to uncertainties associated with Covid-19 a one-year programme was approved for 2021/22. A new 5-year Capital Plan will be developed during 2021 and Members will have the opportunity to review borrowing and consider sustainable levels of debt for future years.

7.7.2 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. The Council currently has Housing Revenue Account balances of £7.328m. There has been no use of balances during 2020/21, and no use is planned for 2021/22.

7.7.3 Until this year, and in line with our previous HRA Capital Plan, we have applied a planned year on year HRA Revenue surplus to fund HRA Capital Programme work. This is known as Capital from Current Revenue (CFCR). No CFCR is budgeted for 2021/22. This is largely in order to limit the rent increase required for 2021/22.

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 2021/2022 ran from 4 December until 21 December 2020. As a result of the ongoing social distancing measures the consultation was mainly digital with 14,197 Highland Council tenants being contacted by either email (4,702); text messaging (5,980); or where we did not hold email or mobile contact details by post (3,515). All tenants were given the opportunity to respond by email, by text or by phone.

8.4 The consultation was also available on the Highland Council website and was promoted on Facebook and Twitter. We also arranged a series of public webinars and rent discussion workshops. In addition we held meetings with Tenant Groups and interested tenants via Teams. These workshops focussed in greater depth on the Housing Revenue Account (HRA), the affordability of rent and the priorities of tenants.

8.5 Consultation was based on options of a 1% or 2% rent increase. Overall the response rate was 1,768 (12.45%). This was an increase in the responses to the consultation from previous years. The responses were:

- **1.7%** (30) of those who responded did not choose either option and their related comments indicated that they did not wish to see any rent increase;
- **37.3%** (648) of those who responded about the level of rent increase preferred the option of a **1.0%** rent increase.

- **62.7%** (1,090) of those who responded about the level of rent increase preferred the option of a **2.0%** rent increase.

8.5 The consultation information highlighted that a 1% rent increase would result in a revenue deficit for the year that would have to be funded through a reduction in service and/ or the one-off use of revenue balances. The response received indicates support for a 2% increase this year in order to avoid a higher rent increase in future.

8.6 Feedback from tenants also indicated support for prioritising capital and cyclical maintenance and for increasing consultation with tenants as to what they regard as the priorities for future investment in their homes. Tenants also indicated that the improved delivery of repairs is essential, and a tenant focus group will be established in early 2021 to consider this in more detail.

9 Estimate of Income for 2021/22

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 2% increase for all rents and service charges except those for sheltered housing tenants. Given the adjustments that have been necessary in relation to sheltered housing services as a result of Covid-19 and the fact that there has been a reduction in the use of common rooms and other activities it is recommended that there is no increase in service charges for sheltered housing in 2021/22.

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 17 tenants subject to an adjustment, which will reduce to 15 in 2021/22.

9.4 The Council leases 226 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 **2%**.

9.6 Garage rents are now set by area committees, and reports will be presented to Committees early in 2021 to allow garage and garage site rents to be set for 2021/22.

10 Rent affordability and rent arrears management

10.1 Rent affordability is a key factor in setting rents. In last years rent consultation **87.7%** of our tenants responding stated that they considered their rent represented good value for money, compared to a national average of **83.3%**.

- 10.2 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.
- 10.3 At the end of November 2020, there were 4,209 known Universal Credit claimants in mainstream Highland Council housing. Of these, 2,976 (71%) were in arrears with an average arrears value of £638 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.
- 10.4 There continues to be gradual improvements by the DWP in the administration of Universal Credit cases. Since August 2020, the Council has been receiving payments on the same day as our tenants instead of having to wait for a monthly payment.
- 10.5 Reports on the impact of Covid-19 on rent arrears will continue to be submitted as part of the Housing Performance Report to this Committee. As indicated at the December meeting, there has been a significant increase in rent arrears since the initial lockdown period in March 2020. It should also be noted that since 23 March 2020, 780 tenants have made a new claim for Universal Credit.

11 Conclusion

- 11.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2021/22. A rent increase of **2%** is recommended for residential rents and service charges.

Designation: Executive Chief Officer Housing and Property

Date: 13 January 2021

Author: David Goldie, Head of Housing and Building Maintenance

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| Appendix 1 |
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| | 2020-21 Budget | 2021-22 Draft Budget | Change |
|-------------------------------------|-------------------|-------------------------|------------------|
| <u>Expenditure</u> | | | |
| Supervision and Management | 8,058,769 | 8,672,737 | 613,968 |
| Tenant Participation | 290,585 | 301,247 | 10,662 |
| Sheltered Housing | 721,582 | 710,459 | - 11,123 |
| Homelessness | 1,085,119 | 1,204,071 | 118,952 |
| Repairs and Maintenance | 19,640,059 | 18,898,676 | - 741,383 |
| House Rent Voids | 783,158 | 803,270 | 20,112 |
| Other Rent Voids | 239,904 | 245,618 | 5,714 |
| Central Support | 3,772,115 | 3,920,000 | 147,885 |
| Loan Charges | 20,996,524 | 23,374,720 | 2,378,196 |
| Capital Funded from Current Revenue | 826,068 | - | - 826,068 |
| Gross Expenditure | 56,413,883 | 58,130,798 | 1,716,915 |
| <u>Income</u> | | | |
| House Rents | 52,997,881 | 54,416,462 | 1,418,581 |
| Other Rents | 2,987,041 | 3,286,235 | 299,194 |
| Other Income | 367,461 | 366,602 | - 859 |
| Interest on Revenue Balances | 61,500 | 61,500 | - |
| Gross Income | 56,413,883 | 58,130,798 | 1,716,915 |
| HRA TOTAL | 0 | 0 | 0 |