

Agenda Item	3.
Report No	HP/01/22

HIGHLAND COUNCIL

Committee: Housing and Property Committee

Date: 20 January 2022

Report Title: Housing Revenue Account Estimates 2022/23

Report By: Executive Chief Officer Housing and Property

1 Purpose/Executive Summary

- 1.1 This report presents draft Housing Revenue Account estimates for 2022/2023 together with recommendations on the level of increase to be applied to Council house rents, other rents and service charges.
- 1.2 A **1%** rent increase is recommended for 2022/23. This would result in an increase in the average weekly council house rent from **£79.25** to **£80.04 (£0.79 per week)**.

2 Recommendations

2.1 Members are invited to:-

- **AGREE** the draft HRA Revenue Budget for 2022/23 (attached as **Appendix 1**);
- **AGREE** a **1%** increase for council house rents for 2022/2023;
- **AGREE** that this percentage increase (**1%**) 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.

3 Implications

- 3.1 **Resource** - This report recommends rent levels for 2022/23 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 2022/23 this has been balanced against the availability of housing benefit / Universal Credit to help meet housing costs.

- 3.4 **Climate Change / Carbon Clever** – There will be future financial implications for the Housing Revenue Account in meeting Net Zero targets for Council housing. The implications in relation to Council house rents for 2022/3 are considered in section 7.6 of the 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 2022/23 and the assumptions on which these estimates are based. The report recommends rent and service charge increases for 2022/23.

5 Overall HRA Position

- 5.1 Highland Council's current average weekly rent is the 6th lowest of the 26 Councils that retain housing stock. Informal feedback from other landlords suggests that a 1% increase would be below the national average for 2022/23.
- 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 2021/22			
	Housing Management	Repairs and Maintenance	Loan Charges
Highland Council	£678	£1,308	£1,676
Scottish Average	£947	£1,113	£ 997

6 Rent Increase Recommended for 2022/23

- 6.1 The following factors need to be balanced in considering rent levels for 2022/23:
- Rent affordability is a significant issue for Council house tenants.
 - Continuing financial difficulties are likely to be faced by many households because of Covid 19 and the wider economic situation.
 - There are likely to be increases in cost-of-living due to increasing fuel costs and general inflation.
 - We need to generate sufficient income to continue to invest in housing improvements based on tenant priorities and future requirements, particularly around responding to the climate emergency.
 - We need to continue to deliver services at least at current levels.
 - We need to maintain strong confidence from tenants that the rent they pay represents good value for money.

- 6.2 It is considered that a **1%** rent increase is the minimum level to achieve the best balance of these factors. A draft budget on that basis is attached as **Appendix 1**. The main points to note on the draft budget are set out below.
- 6.3 A rent increase of **1%** would result in an increase in the average weekly council house rent from **£79.25 to £80.04 (£0.79 per week)**. The impact of alternative, additional rent increases is summarised below:

Rent increase	Average weekly rent	Average weekly increase	Comments / Impact
1%	£80.04	£0.79	This would result in a balanced budget based on existing projections.
1.5%	£80.44	£1.19	This would generate a surplus of £0.280m.
2%	£80.83	£1.58	This would generate an additional surplus of £0.280m (total surplus £0.560m)

7 Estimates of Expenditure for 2022/23

- 7.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2022/23 are set out below. The draft budget for 2022/23 with a comparison to the 2021/22 budget is summarised in **Appendix 1**.

7.2 Supervision and Management

- 7.2.1 This budget heading covers the salaries and other running costs for housing related activities. In producing estimates for 2022/23 direct staff costs have been increased in line with the agreed annual pay award. Bad debt provision has been increased by £0.100m to £2.1m 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.
- 7.2.3 The budget for homelessness has been revised to take account of the planned increase in the number of Housing Revenue Account 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 2022/23. This will increase overall management and maintenance costs for these properties. As will be seen below, this additional 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 2022/23 are based on increasing staff costs in line with the national pay award and estimated £0.375m increase in materials costs.

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 2022/23 has remained at 1.48% of gross rent, adjusted to reflect the proposed rent increase. Rent loss on houses used for temporary accommodation tends to be higher than for mainstream property due to higher turnover and repairs costs and servicing, and the budget has been set at 2.6% of gross rent. The budget has been set on the assumption that there will be an additional 50 properties used during 2022/23.

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 2022/23 has been increased by £0.326m as advised by the Head of Corporate Finance.

7.6 Loan charges / Future Capital Investment Pressures

7.6.1 Loan charge estimates for 2022/23 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. The Council has adopted a model for funding Council house building that is 'cost neutral' for existing tenants.

7.6.2 Estimates show loan charges projected to increase by £0.066m for 2022/23. The proportion of HRA rent income required to service debt will reduce marginally from 40% to 39%. This level of debt is considered by the Head of Corporate Finance to be within prudential limits.

7.6.3 The Committee approved the HRA Capital Plan 2022/2027 in December 2021. Planned capital expenditure and resources are summarised below.

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment						
Existing Homes	7,700	19,252	19,930	20,564	21,153	88,599
New Homes	28,800	30,128	31,522	32,987	34,524	157,961
Total Investment	36,500	49,380	51,452	53,551	55,677	246,560
Resources						
Total Borrowing	19,860	32,020	33,336	34,641	35,934	155,791
Grant funding	14,400	15,120	15,876	16,670	17,503	79,569
Land bank	2,240	2,240	2,240	2,240	2,240	11,200
Total Resources	36,500	49,380	51,452	53,551	55,677	246,560

7.6.4 This shows total capital investment estimated at **£246.560m** of which **£155.791m** would be funded from HRA borrowing. In approving the HRA Capital Plan it was noted that the

investment figures were indicative at this stage, as we have yet to factor in additional costs associated with achieving net zero carbon in the Council housing stock.

- 7.6.5 As previously reported we have commissioned work to profile potential measures to achieve net zero carbon before the target date of 2045 and expect this assessment to be complete early in 2022. We will report this to Committee at the earliest opportunity to review and update the Capital Plan.
- 7.6.6 Additional investment will certainly be required to achieve net zero targets. There is no indication that any external funding will be available for Council housing, and so costs will have to be met through HRA income / borrowing. A higher rent increase in 2022/23 would provide a surplus that could be used to increase balances and contribute to funding additional investment in future years. As summarised in the table at paragraph 6.3 of this report a 2% rent increase would result in a revenue surplus of £0.560m compared to a 1% rent increase. This higher rent increase in 2022/23 is unlikely to make a material difference to the Council's overall capacity to deliver future investment nor on the ratio of HRA debt to rent income.
- 7.6.7 HRA balances are currently £11.802m. This includes a revenue surplus of £4.474m from 2020/21, of which £2.755m is earmarked for catch-up repairs in 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 2022/2023 ran from 1 November until 21 November 2021. As a result of the ongoing social distancing measures the consultation was mainly digital with 13,769 Highland Council tenants being contacted by either email (5,050); text messaging (4,669); or where we did not hold email or mobile contact details by post (4,050). All tenants were given the opportunity to respond by email, by text or by phone. A dedicated number was also made available for tenants to call if they wished to discuss the consultation in more detail.
- 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 and produced a video of the webinar presentation which was hosted on the Highland Council web site. These workshops focussed in greater depth on the Housing Revenue Account (HRA), the affordability of rent and the priorities of tenants. In addition the rent consultation and increase proposals were discussed at the Highland Tenant Forum on 27 October 2021.
- 8.5 Consultation was based on options of a 1% or 1.5% rent increase. Overall the number of responses received was 1,567 (11.38%)
The responses were:
- **20** of those who responded did not choose either option and their related comments indicated that they did not wish to see any rent increase;
 - **63.09%** (976) of those who responded about the level of rent increase preferred the option of a **1.0%** rent increase.
 - **36.91%** (571) of those who responded about the level of rent increase preferred the option of a **1.5%** rent increase.

- 8.6 The consultation information highlighted that a **1%** rent increase would result in maintaining services, and completing agreed capital works brought forward from 2021/22. An increase of **1.5%** would generate an additional £280,000 in revenue which could increase the maintenance budget for cyclical maintenance. The response received indicates support for a 1% increase this year.
- 8.7 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.

9 Estimate of Income for 2022/23

- 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 recharges to tenants; and
 - garage and garage site rentals.
- 9.2 As stated earlier, draft estimates have been developed on the basis of a 1% increase for all rents and service charges. Additional rent income has also been assumed based on projected completion of new build housing.
- 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 14 tenants subject to an adjustment, which will reduce to 8 in 2022/23.
- 9.4 The Council leases 229 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 9 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 **1%**.
- 9.6 Garage rents are now set by area committees, and reports will be presented to Committees early in 2022 to allow garage and garage site rents to be set for 2022/23.

10 Rent affordability and rent arrears management

- 10.1 Rent affordability is a key factor in setting rents. The Council's tenant satisfaction survey, reported to Committee in September 2021 showed that **89.9%** of our tenants responding stated that they considered their rent represented good value for money, compared to a national average of **84.1%**.
- 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 general economic issues and the increasing proportion of tenants relying on Universal Credit or other welfare benefits. We are experiencing trends in rent arrears that are common across all Councils. There are likely to be additional financial pressures for many lower income households over the next year as a result of general inflation and particularly increasing energy costs.

- 10.3 At the end of November 2021, there were 4,715 known Universal Credit claimants in mainstream Highland Council housing. This represents an increase from 4,209 at 30 November 2021. Of these, 3,203 (68%) were in arrears with an average arrears value of £643 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.

11 Conclusion

- 11.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2022/23. A rent increase of 1% is recommended for residential rents and service charges.
- 11.2 The recommendation is based on feedback from tenants and balancing the issues summarised in paragraph 6.1 of this report. A 1% rent increase represents the minimum increase required to continue with current levels of service and investment.
- 11.3 The report highlights that additional capital investment will be required in future years, particularly in relation to achieving net zero carbon targets in Council housing. A higher rent increase this year would generate a revenue surplus that could be utilised to fund future investment, or limit future year rent increases.
- 11.4 A revised HRA Capital Plan will be presented to Committee as early as possible in 2022, modelling future investment requirements, loan charges and longer term impact on rents.

Designation: Executive Chief Officer Housing and Property

Date: 7 January 2022

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Appendix 1

HOUSING AND PROPERTY

Housing Revenue Account - Draft Budget 2022-23

Summary

	2021-22	2022-23		
	Budget	Draft Budget		
BY ACTIVITY		1% increase	difference	%
Expenditure				
Supervision and Management	8,672,743	9,393,105	720,362	8%
Tenant Participation	301,247	303,986	2,739	1%
Sheltered Housing	710,459	719,012	8,553	1%
Homelessness	1,204,061	1,215,277	11,216	1%
Repairs and Maintenance	18,898,678	19,504,694	606,016	3%
House Rent Voids	803,269	828,210	24,941	3%
Other Rent Voids	245,618	336,915	91,297	37%
Central Support	3,920,000	4,245,872	325,872	8%
Loan Charges	23,374,720	23,441,313	66,593	0%
Gross Expenditure	58,130,795	59,988,385	1,857,590	3%
Income				
House Rents	54,410,511	56,086,919	1,676,408	3%
Other Rents	3,292,183	3,503,292	211,109	6%
Other Income	366,601	336,674	- 29,927	-8%
Interest on Revenue Balances	61,500	61,500	-	0%
Gross Income	58,130,795	59,988,385	1,857,590	3%
HRA TOTAL	0	0	0	