

Agenda Item	3
Report No	HP/01/23

HIGHLAND COUNCIL

Committee: **Housing and Property Committee**

Date: **26 January 2023**

Report Title: **Housing Revenue Account Estimates 2023/24**

Report By: **Executive Chief Officer Housing and Property**

1 Purpose/Executive Summary

- 1.1 This report presents draft Housing Revenue Account (HRA) estimates for 2023/2024 together with recommendations on the level of increase to be applied to Council house rents, other housing rents and service charges.
- 1.2 A Member briefing on issues affecting the Housing Revenue Account, with a particular focus on future investment in energy efficiency, took place on 31 October 2022. Many of the challenges outlined in this paper were discussed at the seminar.
- 1.3 Financial planning for the Housing Revenue Account is particularly challenging at this time. The overall economic situation, with inflationary pressure on costs; high interest rates affecting loan charges; as well as the cost of living crisis affecting the household income of many tenants all have to be considered.
- 1.4 This report:
 - Provides a brief description of the way the Housing Revenue Account operates, as well as the national policy context around rent increases for 2023/24 arising from emergency legislation passed by the Scottish Government.
 - Considers the external factors affecting Housing Revenue Account financial planning.
 - Sets out estimated Housing Revenue Account running costs for 2023/24 and the implications for service delivery of different levels of rent increase.
 - Estimates income from rents and service charges based on a range of rent increase options.
 - Describes the tenant consultation process and the outcome of consultation on different rent increase options.
- 1.5 In setting Council house rents Members should take account of the need to set a Housing Revenue Account budget where expenditure and income are balanced. This

means any increase in the cost of delivering housing services needs to be balanced by increased rent and other income.

- 1.6 Members should also consider longer-term investment and service needs that will affect future rent levels to ensure that rent income keeps pace with future cost increases, particularly relating to loan charges associated with capital borrowing.
- 1.7 The report makes clear that the trade-off for a lower than inflation rent increase is a reduction in repairs and maintenance spend. The impact of different levels of rent increase on the repairs budget are as follows:

Rent Increase	Impact on repairs budget
3%	Budget reduced by £1.297m
4%	Budget reduced by £0.708m
5%	Budget reduced by £0.107m
6%	Budget increased by £0.484m
7%	Budget increased by £1.074m

- 1.8 A rent increase of 5.25% would be required to achieve a “flat cash” budget on repairs and maintenance. Discussion with Members to date indicates a desire to keep rent rises to a minimum given the cost of living crisis. This is also reflected in the responses to tenant consultation. However, this needs to be balanced against the requirement to ensure the long term sustainability of the HRA, both financially and in terms of the quality of the housing stock. The only ways the value of that maintenance spend can increase in future years is if the budget rises at a rate greater than cost inflation, or if the service is delivered in a more efficient way in future

2 Recommendations

- 2.1 Section 8 and **Appendix 1** of the report set out a range of rent increase options and their impact on the Housing Revenue Account budget for 2023/24. In order to respond to Member concerns around the cost of living crisis and take on board the feedback received through tenant consultation a **4%** rent increase is possible, although this will involve a reduction of £0.708m in the housing repairs and maintenance budget, and will impact negatively on our ability to fund ongoing repairs and maintenance and capacity for future capital investment.
- 2.2 Members are invited to consider the rent increase options set out in Section 8 and **Appendix 1** of the report. If Members agree that a **4%** rent increase is the preferred option, this will result in an increase in the average weekly Council house rent from **£79.97 to £83.17 (£3.20 per week)**. The effect of other rent increase options is summarised in the table at section 8.3.
- 2.3 It is recommended that the rent increase agreed for Council house rents is also applied to all residential HRA rents and service charges, to Gypsy/Traveller site pitches and to non-HRA rents for leased properties.
- 2.4 It is recommended that a review of the current HRA Capital Plan is undertaken this year to assess affordability and the level of future rent increases required to fund future investment.

3 Implications

- 3.1 **Resource:** The report details the implications of different rent increase options all of which need to be viewed in the context of the wider economic conditions and on longer term housing investment requirements. A 4% rent increase would result in a reduction of £0.708m in the Housing Repairs Budget for 2023/24 in cash terms. Due to inflationary pressures the real term impact on the budget would be greater.
- 3.2 **Legal:** This report details the implications in relation to existing legislation and guidance on the operation of Housing Revenue Accounts. It also considers the implications arising from emergency legislation introduced through the [Cost of Living \(Tenant Protection\) \(Scotland\) Bill 2022: overview - gov.scot \(www.gov.scot\)](https://www.gov.scot/bills/2022/10/cost-of-living-tenant-protection-scotland)
- 3.3 **Community (Equality, Poverty and Rural):** There are always potential affordability impacts for individuals associated with any rent increase. This is a particular issue this year in view of the current economic situation and the financial pressure facing many households. In setting rents for 2023/24, Members need to balance this against the availability of financial assistance toward rent and other household costs through the welfare benefits system and other welfare and income maximisation services available.
- 3.4 **Climate Change/Carbon Clever:** There will be future financial implications for the Housing Revenue Account in meeting Net Zero Carbon targets for Council housing. These are in addition to the costs of achieving current and proposed Energy Efficiency Standards for Social Rented Housing (ESSH). Achieving these ambitious targets will involve a significant increase in capital expenditure, which will need to be funded through additional Housing Revenue Account borrowing in future years. A lower rent increases this year could impact on the affordability of future housing investment. The increase in Housing Revenue Account borrowing required to fund additional energy efficiency work will result in higher loan charges to be funded from future rent income from tenant.
- 3.5 **Risk:** The recommendations in the report are based on a series of assumptions and projections, many of which are subject to change. There are a number of risk factors that need to be considered in relation to the Housing Revenue Account Budget for 2023/24:
- There are current in-year pressures, particularly on the Repairs and Maintenance budget. The Housing and Property Committee agreed in November 2022 to suspend non-essential repairs to address a projected in-year overspend. Within the draft budget for 2023/24 we have rolled forward non-pay costs, including those for private repairs contractor costs and on building materials with no increase for cost inflation. There is a risk that actual cost inflation will create further budget pressure on repairs and maintenance in 2023/24, as well as meaning we will get fewer repairs done for the same level of expenditure.
 - The draft budget is based on an assumed 5% pay settlement for 2023/4. If the actual pay award is higher there will be additional cost pressure. For example, an additional 1% on pay costs would create a pressure of £0.133m
 - No budget increase has been applied for bad debt provision, which is budgeted to remain at £2.1m. This is currently considered to be adequate provision, having been increased from £1.6m since 2021/22. There is a risk that an

excessive increase in rent arrears may require an increase in bad debt provision.

- A 4% rent increase would result in a reduction in the repairs and maintenance budget of £0.708m in cash terms compared to the current year budget. Further mitigating action may be required to reduce in-year spend, which could affect service levels across housing services.

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.

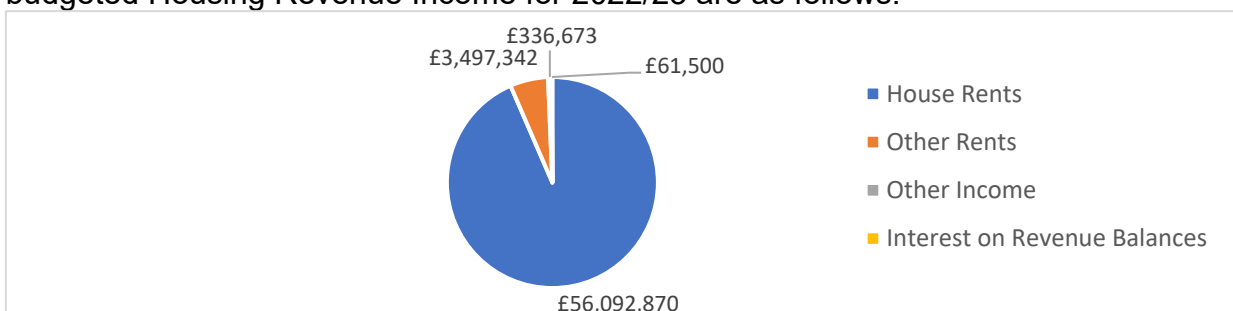
4.2 The table below shows recent trends in average weekly house rents by Councils and Housing Associations:

	18/19	19/20	20/21	21/22	22/23
Councils	£73.46	£75.44	£78.10	£79.70	£82.10
Housing Associations	£85.18	£88.01	£89.82	£91.51	£95.73
All landlords	£79.07	£81.47	£83.84	£85.36	£89.21
Highland	£67.59	£69.58	£71.72	£73.15	£74.88

4.3 Highland Council rents have increased cumulatively by 9.5% in the last 5 years compared to 12.9% for all social landlords. The Council's average Council house rent is below the national average. On an annualised basis the average Highland Council Rent for 2022/23 was estimated as £74.88 per week, compared to the average of £89.21 per week for all Council and Housing Association landlords. The indications this year are that Highland housing association rents are likely to increase within the 5% to 8% range.

4.4 The Head of Corporate Finance reported on the Financial Crisis to the Council meeting on 8 December 2022. The external factors described in that report apply equally to the Housing Revenue Account. The effect of cost inflation on both capital and revenue costs and the impact of rising interest rates leading to increased loan charges are major issues affecting the Housing Revenue Account.

4.5 Although many of the factors affecting Housing Revenue Account expenditure are the same as those affecting the Council General Fund there is a fundamental difference in how Housing Revenue Account services are funded. Services are almost exclusively funded through income received from rents and service charges paid by Council house tenants, with no external revenue support from Scottish Government. The sources of budgeted Housing Revenue Income for 2022/23 are as follows:



5. National Policy Position

- 5.1 As part of its response to the cost of living crisis The Scottish Government introduced the [Cost of Living \(Tenant Protection\) \(Scotland\) Bill 2022: overview - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/bills/2022/11/1/cost-of-living-tenant-protection-scotland-bill-2022-overview) in November 2022. This set a temporary freeze on rent increases for most existing tenancies in private and social rented housing until March 2023.
- 5.2 Whilst accepting the very real difficulties faced by tenants in the current economic climate, social landlords nationally voiced concerns about the potential impact of a rent freeze or rent cap on their long term business plans, and their ability to invest to meet the Scottish Government's affordable housing supply targets and to decarbonise their existing housing stock.
- 5.3 COSLA Leaders considered and approved a "Statement of Intent" on Housing Revenue Account planning on 28 November 2022. In summary the statement:
1. Confirms that local authorities recognise the severe financial crisis facing many of our tenants and other individuals and households.
 2. Confirms the statutory requirement that, when setting rents, local authorities should take no account of the personal circumstances of tenants.
 3. Recognises that those who are the most financially vulnerable are provided protection from rent increase through the benefits system.
 4. Confirms that local authorities have a common commitment to exercise their power to increase rents as circumstances require in relation to the history and financial position of their Housing Revenue Accounts.
 5. In view of the cost of living crisis local authorities intend to keep rental increases to an average of £5.00 per week (6.4%) across the country.
- 5.4 In addition, the Scottish Federation of Housing Associations, have reported that their members are consulting with tenants on a set of increases in April 2023 that will average 6.1%.
- 5.5 The national rent freeze lasts until 31 March 2023 and required the Scottish Government to review and report on the need for the measures. That report was published on 12 January 2023, and can be seen at: [The Cost of Living \(Tenant Protection\) \(Scotland\) Act 2022: First Report to the Scottish Parliament - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/reports/2023/01/12/cost-of-living-tenant-protection-scotland-act-2022-first-report-to-the-scottish-parliament). It confirms that regulations will be submitted to Parliament that will end the provisions relating to the rent cap in the social rented sector in time to allow rents in the sector to be increased as usual.
- 5.6 The report states that this is being done to "allow Council's flexibility to ensure that social sector rent levels are adequate to support repairs, maintenance, meeting energy efficiency and carbon neutral targets and to ensure social landlords can continue to deliver the essential support services they provide for their tenants".
- 5.7 The following sections of this report set out the assumptions made regarding Housing Revenue Account expenditure for 2023/24 and the impact of different rent increase options on the expenditure budget available in order to set a balanced Housing Revenue Account Budget.

6 Estimates of Expenditure for 2023/24

6.1 The main elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2023/24 are set out below. The draft budget options for 2023/24 with a comparison to the 2022/23 budget is summarised in **Appendix 1**.

6.2 Supervision and Management

6.2.1 This budget heading includes the salaries and other running costs for housing related activities. As Members will be aware, the Council faced unbudgeted excess staff costs associated with the 2022/23 pay award. This produced a pressure in the current year Housing Revenue Account budget, which is being addressed through vacancy and other budget management. The draft Housing Revenue Account budget for 2023/24 takes into account the 2022/23 pay award and assumes a further 5% pay award for 2023/24. The total salary cost estimated for 2023/24 is £14.914m. There are some risks associated with a higher pay settlement in 2023/24. A 6% pay award would require a budget increase to £15.047m (an increase of £133k) and if the pay award was to be 7% then the total salary budget would increase to £15.180m (an increase of £266k). There has been no increase in the non-staffing elements of the Supervision and Management budget.

6.2.2 Tenant Participation, Sheltered Housing and Homelessness are separate budget headings within the overall category of Supervision and Management costs. There has been no increase to the non-staffing elements of these budgets.

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. This includes the costs of the Council's in-house Building Maintenance teams.

6.3.2 Staff costs have been increased in line with the local government pay award as outlined in paragraph 6.2.1 (above).

6.3.3 Since 2017/18 we have increased the revenue budget for environmental improvements as follows:

Year	Budget increase	Total Budget
2016/17		£495,300
2017/18	£750,000	£1,245,300
2018/19	£257,000	£1,502,300
2019/20	£510,000	£2,012,300
2020/21	£462,000	£2,474,300

6.3.4 The total budget has increased by £1,979,00 over the last 5 years. In order to reduce costs next year, it is proposed to remove this additional budget and revert to the original revenue environmental budget of £495,300.

6.3.5 All other Repairs and Maintenance budgets, including for external contractor costs and building materials, have been rolled forward at current levels. Given current inflation this will result in pressure on the budget in light of increasing contractor and supply / material costs. The budget makes no allowance for the extra costs of meeting new duties to provide enhanced periodic electrical safety checks. This work will have to be

prioritised, meaning less of the budget available for routine day to day repairs. The budget also needs to cover repairs and maintenance for an increased housing stock.

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 2023/24 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 5% of gross rent.

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 2023/24 has been increased by 5%, from £4.246m to £4.458m, in line with staff cost inflation.

7 Loan charges / Future Capital Investment Pressures

- 7.1 A large proportion of the Council's Housing Revenue Account Capital Programme is funded through borrowing. Scottish Government capital grant funding is available for the new build programme, but capital investment in improvements to existing housing is almost exclusively funded via borrowing.
- 7.2 Loan charge estimates for 2023/24 are based on the Council's current HRA Capital Plan reflecting expected borrowing to fund the committed new build programme as well as improvements to the Council's housing stock.
- 7.3 Rising loan charges will be a significant pressure on the Housing Revenue Account in 2023/24. Based on current estimates, and continuing current HRA Capital Plan activity, it is estimated that loan charges will increase by **£2.850m** next year, to **£26.291m**. The proportion of loan charges to income based on different rent increase options is summarised in section 8.3 (below).
- 7.4 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

- 7.5 This shows total capital investment estimated at £246.560m of which £155.791m would be funded from HRA borrowing. Loan charges are projected to increase from £26.261m in 2023/24 to £35.126m in 2026/27 based on current Capital Plan investment, and a greater proportion of rent income will be required to fund repayment of debt. More information on this is provided in section 8.3 (below). The trend of increasing loan charges will create budget pressures in future years.
- 7.6 In approving the HRA Capital Plan it was noted that the investment figures were indicative at this stage, as we had not yet factored in additional costs associated with achieving net zero carbon in the Council housing stock. The plan was also approved prior to current high construction cost inflation and higher interest rates affecting the Council's borrowing costs. During 2022 the Council commissioned Changeworks to profile improvement measures to meet the Energy Efficiency Standard for Social Housing (ESSH). The findings were presented to the Member Briefing that took place on 31 October 2022.
- 7.7 Currently, 1,067 properties (7%) reach the ESSH2 required energy efficiency rating, which is the same as the national estimate for all Scottish social housing.
- 7.8 A range of measures were identified to increase energy efficiency and to work towards ESSH2 compliance. This would include:
- Wall insulation measures for 1,230 properties (9% of homes)
 - High efficiency glazing for 8,006 properties (60% of homes)
 - Floor insulation measures for 10,852 properties (81% of homes)
 - Heating upgrades for 7,224 properties (54% of homes)
 - Solar thermal for 4,011 properties (30% of homes)
 - Solar photovoltaic for 6,543 properties (49% of homes)
- 7.9 Estimated costs for all identified measures are £261m, with the average cost per property requiring at least one measure estimated as £20,225. Installing all the applicable modelled improvements would increase the proportion of Council housing meeting the ESSH2 requirements from 7% to 49%, leaving 51% of our housing below the ESSH2 standard.
- 7.10 If all the measures were installed, the average annual running costs per household would be £991. This would be a 28% reduction in running costs across the entire stock per year.
- 7.11 The costs quoted for investment and energy savings should be treated with caution as these are based on estimates prior to current inflation rates and increases in domestic energy costs.
- 7.12 The Scottish Government is currently reviewing the ESSH2 standard. Further discussion is required nationally on aligning the standard with Net Zero Carbon investment and also on how the work is to be funded. However, this is progressed it seems inevitable that significant additional capital works will be required and in the

absence of equally significant external funding the cost will have to be borne by Council house tenants through higher rents in future years.

- 7.13 Given increasing construction cost inflation and higher interest rates affecting the cost of borrowing there is a real issue of affordability of the current HRA capital programme, even without the extra costs associated with improving energy efficiency. It is recommended that a review of the current HRA Capital Plan be undertaken this year to assess affordability and the level of future rent increases required to fund future investment.

8 Estimate of Income for 2023/24

- 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 other charges to tenants; and
- garage and garage site rentals.

- 8.2 Total rent income also increases through new build property added to the housing stock. In the rent increase options (**Appendix 1**) we have assumed that there will be a total of 256 new build completions in 2022/23 and 178 in 2023/24 and budgeted the additional rent income on the basis of the best estimate of when new build properties will be let, and income generated. We have made no allowance in the estimates for additional housing management and repairs costs associated with new build properties.

- 8.3 Estimates were originally produced based on 3 rent increase options: a 3% rent increase; a 5% rent increase or a 7% rent increase. The average weekly rent, average rent increase and total income estimated based on these options is set out in the table below. A rent increase of 4% would be in line with trends in rent increases for other Councils and may better match Member expectations of acceptable level of increase in light of the cost of living crisis. A rent increase of 6% would be closest to the national average increase set out in the COSLA statement of intent and report to the Scottish Parliament on The Cost of Living (Tenant Protection) (Scotland) Act 2022. Both of these options have been included in the table below. The Table also shows the impact of different rent increase options on the proportion of income required to service debt. For 2022/23 loan charges are 39% of rent income, so all rent options for 2023/24 will involve a higher proportion of income required to service loans, and therefore a smaller proportion available to fund front line services.

Rent Increase	Average Weekly Rent	Increase in weekly rent	Total Rent Income	Loan charges as % of income
3%	£82.37	£2.40	£62.373m	42.2%
4%	£83.17	£3.20	£62.972m	41.8%
5%	£83.97	£4.00	£63.582m	41.3%
6%	£84.77	£4.80	£64.182m	41.0%
7%	£85.57	£5.60	£64.782m	40.6%

- 8.4 Details of rent increase options are set out in Appendix 1. A summary of these options is as follows:
- 8.5 **Increase rents by 3%: Average increase of £2.40p per week**
The housing repairs budget would be reduced by £1.297m in cash terms. Due to the inflationary pressures already referenced the real term impact on the budget would be greater. We would be able to provide essential front-line services but there would be a reduction in carrying out non-essential repairs and estate improvements and we may not be able to respond as quickly to other housing issues.
- 8.6 **Increase rents by 4%: Average increase of £3.20p per week**
The reduction in the repairs budget is lower than the 3% option, but the housing repairs budget would be reduced by £0.708m. Due to inflationary pressures the real term impact on the budget would be greater. We would be able to provide essential front-line services but would have reduced capacity to carry out non-essential repairs and estate improvements and we may not be able to respond as quickly to other housing issues.
- 8.7 **Increase rents by 5%: Average increase of £4.00p per week**
The housing repairs budget would be reduced by £0.107m. Due to the inflationary pressures the real term impact would be higher, affecting our ability to carry out non-essential repairs and maintenance work and respond as quickly to other housing issues.
- 8.8 **Increase rents by 6%: Average increase of £4.80p per week**
The housing repairs budget would be increased by £0.484m. This would provide some protection against service cost inflation to help maintain current services. The average rent increase would be within the national average increase proposed in the COSLA statement of intent and the report to the Scottish Parliament in response to the Cost of Living (Tenant Protection) (Scotland) Act 2002.
- 8.9 **Increase rents by 7%: Average increase of £5.60p per week**
The housing repairs budget would be increased by £1.074m. This would better protect current services against inflation and help us to maintain service levels. The average rent increase would be above the national average increase proposed in the COSLA statement of intent and the Parliamentary report on the Cost of Living (Tenant Protection) (Scotland) Act 2002.
- 8.10 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 2023/24.
- 8.11 The Council leases 120 properties from private landlords. All leases allow for rent increases equal to that applying to council house rents.
- 8.12 Garage rents are now set by Area Committees, and reports will be presented to Committees early in 2023 to allow garage and garage site rents to be set for 2023/24.

9. Consultation on Rent Levels

- 9.1 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.
- 9.2 The Scottish Social Housing Charter also states that social landlords should set rents and service charges in consultation with their tenants and other customers.
- 9.3 Consultation on proposed rent increases for 2023/2024 ran from 18 November to 18 December 2022. 14,417 tenants were contacted via post, email or text. All tenants were given the opportunity to respond by email, by text or by phone. A dedicated number was also set up to allow tenants the opportunity to discuss the consultation in more detail with officers.
- 9.4 The consultation was also available on the Highland Council website and was promoted through the Highland Tenant Network. A Value For Money workshop was held with tenant representatives which focussed in greater depth on the Housing Revenue Account (HRA), the affordability of rent and the priorities of tenants. The rent consultation was also discussed at the Highland Tenant Forum on 26 October 2022.
- 9.5 As outlined earlier in this report, consultation was based on options of a 3% or 5% or 7% rent increase. Consultation pre-dated the COSLA statement of intent in response to the Cost of Living (Tenant Protection) (Scotland) Act 2002. Overall, the number of responses received was 1,553 which constitutes 10.77% of tenants. Preferred rent increase options were as follows:

Rent Increase Option	Number of responses	Percentage of responses
3%	885	56.99%
5%	451	29.04%
7%	217	13.97%

- 9.6 The question of affordability was asked in the rent consultation and **73.47%** (1,141) of tenants who responded advised that they thought their rent represented good value for money.
- 9.7 At present rents are charged over 48 weeks with 4 charge-free weeks. The consultation also asked if tenants would prefer a change to the way rent are charged to a 52 week basis. This would have meant that tenants would have had lower weekly payments but would have paid every week without the charge free weeks. Most people (64.6% of respondents) wanted to continue with the current arrangement.
- ## 10. Mitigation / Affordability
- 10.1 Rent affordability and the impact of the cost of living crisis on tenants are key factors to consider in setting rents. As stated earlier in this report these factors need to be balanced against the need to provide front line services and fund current and future investment in housing stock improvement.

- 10.2 The UK Government has announced that the State Pension and Welfare Benefits will increase by 10.1% on 1 April 2023. Previous reports to Committee have highlighted the work we are doing within the Service and corporately to target welfare support to those most in need, including many Council house tenants. Details of the assistance available locally to help families affected by the cost of living crisis can be found at: [Cost of Living | The Highland Council](#)
- 10.3 There are various supports available for tenants who qualify for means-tested entitlements. Help with housing costs is available from housing benefit, the housing element of Universal Credit and Discretionary Housing Payments.
- 10.4 To help with the daily cost of living, a wide range of supports are available which include but are not limited to Pension Credit, disability payments, and Best Start Grants. In November 2022, the Scottish Child Payment increased to £25 per week and eligibility was extended to include eligible children up to age 16. The benefit cap is a limit on the total amount of benefit awarded and will increase from April 2023 by 10.1% in line with the September 2022 Consumer Price Index (CPI).
- 10.5 In addition to means-tested entitlements for those on low incomes, the UK Government's Energy Price Guarantee continues to cap energy costs, avoiding the average tenant from costs of around £900 during winter 2022 and around a further £500 in 2023/24.
- 10.6 The UK National Living Wage, for those aged 23 and over, will increase by 9.7% to £10.42 per hour from April 2023 and the independently-calculated Real Living Wage is currently set at £10.90 per hour.
- 10.7 The Scottish Welfare Fund provides crisis grants to help with an unexpected emergency, including fire or flood, loss of money or redundancy. Community care grants help individuals to start or to continue living a settled life in the community.
- 10.8 At the November meeting of the Committee, Members were provided with details on the review of the Rent Arrears Management Policy. That report detailed the actions being taken by the Housing Service to support Highland Council tenants through the on-going "cost of living" crisis and what we are doing to manage arrears and support tenants who may be in financial difficulty.

11. Housing Revenue Account Reserves

- 11.1 The Council has Housing Revenue Account Reserves of **£7.874m**. These are made up of revenue surpluses generated in previous years. Reserves need to be used to offset any annual overspends on the Housing Revenue Account. Recent movement on Reserves is set out in the table below.

Movement on HRA Reserves	£'000
Reserves at 1 April 2020	7.328
20/21 surplus added to reserves	+4.474
Reserves at 31 March 2021	11.802
Drawdown to fund additional repairs expenditure	-2.755
Drawdown to fund additional costs	-1.173
Reserves at 1 April 2022	7.874

- 11.2 Current reserves are 13.1% of the current annual Housing Revenue Account. The same level of balances would be 12.5% of the HRA budget with a 4% rent increase. Current Housing Revenue Projections indicate a potential overspend of £2.875m on the 2022/23 budget. In response to this pressure the Housing and Property Committee in November 2022 decided to suspend non-essential repairs to provide in-year mitigation. Despite this there may be a requirement for further use of reserves to balance the Housing Revenue Account at year end. A year end overspend at the level currently estimated would reduce balances to £4.999m, or 7.9% of the HRA budget.
- 11.3 Reserves could be used for additional repairs expenditure or as a contribution to capital costs to reduce loan charges in future years. However, using Reserves to temper an in-year rent increase would have the effect of reducing the rental base relative to costs and create additional pressure on the Housing Revenue Account in future years. The level of Reserves is also relatively low as a proportion of overall Housing Revenue Account borrowing and using Reserves to reduce in-year borrowing would have a minimal impact on overall loan charges in future years.
- 11.4 Given the cost pressures facing the Housing Revenue Account outlined in this report and the uncertainty over future Housing Revenue Account costs, the planned use of balances to reduce the rent increase required for 2023/24 would not be recommended. In fact, there may be a need to build up reserves in future to address future budget pressures. As stated in Section 3 of this report, covering the Risk Implications of this report, should there be continuing staff cost and other exceptional inflationary pressures on Housing Revenue Account expenditure in 2023/24 which cannot be addressed by in-year mitigation, then Reserves may be required to meet the legal requirement to achieve a balanced Housing Revenue Account at year-end.

Designation: Executive Chief Officer Housing and Property

Date: 16 January 2023

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David Goldie Head of Housing and Building Maintenance

