

Agenda Item	4
Report No	HP/01/24

The Highland Council

Committee: Housing & Property Committee

Date: 31 January 2024

Report Title: Housing Revenue Account Estimates 2024/25

Report By: Executive Chief Officer Housing & Property

1 Purpose/Executive Summary

- 1.1 This report presents draft Housing Revenue Account (HRA) Estimates for 2024/2025 together with recommendations on the level of increase to be applied to Council house rents, other housing rents and service charges.
- 1.2 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.
- 1.3 This report:
 - Confirms that Highland Council rents continue to be significantly lower than the national average for registered social landlords;
 - Provides a brief description of the way the Housing Revenue Account operates and considers the external factors affecting Housing Revenue Account financial planning;
 - Sets out estimated Housing Revenue Account running costs for 2024/25 and the implications for service delivery of the recommended rent increase of **7.95%**;
 - Estimates income from rents and service charges based on the recommended rent increase of **7.95% equivalent to £6.68 per week**;
 - Describes the tenant consultation process and the outcome of consultation on different rent increase options.
- 1.4 In setting Council house rents, there needs consideration of the requirement 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.

- 1.5 Members should also consider the longer-term investment and housing priorities set out in Our Future Highland Administration Programme 2022-2027, which commits to delivering and enabling a housing supply which supports communities' needs and contributes to the economic growth of the area. These needs 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. The status of loan charge repayments is set out in section 6 of this report, and it should be noted that a review into stock viability and mitigation of the impact of borrowing is underway.
- 1.6 The intention is that the above review will facilitate further discussion at Committee and provide a framework to make long-term decision-making, with rental increases approved in advance over a number of years rather than on an annual basis. Tenants will continue to be consulted on an annual basis as to what their priorities are for housing services.

2 Recommendations

- 2.1 Members are invited to:
- (i) **APPROVE a 7.95%** rent increase which will result in an increase of £6.68 in the average weekly Council house rent from **£83.17 to £89.85 per week**. This increase for 2024/25 would still be lower than average Council house rents in Scotland for 2023/24;
 - (ii) **NOTE** the above rent increase will be applied to all residential HRA rents and service charges, to Gypsy/Traveller site pitches and to non-HRA rents for leased properties (subject to lease agreements);
 - (iii) **APPROVE** the increase to **£15 per week** in the new build supplement service charge to tenants moving into new build housing from 1 April 2024;
 - (iv) **NOTE** the current strategic review of the Housing Revenue Account which will enable Committee in 2024 to agree long-term rental increases in line with a revised Housing Revenue Account Capital Plan.

3 Implications

- 3.1 **Resource** – The report details the implications of the recommended rent increase which needs to be viewed in the context of the wider economic conditions and on longer term housing investment requirements. It should also be noted that any rent increase will place an additional budget pressure on the Council's housing benefit budget for 2024/25. This is estimated at £0.507m.
- 3.2 **Legal** - This report details the implications in relation to existing legislation and guidance on the operation of Housing Revenue Accounts.
- 3.3 **Community (Equality, Poverty, Rural and Island)** - There are always potential affordability impacts for individuals associated with any rent increase. This is a particular issue at present in view of the current economic situation and the financial pressure facing many households. In setting rents for 2024/25, 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 (as detailed in section 9 of this report).
- 3.4 **Climate Change / Carbon Clever** – There will be future financial implications for the Housing Revenue Account in working towards improved energy efficiency and Net Zero Carbon targets for Council housing. 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 increase 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 tenants.

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 2024/25 which are detailed at section 6 of the report.

3.6 **Health & Safety (risks arising from changes to plant, equipment, process, or people)** – No impact arising from this report.

3.7 **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. Please note that these are based on a 52-week rental charge.

	18/19	19/20	20/21	21/22	22/23	23/24
Councils	£73.46	£75.44	£78.10	£79.70	£82.10	£85.21
Housing Associations	£85.18	£88.01	£89.82	£91.51	£95.73	£100.84
All landlords	£79.07	£81.47	£83.84	£85.36	£89.21	£93.73
Highland Council	£67.61	£69.66	£71.69	£73.15	£73.88	£76.77

4.3 The Council's average Council house rent remains well below the national average. On a 52-week rental charge basis the average Highland Council Rent for 2023/24 is £76.77 per week, compared to the average of £93.73 per week for all Council and Housing Association landlords. The indications this year are that the majority of Council and housing association rents are likely to increase within the 5% to 8% range for 2024/25.

4.4 The table below provides further information on the average current rent charge based on property size based on the current 48-week rental payment. It confirms that even with a 7.95% increase for 2024/25, Highland rents will remain lower for the vast majority of our stock than 2023/24 averages across Scotland.

Size of Property	Current average weekly rent 2023/24	Rent increase 7.95% for 2024/25	Difference +	Scottish National average 2023/24
Bedsit	£64.51	£69.64	£5.13	£82.28
1 Bedroom	£74.17	£80.07	£5.90	£87.75
2 Bedroom	£83.80	£90.46	£6.66	£90.71
3 Bedroom	£93.44	£100.87	£7.43	£98.79
4+ Bedrooms	£103.07	£111.26	£8.19	£109.05

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.

5 Estimates of Expenditure for 2024/25

5.1 The following sections of this report set out the assumptions made regarding Housing Revenue Account expenditure for 2024/25 and the impact of different rent increase options on the expenditure budget available in order to set a balanced Housing Revenue Account Budget. The draft budget 2024/25 is detailed at **Appendix 1** of this report.

5.2 Supervision and Management

5.2.1 This budget heading includes the salaries and other running costs for housing related activities. The draft Housing Revenue Account budget for 2024/25 takes into account a projected 3% pay award for 2024/25. This increases the budget by £0.327m for 2024/25. There has been no increase in the non-staffing elements of the Supervision and Management budget.

5.2.2 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. Savings have been made through changes to the telecare system without a reduction in the sheltered housing service. This decreases the sheltered housing budget by £0.078m for 2024/25.

5.3 Repairs and Maintenance

5.3.1 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.

5.3.2 Staff costs have been increased in line with the local government pay award as outlined in paragraph 5.2.1 (above).

- 5.3.3 As reported in the Annual Assurance Statement to November Committee, changes to the regulations around electrical condition inspections have created an additional cost pressure. The estimated costs for 2024/25 are £0.750m.
- 5.3.4 All other Repairs and Maintenance budgets, including for external contractor costs and building materials, have been rolled forward at current levels. This will include the grounds maintenance budget which involves grass-cutting and weed control in housing estates which is delivered by Amenities Services.
- 5.3.5 Given current inflation this will result in pressure on the budget in view of increasing contractor and supply / material costs. The budget also needs to cover repairs and maintenance for an increased housing stock.
- 5.3.5 As indicated in **Appendix 1** to this report, the £0.897m additional funding raised from the recommended 7.95% rent increase will help fund non-essential repairs, many of which have been suspended/delayed in 2023/24.

5.4 **Void Rent Loss**

- 5.4.1 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.
- 5.4.2 One of the public engagement ideas associated with the Council Budget process 2024/25 was the trial of a void homes plus standard. The suggestion is that an enhanced empty homes standard for re-let may increase tenancy sustainment and reduce the number of refusals of housing at the allocation process which in turn will minimise void rental loss.
- 5.4.3 For mainstream housing, the draft budget for 2024/25 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.

5.5 **Central Administration**

- 5.5.1 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 2024/25 has remained at £4.458m.

6 **Loan Charges / Future Capital Investment Pressures**

- 6.1 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.
- 6.2 Loan charge estimates for 2024/25 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.

- 6.3 Rising loan charges will be a significant pressure on the Housing Revenue Account in 2024/25. Based on current estimates, and continuing current HRA Capital Plan activity, it is estimated that loan charges will increase by **£3.209m** next year to **£29.500m**.
- 6.4 Committee approved the HRA Capital Plan 2022/2027 in December 2021. Planned capital expenditure and resources for the remaining years of the Plan are summarised below.

	2024/25	2025/26	2026/27	Total
	£'000	£'000	£'000	£'000
Investment				
Existing Homes	19,930	20,564	21,153	61,647
New Homes	31,522	32,987	34,524	99,033
Total Investment	51,452	53,551	55,677	160.680m
Resources				
Total Borrowing	33,336	34,641	35,934	103,911
Grant funding	15,876	16,670	17,503	50,049
Land bank	2,240	2,240	2,240	6,720
Total Resources	51,452	53,551	55,677	160.680m

- 6.5 This shows total capital investment estimated at **£160.680m** of which **£103.911m** would be funded from HRA borrowing. Loan charges are projected to increase further 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 7.3 (below). The trend of increasing loan charges will create budget pressures in future years.
- 6.7 **Appendix 2** of this report provides an illustrative graph identifying the potential impact of future annual rent increases and how this correlate to loan charge repayments. It offers an illustrative perspective on how a long-term rent-setting strategy will assist in developing future capital investment priorities and how maximising rental income will provide more long-term opportunity to focus on investment in stock rather than loan charge repayments. This will be essential as the Council moves towards the Net Zero Standard in 2045 as detailed at section 6.9 below.
- 6.8 In approving the HRA Capital Plan it was noted that the investment figures were indicative at that stage, as we had not yet factored in additional costs associated with achieving net zero carbon where technically feasible 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 (EESH). The findings were presented to the Member Briefing that took place on 31 October 2022 and updates have been provided to the Climate Change Committee and Member Net Zero Workshops as part of the Net Zero Social Housing Thematic Plan.
- 6.9 The Scottish Government is currently consulting on changes to the Energy Efficiency Standard for Social Housing. This is likely to result in significant policy changes with the intention to decarbonise heating systems and phase out the use of gas heating systems by 2045 as part of a proposed Social Housing Net Zero Standard. However, this is progressed it is inevitable that significant additional capital works will be required.

Without a significant increase in external funding, the cost will have to be borne by Council house tenants through higher rents in future years.

- 6.10 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. A review of the current HRA Capital Plan is ongoing to assess affordability and the level of future rent increases required to fund future investment. This will link to discussions on the future funding of new build housing (as reported in the Strategic Housing Investment Plan 2024-2029) and also the stock viability assessment of Council stock in 2024.

7 Estimate of Income for 2024/25

- 7.1 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.
- 7.2 Total rent income also increases through new build property added to the housing stock. In the rent increase options we have accounted for estimated new build completions in 2024/25 and budgeted the additional rent income on the basis of the best estimate of when new build properties will be let, and income generated.
- 7.3 For 2023/24 loan charges are 41.7% of rent income, so all rent options for 2024/25 will involve a higher proportion of income required to service loans, and therefore a smaller proportion available to fund front line services. Even with the recommended rent increase of 7.95%, the estimated loan charges for 2024/25 will be 43.0% of rent income.
- 7.4 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 8 tenants subject to an adjustment.
- 7.5 The Council leases 194 properties from private landlords and housing associations. All leases allow for rent increases equal to that applying to council house rents.
- 7.6 Garage rents are set by Area Committees, and reports will be presented to Committees early in 2024 to allow garage and garage site rents to be set for 2024/25.

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 2024/2025 ran from 20 November to 11 December 2023. 14,858 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.

8.4 The consultation was also available on the Highland Council website and was promoted through the Highland Tenant Network. Value for Money workshops were 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 13 December 2023.

8.5 Consultation was based on the following options:

Increase rents by 6.5%: Average increase of £5.44 per week

Essential repair and maintenance services would be retained in cash terms. Due to the inflationary pressures already referenced the real term impact on the budget would be negative and would involve continued delays in carrying out non-essential repairs and estate improvements.

Increase rents by 7.3%: Average increase of £6.16 per week

The housing repairs budget would be increased by £0.499m. This would protect current services against inflation and help us maintain current service levels.

Increase rents by 7.95%: Average increase of £6.68 per week

The housing repairs budget would be increased by £0.897m which would allow the resumption of many of the non-essential repairs which have been suspended/delayed in 2023/24.

8.6 Overall the number of responses received was 1,944 which constitutes 13.08% of tenants.

This compares to the previous annual consultation response of 1,553 which constituted 10.77% of tenants.

Preferred rent increase options were as follows:

Rent Increase Option	Number of responses	Percentage of responses
6.5%	945	49.71
7.3%	441	23.20
7.95%	515	27.09

8.7 The question of affordability was asked in the rent consultation and 59.04% (1,140) of tenants who responded advised that they thought their rent represented good value for money. 22.99% (444) of tenants indicated that it was neither good nor poor value.

8.8 Tenants were also asked about whether they believed the new build supplement for tenants who move into new build housing should be increased to £15 per week from the current starting level of £11.84 per week. This is based on the reduced estimated fuel bills experienced by tenants in more energy efficient new build homes and helps offset increased costs of new build housing as identified in the Strategic Housing Investment Plan which is being reported to this Committee.

8.9 62.39% (1,181) of respondents believed that the new build supplement should be increased to £15 per week for tenants who move into a new build property after 1 April 2024.

8.10 It should be noted that tenant feedback indicated a need to review the affordability of the new build supplement in due course to ensure that it did not put tenants in new build under additional financial pressure. This review will take place accordingly and will link to the review of the Housing Revenue Account Capital Plan and funding for new build housing. Statistics for 2023/24 to date, indicate that only 3 housing applicants have refused an allocation on the grounds of affordability and that this related to energy costs and travel costs rather than the rent level of the property on offer.

9 Mitigation / Affordability

9.1 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.

9.2 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](#)

9.3 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. Expenditure for Housing Benefit and Discretionary Housing Payments is monitored in the Welfare Budget, which is reported quarterly to the Corporate Resources Committee. Officers in the Housing & Building Maintenance and Revenues & Business Support sections continue to collaborate and to monitor the impacts on the Welfare Budget from rent levels and rent increases, including those relating to temporary and supported accommodation.

9.4 At previous meetings of this Committee, Members were provided with details on the Rent Arrears Management Policy. This included 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.

9.5 Research carried out nationally by the Scottish Federation of Housing Associations and the Scottish Housing Regulator has identified the concerns of tenants and registered social landlords with the Cost of Living Crisis. The research has identified that social tenants nationally have been particularly vulnerable to the huge increases in food, fuel and utility bills which have impacted on tenant finances far more than rental charges in the social housing sector.

10 Housing Revenue Account Reserves

10.1 The Council has current Housing Revenue Account Reserves of **£3.909m**. 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. August Committee agreed that £3.965m of reserves be used to offset overspend in the repairs and maintenance budget for 2022/23. The position on HRA Reserves since April 2020 is set out in the table at section 10.2 below.

10.2

Movement on HRA Reserves	£'000
Reserves at 1 April 2020	7.328
2020/2021 surplus added to reserves (based on repairs not able to be completed during Covid-19)	+4,474
Reserves at 31 March 2021	11.802
Drawdown to fund additional repairs expenditure from Covid-19 backlog	-2.755
Drawdown to fund additional costs to meet Covid-19 safe working requirements	-1.173
Reserves at 1 April 2022	7.874
Drawdown to fund additional repairs expenditure 2022/2023	-3.965
Reserves at 31 December 2023	3.909

10.3

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.

10.4

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 2024/25 is not recommended. In fact there may be a need to build up reserves in future to address future budget pressures.

Designation: Executive Chief Officer Housing & Property

Date: 16 January 2024

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Appendices:

Appendix 1

Draft Housing Revenue Account Budget 2024/25;

Appendix 2

Illustrative graph showing Impact of rent increase scenarios on rental income for investment.

Housing Revenue Account Draft Budget 2024/25

	2023/24	2024/25		
	Budget	Draft Budget	Variance	Comments
		7.95% increase		
Housing Revenue Account	£000	£000	£000	
Supervision and Management	9,914	10,242	327	Increased to cover projected 3% pay award
Tenant Participation	336	336	(0)	
Sheltered Housing	723	645	(78)	Changes in telecare provision without reduction in service
Homelessness	1,246	796	(451)	Repairs costs for homeless properties transferred to Repairs and Maintenance budget
Repairs and Maintenance	18,814	21,311	2,497	See homelessness (above). £750k now allocated for electrical inspections. Projected pay award included. The £897k additional funding raised from the rent increase will help fund non-essential repairs, many of which have been suspended/delayed in 2023/24
House Rent Voids	882	965	83	This reflects the increase in stock number
Other Rent Voids	325	325	(0)	
Central Support	4,458	4,458	0	
Loan Charges	26,291	29,500	3,209	This reflects the borrowing requirements of the current HRA Capital Plan, historic debt and increased interest rates
Gross Expenditure	62,990	68,577	5,587	
House Rents	(59,333)	(64,867)	(5,534)	Increase in housing stock number
Other Rents	(3,235)	(3,288)	(53)	
Other Income	(360)	(360)	(0)	
Interest on Revenue Balances	(62)	(62)	0	
Gross Income	(62,990)	(68,577)	(5,587)	
HRA TOTAL	0	(0)	(0)	

Illustrative graph showing Impact of rent increase scenarios on rental income for investment (illustration only)



