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| Agenda Item | <b>4</b>        |
| Report No   | <b>HP/01/25</b> |

## The Highland Council

**Committee:** Housing and Property

**Date:** 29 January 2025

**Report Title:** Housing Revenue Account Estimates 2025/2026

**Report By:** Assistant Chief Executive - Place

### 1 Purpose/Executive Summary

- 1.1 This report presents draft Housing Revenue Account (HRA) Estimates for 2025/2026 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 challenges related to the cost of living 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 2025/2026;
  - Describes the tenant consultation process and the outcome of consultation on different rent increase options;
  - Recommends a rent increase of **8%**;
  - Estimates income from rents and service charges based on the recommended rent increase of **8%, equivalent to an average of £7.17 per week.**
- 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, such as increase in staffing and supplier costs, need to be balanced by increased rent and other income generated from HRA assets. This also needs to be seen alongside the need to invest in existing housing stock which has been identified as a core priority of tenants.

- 1.5 Members should also consider the longer-term investment and housing priorities set out in the approved Highland Housing Challenge, 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 7 of this report, and it should be noted that the review into stock viability and mitigation of the impact of borrowing will be reported to Committee in 2025.
- 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 be consulted on any long-term rent increase proposes and 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. **NOTE** the requirements to achieve a balanced budget and associated budget pressures for the Housing Revenue Account for 2025/26;
- ii. **NOTE** the feedback received from tenants through the annual rent consultation;
- iii. **APPROVE** an 8% rent increase for 2025/26 and how this increase will be allocated, which is detailed in **Appendix 1**;
- iv. **NOTE** how this will impact upon rents across the Council house estate and how this compares with rents across Scotland as detailed in section 5;
- v. **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);
- vi. **NOTE** that in line with the Council's Housing Challenge, work is ongoing to develop a detailed action plan and that this will include the development of a long-term rent strategy to enable the expansion of the social rented housing stock alongside maintenance and improvement of the existing HRA estate.

## 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 2025/2026. This is estimated at £203,000 for 2025/26.
- 3.2 **Legal** - This report details the implications in relation to existing legislation and guidance on the operation of Housing Revenue Accounts.
- 3.3 **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 2025/2026 which are detailed at section 7 of the report.
- 3.4 **Health & safety (risks arising from changes to plant, equipment, process, or people)** – No impact arising from this report.

3.5 **Gaelic** - No impact arising from this report.

#### 4. **Impacts**

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 The report details a number of issues which will directly impact on our tenants. These include affordability of rents; advice and assistance for tenants; repairs and investment to tenants homes; and the delivery of a range of related housing services. Ensuring that tenant opinion is considered through the rent consultation and through other tenant engagement activities is essential when making decisions regarding the impact of rent-setting.

#### 4.4 **Integrated Impact Assessment - Summary**

4.4.1 An Integrated Impact Assessment screening has been undertaken on the proposed HRA budget for 2025/26 and the conclusions have been subject to the relevant Manager Review and Approval. This has been informed by the feedback received by tenants through the rent consultation process.

4.4.2 The Screening process has concluded that there are generally positive impacts generated by the outcomes of the rent-setting process. The proposed budget for 2025/26 will ensure that there is investment in the HRA to ensure effective delivery of housing management and maintenance services to tenants (and to future tenant through the Highland Housing Register).

Members are asked to consider the summary detailed below, to support the decision-making process.

4.4.3

| <b>Impact Assessment Area</b> | <b>Conclusion of Screening/Full Assessment</b>  |
|-------------------------------|---|
| Equality                      | <ul style="list-style-type: none"><li>• Children and Young People – <i>Positive</i></li><li>• Children affected by disability – <i>Positive</i></li><li>• Older adults – <i>Positive</i>.</li></ul>   |
| Socio-economic                | <p>Minimal – while tenants have expressed their concern about affordability issues, Highland Council rents remain well below the national average for social landlords and significantly below private rented sector rents.</p> <p>Established processes are in place to support tenants through income maximisation, benefit awards, and through the Rent Arrears Management Policy.</p> |

|                                  |  |
|----------------------------------|--|
| Human Rights                     | Positive – the proposed 2025/26 HRA budget will enable housing to be provided, maintained and managed to support tenants and applicants who require housing services (both legislative and non-legislative). |
| Children’s Rights and Well-being | Positive – the proposed 2025/26 HRA budget will enable housing services to be continued to households, including children with vulnerabilities and complex needs.  |
| Island and Mainland Rural        | No impact.   |
| Climate Change                   | Positive – the additional revenue generated from the recommended rent increase will assist with capital investment in energy efficiency works in housing stock.  |
| Data Rights                      | No impact.   |

## 5 Background

5.1 Under the Housing (Scotland) Act 1987, 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. The only significant source of income to maintain and sustain HRA assets is generated through the assets of the HRA.

5.2 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   | 24/25         |
|-------------------------|--------|--------|--------|--------|--------|---------|---------------|
| Councils                | £73.46 | £75.44 | £78.10 | £79.70 | £82.10 | £85.21  | £90.11        |
| Housing Associations    | £85.18 | £88.01 | £89.82 | £91.51 | £95.73 | £100.84 | £107.05       |
| All social landlords    | £79.07 | £81.47 | £83.84 | £85.36 | £89.21 | £93.73  | £98.99        |
| <b>Highland Council</b> | £67.59 | £69.58 | £71.72 | £73.15 | £74.88 | £77.87  | <b>£82.84</b> |

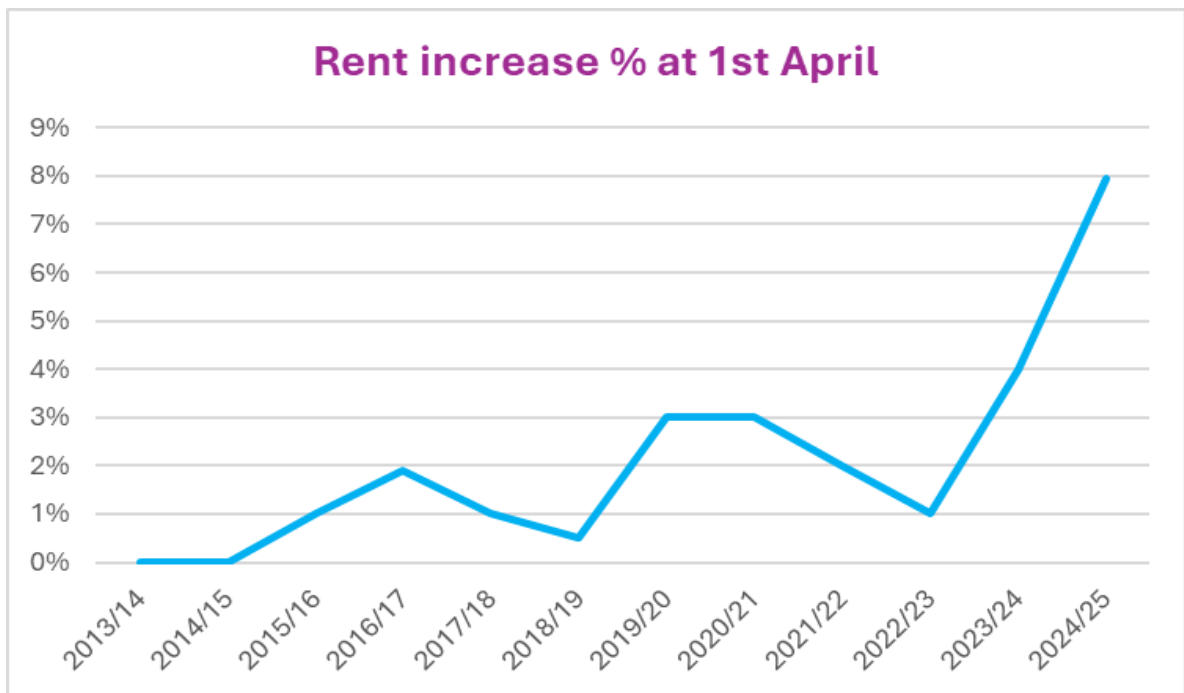
5.3 The Council’s average Council house rent remains well below the national average. On a 52-week rental charge basis the average Highland Council Rent for 2024/25 is £82.84 per week, compared to the average of £98.99 per week for all Council and Housing Association landlords.

5.4 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 the recommended 8% increase for 2025/2026, Highland rents will remain lower for the vast majority of our stock than 2024/2025 averages across Scotland.

| Size of Property   | Current average weekly rent 2024/25 | Rent increase 8% for 2025/2026 | Difference + | Scottish National average 2024/25* |
|--------------------|-------------------------------------|--------------------------------|--------------|------------------------------------|
| <b>Bedsit</b>      | <b>£66.87</b>                       | £72.22                         | £5.35        | <b>£87.17</b>                      |
| <b>1 Bedroom</b>   | <b>£77.30</b>                       | £83.48                         | £6.18        | <b>£93.14</b>                      |
| <b>2 Bedroom</b>   | <b>£87.69</b>                       | £94.70                         | £7.01        | <b>£95.70</b>                      |
| <b>3 Bedroom</b>   | <b>£98.10</b>                       | £105.95                        | £7.85        | <b>£104.19</b>                     |
| <b>4+ Bedrooms</b> | <b>£118.91</b>                      | £128.42                        | £9.51        | <b>£114.78</b>                     |

\*Note: this is prior to any rent increases applied for 2025/26

5.5 Historically, there has been a low level of rent increases over the last 10 years. This is at a time where regulatory requirements have increased, with associated cost implications. This has had a corresponding impact on borrowing, as the only significant source of income for the HRA is via rent increases.



5.6 The low level of rent increases has had a compounding issue on the HRA at a time when costs more generally have been increasing. 2024/25 saw a higher level of rent increase that more effectively addressed the pressures on the budget whilst delivering on the priorities identified by tenants. This picture is mirrored nationally, with early indications that this year the majority of Council and housing association rents are likely to increase within the 7-10% range for 2025/2026.

5.7 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.

## **6. Estimates of Expenditure for 2025/2026**

6.1 The following sections of this report set out the assumptions made regarding Housing Revenue Account expenditure for 2025/2026 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 2025/2026 is detailed at **Appendix 1** of this report. Expenditure is across a range of headings with the majority of expenditure on:

- Supervision and Management – 15%
- Repairs and Maintenance of existing stock (including in-house trades) – 31%
- Loan Charges – 43%
- Central Administration – 7%.

6.2 The results of the rent consultation can be found at section 9 of the report. When developing the options for rent increases for 2025/26, consideration has been given to the requirements to balance the budget but also the priorities identified by tenants and Members over the course of the last year. In particular, this relates to cyclical maintenance, grounds maintenance and energy efficiency works, including new windows and doors and insulation.

6.3 The sections below focus on the proposed budget impact of maintaining an existing standard of services, rather than on the additional services referred to above which could be funded through a higher rent increase. These additional services proposed are detailed at section 6.5.7- 6.5.9.

### **6.4 Supervision and Management**

6.4.1 This budget heading includes the salaries and other running costs for housing related activities. The draft Housing Revenue Account budget for 2025/2026 takes into account a projected 2.5% pay award for 2025/2026. There has been no increase in the non-staffing elements of the Supervision and Management budget.

6.4.2 The November UK Budget announced a significant increase in national insurance contributions for employers, including in the public sector. This increase has been applied to the 2025/26 revenue estimates. There has been no confirmation of national insurance funding from UK or Scottish Government, however it is important to note that any additional funding provided by central government for national insurance increases would not be applied to the HRA as described at 5.5.

6.4.3 The combined impact of 6.4.1 and 6.4.2 above is an increase in the budget by £0.378m for 2025/26.

6.4.4 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.

## 6.5 Repairs and Maintenance

- 6.5.1 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.
- 6.5.2 Staff costs have been increased in line with the local government pay award as outlined in paragraph 6.4.1 (above).
- 6.5.3 In line with General Fund estimates, an additional £0.165m has been applied to the 2025/26 to account for the anticipated impact on repair contractors relating to the November Budget announcement around national insurance contributions by employers.
- 6.5.4 As reported in the Annual Assurance Statement to November 2024 Committee, changes to the regulations around electrical condition inspections have created an additional cost pressure. The estimated additional costs for 2025/2026 are £0.250m. There are also small uplifts based on additional gas servicing costs through the contract for this work.
- 6.5.5 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 view of increasing contractor and supply/ material costs. The budget also needs to cover repairs and maintenance for an increased housing stock.
- 6.5.6 The HRA estate covers large parts of Highland and grass-cutting and weed control in housing estates is delivered by Amenities Services. The 2024/25 grounds maintenance budget was rolled forward at 2023/24 levels but there was a significant number of tenant and Member concerns raised about the services delivered in Spring/Summer 2024. To address these, it is therefore proposed to dedicate additional resource for the 2025/26 budget.
- 6.5.7 As indicated in **Appendix 1** to this report, £0.219m additional funding raised from the recommended rent increase will provide an improved standard of service to HRA estates in Spring/Summer 2025. In particular, the funding will allow for targeted weed control and strimming in priority HRA areas. These priority areas will include sheltered housing, communal drying greens and paths which are most used by our tenants. Work has also commenced to review the current approach, involving Housing and Amenities colleagues, with a view to an improved approach for 2025/26 but also to develop a new operating model for future years.
- 6.5.8 It is also proposed that £0.289m additional funding raised from the recommended 8% rent increase would also fund cyclical maintenance works such as guttering and fencing works. As discussed previously at Committee, these preventative works will help improve the communal areas of HRA estates, responding and addressing requests made by tenants and Members.
- 6.5.9 The Council's commitments to improving the external fabric and energy efficiency of our housing stock have been reported to this Committee and to the Climate Change Committee in recent years. The recommended 8% rent increase would allocate £1.346 million for additional investment in mainstream capital programmes to provide external wall insulation to an additional 50 houses and new windows and doors to an

additional 80 houses. This would allow further capital investment beyond the current HRA capital plan without impacting on debt levels and borrowing costs.

- 6.5.10 To assist with budget monitoring in 2025/26, this budget will be reported in a separate line labelled as Capital Investment from Current Revenue. Progress in delivering the proposed works in 2025/26 will be reported as part of the HRA Capital Monitoring reports to this Committee.

## 6.6 Void Rent Loss

- 6.6.1 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.
- 6.6.2 One of the public engagement ideas associated with the Council Budget process 2025/2026 was the trial of a Void-Plus Standard and this was incorporated and reflected in the Council's Delivery Plan. The principle 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 may minimise void rental loss. An update on the initial phase of this project is reported as a separate agenda item to this Committee.
- 6.6.3 For mainstream housing, the draft budget for 2025/2026 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.

## 6.7 Central Administration

- 6.7.1 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 2025/2026 is set at £4.118m which was the year-end outturn for 2023/2024.

## 7 Loan Charges / Future Capital Investment Pressures

- 7.1 The HRA Capital Plan focuses both in increasing the supply of social housing in Highland alongside investment and improvement of existing homes. 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 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.

|                         | 2025/2026       | 2026/2027       | Total            |
|-------------------------|-----------------|-----------------|------------------|
|                         | £'000           | £'000           | £'000            |
| <b>Investment</b>       |                 |                 |                  |
| Existing Homes          | 20,564          | 21,153          | 41,717           |
| New Homes               | 32,987          | 34,524          | 67,511           |
| <b>Total Investment</b> | <b>£53.551m</b> | <b>£55.677m</b> | <b>£109.228m</b> |



|                        |                 |                 |                  |
|------------------------|-----------------|-----------------|------------------|
|                        |                 |                 |                  |
| <b>Resources</b>       |                 |                 |                  |
| Total Borrowing        | 34,641          | 35,934          | 70,575           |
| Grant funding          | 16,670          | 17,503          | 34,173           |
| Land bank              | 2,240           | 2,240           | 4,480            |
| <b>Total Resources</b> | <b>£53.551m</b> | <b>£55.677m</b> | <b>£109.228m</b> |

- 7.3 The current Capital Plan was agreed prior to the additional costs of working towards a proposed net zero standard were factored in and also prior to the current high construction cost inflation and higher interest rates affecting the Council's borrowing costs. There have been regular updates to Committee on this. There will also likely be 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, if this is progressed it is 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. Work is required in 2025 to develop a new Capital Plan and these matters will require to be factored into this planning.
- 7.4 Loan charge estimates for 2025/2026 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.
- 7.5 The level of loan charges already place a significant burden on the Housing Revenue Account and any increase in loan charges would place further pressure on the HRA. Based on current estimates, and continuing current HRA Capital Plan activity, it is estimated that loan charges will increase by **£3m** next year to **£32.5m**.
- 7.6 In light of the above, and the Highland Housing Challenge, it is therefore important that a longer term approach to the HRA is taken that takes account of the capital plan demands and challenges, the loan charge implications and the need for additional housing. This is discussed further at section 12.

## 8. Estimate of Income for 2025/2026

- 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 we have accounted for estimated new build completions in 2025/2026 and budgeted the additional rent income on the basis of the best estimate of when new build properties will be let, and income generated.
- 8.3 For 2024/25 loan charges are 43% of rental income, so all rent options for 2025/2026 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 8%, the estimated loan charges for 2025/2026 will be 43% of rental income.

8.4 The Council leases 149 properties from private landlords and housing associations. All leases allow for rent increases equal to that applying to council house rents.

8.5 Garage rents are set by Area Committees, and reports will be presented to Committees early in 2025 to allow garage and garage site rents to be set for 2025/2026.

## 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 2025/2026 ran from 26 November to 23 December 2024. All 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. In-person events were also held with tenants 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 9 December 2024.

9.5 The following summarises the proposals put to tenants.

| <b>% Rent Increase</b> | <b>Total increase in housing budget (per yr)</b> | <b>Weekly Average Increase</b> | <b>Additionality to be Delivered</b>   |
|------------------------|--|--------------------------------|--|
| 8%                     | £1.854m  | £7.17                          | <ul style="list-style-type: none"> <li>• Additional grounds maintenance</li> <li>• Increase cyclical maintenance</li> <li>• Additional net zero works – 50 houses external wall insulation and 80 houses new windows and doors</li> </ul>  |
| 9%                     | £2.527m  | £8.06                          | <ul style="list-style-type: none"> <li>• Additional grounds maintenance</li> <li>• Increase cyclical maintenance</li> <li>• Additional net zero works – 75 houses external wall insulation and 120 houses new windows and doors</li> </ul>   |
| 10%                    | £3.2m  | £8.96                          | <ul style="list-style-type: none"> <li>• Additional grounds maintenance</li> <li>• Increase cyclical maintenance</li> <li>• Additional net zero works – 75 houses external wall insulation and 120 houses new windows and doors</li> <li>• Additional capital expenditure for new build programme</li> </ul> |

9.6 Overall, the number of responses received was 2,416 which constitutes 16.44% of tenants.

This compares to the previous annual consultation response of 1,944 which constituted 13.08% of tenants.

Preferred rent increase options were as follows:

| <b>Rent Increase Option</b> | <b>Number of responses</b> | <b>Percentage of responses</b> |
|-----------------------------|----------------------------|--------------------------------|
| 8%                          | 1,156                      | 48                             |
| 9%                          | 243                        | 10                             |
| 10%                         | 290                        | 12                             |
| None of the above           | 727                        | 3                              |

9.7 The consultation presented only three options. 727 tenants opted not to respond directly to this question. These respondents were more likely to cite concerns around the affordability of rents alongside other household financial pressures.

9.8 The question of affordability was asked in the rent consultation and 56.7% (965) of tenants who responded to this question advised that they thought their rent represented good value for money. 24.68% (420) of tenants who responded indicated that it was neither good nor poor value. When this question has been asked out with a rent setting context, just over three-quarters of tenants (76.5% in Comprehensive Tenant Satisfaction Survey in Spring 2024) indicated that they considered their rent to be good value for money.

9.9 Tenants were asked to rank their priorities (in no particular order) for how they wanted their rent money invested. The results are below and confirm that there are a number of competing priorities:

1. 1,383 (57.2% of respondents) for Reactive repairs, completed to timescales
2. 1,277 (52.8%) for Improving the energy efficiency, heating upgrades, insulation
3. 1,237 (51.2%) for Replacing windows & doors
4. 1,177 (48.7%) for upgrading kitchens & bathrooms
5. 1,110 (45.9%) for building new homes to meet continued demand for housing
6. 1,049 (43.4%) for cyclical maintenance, e.g. external painting & gutter clearing
7. 986 (40.8%) Grass cutting & maintaining communal spaces
8. 936 (38.7%) for aids & adaptations.

9.10 In the main, this aligns with previously reported priorities from tenants and, intelligence suggests, is broadly in line with feedback received from other housing tenants across Scotland.

## **10 Mitigation / Affordability**

10.1 Rent affordability and the impact of the challenges related to the cost of living 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 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 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. 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 accommodation.

10.4 In terms of financial support for housing costs, one-quarter (3,765) of our tenants are in receipt of Housing Benefit. Approximately 36% (5,483) of our tenants are in receipt of Universal Credit.

10.5 At previous meetings of this Committee, Members were provided with details on the Rent Arrears Management Policy. These included actions being taken by the Housing Service to support Highland Council tenants through the on-going challenges related to costs of living and what we are doing to manage arrears and support tenants who may be in financial difficulty.

10.6 Research carried out nationally since 2022 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 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.

## 11 Housing Revenue Account Reserves

11.1 The Council has current Housing Revenue Account Reserves of **£4.681m**. 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 £0.772m of surplus from 2023/2024 be allocated to the Reserves. The position on HRA Reserves since April 2020 is set out in the table at section 11.2 below.

11.2

|   |               |
|---|---------------|
| <b>Movement on HRA Reserves</b>   | £'000         |
| <b>Reserves at 1 April 2020</b>   | <b>7.328</b>  |
| 2020/2021 surplus added to reserves (based on repairs not able to be completed during Covid-19) | +4,474        |
| <b>Reserves at 31 March 2021</b>  | <b>11.802</b> |
| 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        |
| <b>Reserves at 1 April 2022</b>   | <b>7.874</b>  |

|   |                |
|---|----------------|
| Drawdown to fund additional repairs expenditure 2022/2023               | -3.965         |
| <b>Reserves at 31 December 2023</b>                                     | <b>3.909</b>   |
| 2024/2025 surplus added to reserves (approved at August 2024 Committee) | 0.772          |
| <b>Reserves at 31 December 2024</b>                                     | <b>£4.681m</b> |

- 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 2025/2026 is not recommended. In fact there may be a need to build up Reserves in future to address future budget pressures.
- 12. Developing a Long-Term Rent Strategy**
- 12.1 As outlined in section 7, there are ongoing challenges facing the HRA budget including: the importance of delivering improvements to existing homes – a key priority of tenants; additional regulation related to net zero; and general increases in costs associated with inflation and construction costs. This all impacts upon the HRA's borrowing costs.
- 12.2 This must also be seen within the context of the Highland Housing Challenge and the identified need to double the number of homes across all tenures over the next 10 years, including social housing.
- 12.3 Building on analysis which was undertaken to support discussion on the Highland Housing Challenge, work has therefore begun to develop a long-term rent strategy for the HRA. A long-term strategy must take into account:
- The core costs to sustain HRA day to day operations
  - The investment costs to sustain existing properties e.g. new kitchens/bathrooms/heating systems
  - Investment costs of new build properties
  - The costs of borrowing to sustain capital investment in existing and new builds
  - Annual rent increases and rent cost structure.
- 12.4 This will progress over the coming months and will involve engagement with both Members and tenants as part of the process. As noted at 1.6, prior to any decision on a long-term rent strategy, a formal consultation with tenants would be held which would inform any decision for Members to make. Future updates on this work will be provided to this Committee.

Designation: Assistant Chief Executive - Place  
Date: 9 January 2025  
Author: Brian Cameron, Strategic Lead - Housing & Building Maintenance  
Appendices: Appendix 1 – Draft Housing Revenue Account Budget 2025/2026

Housing Revenue Account Draft Budget  
2025/2026

|  | 2024/2025       | 2025/2026       |                |  |
|--|-----------------|-----------------|----------------|--|
|  | Budget          | Draft Budget    | Variance       | Comments   |
|  |                 | 8% increase     |                |  |
| Housing Revenue Account                        | £000            | £000            | £000           |  |
| Supervision and Management                     | 10,257          | 10,635          | 378            | Increased to cover projected 2.5% pay award  |
| Tenant Participation                           | 336             | 339             | 4              | As above   |
| Sheltered Housing                              | 645             | 658             | 13             | As above   |
| Homelessness                                   | 795             | 797             | 2              |  |
| Repairs and Maintenance                        | 21,309          | 23,205          | 1,895          | Additional £250k now allocated for electrical inspections; Projected pay award included, and national insurance contribution pressures included. £219k additional funding raised from the rent increase will fund grounds maintenance. £289k additional funding raised from the rent increase will fund cyclical maintenance |
| House Rent Voids                               | 950             | 1,045           | 95             | This reflects the increase in stock number   |
| Other Rent Voids                               | 325             | 329             | 4              |  |
| Central Support                                | 4,458           | 4,118           | (341)          | This reflects the 2023/24 year-end figure  |
| Loan Charges                                   | 29,500          | 32,500          | 3,000          | This reflects the borrowing requirements of the current HRA Capital Plan, historic debt and updated interest rates   |
| Capital investment Funded from Current Revenue | 0               | 1,346           | 1,346          | Additional funding for Capital Investment in energy efficiency and external fabric from rent increase.   |
| <b>Gross Expenditure</b>                       | <b>68,575</b>   | <b>74,972</b>   | <b>6,397</b>   |  |
| House Rents                                    | (64,861)        | (71,063)        | (6,203)        | Increase in housing stock number   |
| Other Rents                                    | (3,294)         | (3,479)         | (185)          |  |
| Other Income                                   | (358)           | (367)           | (9)            |  |
| Interest on Revenue Balances                   | (62)            | (62)            | 0              |  |
| <b>Gross Income</b>                            | <b>(68,575)</b> | <b>(74,972)</b> | <b>(6,397)</b> |  |
| <b>HRA TOTAL</b>                               | <b>0</b>        | <b>(0)</b>      | <b>(0)</b>     |  |