

THE HIGHLAND COUNCIL

Housing and Social Work Committee – 13 January 2010

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| Agenda Item | |
| Report No | |

Housing Revenue Account Estimates 2010/2011

Report by Director of Housing and Property

Summary

This report presents the draft Housing Revenue Account estimates for 2010/2011 together with recommendations on the level of increase to be applied to council house rents and other rents and service charges.

1. Background

- 1.1 This report provides details of the HRA revenue estimates for 2010/2011, the assumptions on which these estimates are based, and recommends rent and service charge increases for 2010/2011.
- 1.2 Since April 2001 the Council has limited annual rent increases to the Retail Price Index (RPI) +1%, using the Retail Price Index at November of the previous year. Linking council house rent increases to the Retail Price Index is a standard approach nationally. The Retail Price Index for November 2009 was 0.3%.
- 1.3 Over the past 8 years the HRA has consistently been managed within budget although this has required the planned use of HRA balances in some years. HRA balances currently stand at £8.8m, and have reduced from £15m at 1 April 2002.
- 1.4 Over recent years the level of receipts from Right to Buy sales has been reducing. Receipts are no longer sufficient to fund the Council's HRA capital programme, and new borrowing is likely to be required each year in future.
- 1.5 The Committee approved a Standard Delivery Plan in September 2009 setting out capital investment required to meet the Scottish Housing Quality Standard. This involved approval of a capital programme of on average £14.7m per year until 2014/2015.
- 1.6 Decisions in relation to the HRA budget for 2010/2011 will have implications for future years. The report therefore provides financial projections for the next 5 years, to aid longer term business planning.

2. Estimate of Expenditure for 2010/2011

- 2.1 The key elements of the HRA revenue budget and the assumptions used in relation to estimates of expenditure for 2010/2011 are set out below. The draft budget for 2010/2011 with a comparison to the 2009/2010 budget is detailed in **Appendix 1**.

2.2 Supervision and Management

2.2.1 This budget heading covers the salaries, overheads and other running costs for housing related activities. Staff costs have been subject to an inflationary increase of 1.5%, based on the Council's overall budget assumptions. Additional provision has been made to include the costs of Highland Housing Register within the HRA.

2.2.2 This overall heading includes costs associated with tenant participation, sheltered housing, and the costs of homelessness accommodation held on the Housing Revenue Account. These are reported separately in **Appendix 1** for monitoring purposes.

2.3 **Repairs and Maintenance**

2.3.1 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.

2.3.2 A budget increase of 1% is recommended for next year. This relates to estimated increases in property insurance premiums.

2.4 **Rent Loss**

2.4.1 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 assumed void rates for council houses, garages, garage sites and HRA homelessness accommodation and is estimated at £757,000 for 2010/11. This is a reduction of £45,000 (5.6%) from 2009/2010

2.5 **Central Administration**

2.5.1 This budget heading relates to corporate recharges and overheads applied in relation to housing activities. Based on indications from the Council's Finance Service, it is estimated that charges will be £3,333,000 for 2010/2011. This represents an increase of £50,000 (1.51%) from 2009/2010.

2.6 **Loan charges**

2.6.1 This heading relates to the cost of servicing outstanding housing debt. Actual debt servicing costs vary according to interest rates and overall corporate financial strategy. Based on advice from the Council's Finance Service estimated loan charges for 2010/2011 are £14.364m; an increase of 0.1% on the budget for 2009/2010.

3. **Estimate of Income for 2010/2011**

3.1 Housing Revenue Account income is generated in the main from Council house rents. Income is also received through a number of other sources, such as:

- service charges;
- garage and garage site rentals;
- other income from sources such as re-charges to tenants.

- 3.2 Rent and service charge increases of the Retail Price Index (RPI) + 1% have been applied in previous years. Continuing this policy would result in a rent increase of 1.3% in 2010/2011. Estimates have been prepared on this basis.
- 3.3 Committee agreed revised charging arrangements for sheltered housing warden services in November 2009. These have been built into the budget for 2010/2011.
- 3.4 The Council has HRA reserves of £8.8m. The interest on this revenue balance is likely to generate around £47,000 of income during 2010/2011 net of shared debt premium costs.
- 3.5 Revenue balances can be used to fund either revenue expenditure or capital investment, although it is prudent to retain a reasonable balance for future contingencies. Any use of balances during 2010/2011 would impact on the interest received. Apart from the existing commitment to the use of £1m from balances to support Council house building, no other contribution from balances to support the Housing Revenue Account is anticipated in 2010/2011. Committee has already agreed in principle to short term lending from balances to front fund the affordable housing development programme and a loan from balances may also be required to fund the next phase of improvements to the Building Maintenance IT system.
- 3.6 Taking the various income and expenditure assumptions together, it is estimated that the HRA would have a surplus of £2.081m in 2010/2011, which could be applied as Capital from Current Revenue (CFCR) to fund the HRA Capital Programme and limit new borrowing.

4. Long Term Projections

- 4.1 A separate report is presented to Committee on the HRA Capital Programme for 2010/2011.
- 4.2 HRA capital programme planning has been based on assumptions of average investment of £14.7m per year until 2014/2015. This level of investment is required to meet the Scottish Housing Quality Standard.
- 4.3 **Appendix 2** contains a summary of the HRA revenue projections to 2014/2015. This shows that based on annual rent increases of RPI +1% (with RPI assumed to increase to 2% in future years) it will be possible to fund required HRA capital investment. However, in addition to the use of Capital from Current Revenue and income from receipts this will require significant new borrowing.
- 4.4 In 2010/2011 it is assumed that £2.081m will be available as Capital from Current Revenue and £2.218m from capital receipts. New borrowing of £9.26m will be needed to fund the base HRA Capital Programme, in addition to additional borrowing of £2.75m for Council house building.
- 4.5 It should be noted that these financial projections are based on a number of assumptions, all of which are subject to change, and that relatively small changes in individual assumptions can result in significant changes to the overall positions. These assumptions will be reviewed and reported annually to inform annual HRA budget setting.

5. Affordability

- 5.1 In considering possible rent levels in 2010/2011 it should be noted that current Highland Council rents are the 2nd highest in Scotland, whilst incomes are below the national average.
- 5.2 It should also be noted that currently around two thirds of tenants are on full or partial benefit. Housing Benefit will cover the whole of any rent increase where tenants are already entitled to full benefit. Where tenants are on partial housing benefit they will get a pro rata increase in their housing benefit. The Council will continue to support and encourage tenants to claim housing benefit.

6. Tenant Consultation

- 6.1 A newsletter was issued to all Highland Council tenants in December 2009. The newsletter contained a questionnaire seeking views from tenants on any proposed rent increase. At the time of writing we are still receiving responses to this consultation. Early replies indicate that tenants have concerns about rent increases, and they feel we should consider making efficiencies within the service to keep any increase to a minimum. A verbal update on the consultation responses can be given at Committee.
- 6.2 Rent increases were also discussed at the first Highland Tenant Conference held on 21 November 2009. Tenants present felt that the Council should consider efficiencies in some areas in order to keep rent increases to a minimum. They felt that efficiencies could be made, for example, within the repairs service and our planned and cyclical maintenance programmes. The tenants present were very aware of the fact that current rent levels were partly due to the Council's high housing debt and felt that Highland Council should continue to lobby central government in relation to this debt.

7. Conclusion

- 7.1 This report outlines the main issues and assumptions involved in setting a draft HRA revenue budget for 2010/2011. It is recommended that council house and other rents and service charges be increased by 1.3% in 2010/2011.
- 7.2 This would mean the average council house rent increasing from £63.92 per week to £64.75 per week (over 48 weekly charges). This would be an average increase of £0.83 per week.
- 7.4 The HRA Revenue Estimates for 2010/2011 will be used to update and roll forward the financial projections contained in the Council's Standard Delivery Plan.

8. Recommendations

8.1 It is recommended the Committee:

- a) approve a rent increase of 1.3% for 2010/2011, and agree that this percentage increase is applied to house rents; hostel rents; garage and garage site rents; service charges; sheltered housing warden charges; homeless charges; rechargeable repairs and Gypsy/Traveller pitches, except charges for energy which will follow market rates (i.e. the rate of inflation that the Council experiences);
- b) note the use of an estimated HRA surplus of £2.081m in 2010/2011 to fund the base HRA capital programme in 2010/2011;
- c) note the requirement to incur new borrowing estimated at £9.26m 2010/2011 to support the base HRA Capital Programme in addition to borrowing of £2.75m for council house building;
- d) agree that the above recommendations are submitted to the Council meeting on 11 February 2009 for formal approval of council house rents for 2010/2011.

Signature

Designation Director of Housing and Property

Date 4 January 2010

Author/Reference David Goldie, Head of Housing

Appendix 1

Housing Revenue Account Revenue Budget 2009/2010 and estimates for 2010/2011

| <u>Description</u> | Budget 2009/2010 £'000s | Draft Budget 2010/2011 £'000s | Variance £'000s | Variance (%) |
|------------------------------|-------------------------------|-------------------------------------|--------------------|-----------------|
| Expenditure | | | | |
| Supervision & Management | 6,423 | 6,557 | 134 | 2.09% |
| Tenant Participation | 172 | 172 | 0 | 0.00% |
| Sheltered Housing | 630 | 610 | -20 | -3.17% |
| Homelessness | 500 | 529 | 29 | 5.80% |
| Repairs & Maintenance | 15,622 | 15,778 | 156 | 1.00% |
| Rent Loss | 802 | 757 | -45 | -5.61% |
| Central Administration | 3,283 | 3,333 | 50 | 1.51% |
| Loan Charges | 14,350 | 14,364 | 14 | 0.10% |
| Capital From Current Revenue | 1,672 | 2,081 | 409 | 24.46% |
| Total Expenditure | 43,454 | 44,181 | 727 | 1.67% |
| Income | | | | |
| House Rents | -41,560 | -42,335 | -775 | 1.86% |
| Other Rents | -1,474 | -1,484 | -10 | 0.68% |
| Other Income | -299 | -315 | -16 | 5.35% |
| Interest On Revenue Balances | -120 | -47 | 73 | -60.83% |
| Balances Applied | 0 | 0 | 0 | 0.00% |
| Total Income | -43,453 | -44,181 | -728 | 1.68% |

HRA Revenue Projections 2010/2011

Appendix 2

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| Expenditure | £'000 | £'000 | £'000 | £'000 | £'000 |
| Supervision and Management | 7,868 | 8,025 | 8,226 | 8,432 | 8,642 |
| Repairs & Maintenance | 15,778 | 16,094 | 16,496 | 16,908 | 17,331 |
| Rent Loss | 757 | 772 | 788 | 803 | 819 |
| Central Administration | 3,333 | 3,400 | 3,485 | 3,572 | 3,661 |
| Loan Charges | 14,364 | 14,724 | 14,925 | 15,068 | 15,800 |
| Total Expenditure | 42,100 | 43,015 | 43,919 | 44,783 | 46,254 |
| | | | | | |
| Income:- | | | | | |
| House Rents | 42,335 | 43,129 | 44,558 | 45,946 | 47,378 |
| Other Rents | 1,484 | 1,529 | 1,582 | 1,637 | 1,695 |
| Other Income | 315 | 321 | 329 | 338 | 346 |
| Interest On Revenue Balances | 47 | 75 | 100 | 100 | 100 |
| Total Income | 44,181 | 45,054 | 46,569 | 48,021 | 49,518 |
| | | | | | |
| surplus / (deficit) | 2,081 | 2,039 | 2,650 | 3,238 | 3,264 |

HRA Capital Programme to meet SHQS

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|------------------|---------------|---------------|---------------|---------------|---------------|
| Capital Receipts | 2,218 | 2,218 | 2,218 | 2,218 | 2,218 |
| CFCR | 2,081 | 2,039 | 2,650 | 3,238 | 3,264 |
| Borrowing | 12,010 | 10,231 | 10,039 | 10,448 | 10,349 |
| Total | 16,309 | 14,488 | 14,907 | 15,904 | 15,831 |