



REPORT TO: MORAY COUNCIL ON 27 FEBRUARY 2019

SUBJECT: HOUSING REVENUE ACCOUNT BUDGET 2019/20

**BY: CORPORATE DIRECTOR (ECONOMIC DEVELOPMENT,
PLANNING AND INFRASTRUCTURE)**

1. REASON FOR REPORT

- 1.1 This report presents the Housing Revenue Account (HRA) Budget and Housing Investment Plan for 2018/19 to the Council for approval.
- 1.2 This report is submitted to Council in terms of section (II) (1) of the Council's Administrative Scheme relating to the setting of rent levels for council houses, garages etc.

2. RECOMMENDATION

2.1 It is recommended that the Council:-

- (i) agrees the proposed HRA Budget (APPENDIX I) and Housing Investment Plan (APPENDIX II);**
- (ii) agrees no council house rent increase for 2019/20;**
- (iii) agrees that garage site rents are increased by 7% (this is a two yearly increase);**
- (iv) agrees service developments at a cost of £39k;**
- (v) agrees that grass cutting charges are increased by 3.5%; and**
- (vi) notes the three year projection to 2022 (APPENDIX III) which includes all of the above, (i) through to (v).**

3. BACKGROUND

- 3.1 The Housing Revenue Account (HRA) deals with expenditure and income for the Council's housing stock. As part of the process of preparation of the Council's Standard Delivery Plan for Communities Scotland in April 2005, the Council agreed a Housing Business Plan over a 30 year period (paragraph 9 of the Minute refers). Since 2005, the Business Plan has been reviewed on a 3 yearly basis to provide reassurance that the Council can continue to fund its housing activities within the constraints of the accounting regime for housing.

Each review of the Plan considers current and future business risks and tests the affordability of the Business Plan against these. The next review of the Business Plan will be completed in 2019.

4. PROJECTED OUTTURN 2017/18

- 4.1 The Council agreed its HRA Budget for 2018/19 on 14 February 2018 (paragraph 13 of the Minute refers). Reports on budgetary performance have been presented to the Communities Committee throughout 2018/19.
- 4.2 The last HRA budget monitoring report presented to the Communities Committee on 5 February 2019 identified the main variations in the projected outturns to 31 March 2019 as follows –
- 4.2.1 **Supervision and Management** – an overspend of £23k was projected. This variance results from projected overspends in void rent loss (£77k), the Bilbohall Masterplan (£29k), council tax for Cluny Annexe, Buckie (£11k) and insurance (£14k) which is reduced by underspends in staffing (£74k), ICT (£20k) and other minor underspends (£14k).
- 4.2.2 **Sheltered Housing** – an underspend of £4k was projected due mainly to lower energy costs.
- 4.2.3 **Repairs and Maintenance** – an overspend of £261k was projected with the main overspend occurring in voids (£291k). This is reduced by projected underspends in planned works (£9k) and response repairs (£21k).
- 4.2.4 **Financing Costs** – an overspend of £47k was projected due to higher borrowing requirements and higher interest rates. The level of Capital from Current Revenue (CFCR) has been reduced by £254k to address projected overspends elsewhere within the HRA budget.
- 4.2.5 **Bad and Doubtful Debts** – an underspend of £65k was projected due to fewer write-offs than originally expected.
- 4.2.6 **Downsizing Incentive Scheme** – it was projected that the annual budget (£72k) will be fully expended by year end.
- 4.2.7 **Service Developments** – this budget included provision for ongoing ICT improvements (£5k) and the cost of a full Tenants Survey (£18k). It was projected that there would be no spend on ICT improvements and the cost of the Tenant Survey was lower than originally projected. At year end, this budget is projected to be underspent by £9k.
- 4.2.8 **Income** – income to the HRA at 31 March 2019 was projected to be £1k lower than originally budgeted for.
- 4.3 The HRA surplus balance to be carried forward at the year-end was projected to be £1.132m.

4.4 The HRA cannot operate in deficit. The Business Plan Review 2016 recommended that a minimum surplus of £750k should be carried forward. Due to the potential risks associated with Universal Credit and the potential pressures on the repairs and maintenance budget due to adverse weather condition and increased construction costs, it is considered prudent to carry forward a slightly higher surplus than the minimum recommended.

5. BUDGET PROPOSALS FOR 2019/20

5.1 As in previous years, officers have considered in detail the base budget agreed for 2019/20. Each cost centre within the HRA budget is scrutinised by the Head of Housing and Property, Finance staff and the service budget manager on a line by line basis.

5.2 **APPENDIX I** details the proposed HRA Budget for 2019/20. Comments on the proposed budget can be made as follows:-

5.3 Expenditure

5.3.1 The total expenditure proposed amounts to £19.403m. The main areas of expenditure are considered below.

Supervision and Management

5.3.2 The budget proposed for supervision and management costs is £4.272m. This provides for a 3.5% pay award during 2018/19, a 3% pay award in 2019/20 and incorporates the new Housing Options Advisor Post approved by Communities Committee on 20 November 2018 (paragraph 12 of the Minute refers).

5.3.3 Based on the HRA Statistical Bulletin 2018/19 published by the Scottish Government in October 2018, it is expected that Moray will continue to have one of the lowest supervision and management costs per house of all Councils in Scotland.

Sheltered Housing

5.3.4 It is proposed to reduce the Sheltered Housing Budget by £4k for 2019/20. This mainly reflects a small reduction in contract cleaning charges along with other minor budget adjustments.

Repairs and Maintenance

5.3.5 Repairs and maintenance is the largest block of expenditure within the HRA. The level of expenditure proposed - £6.707m - reflects the proposed revenue expenditure in the Housing Investment Plan summarised in **APPENDIX II**.

Planned Maintenance and Improvements

5.3.6 The Housing Investment Plan reflects the investment priorities that tenants identified within the Tenants Survey (2018). These priorities include replacement heating, windows, bathrooms and kitchens. The other main focus for investment in 2019/20 will be to maintain and improve the Council's housing stock to meet the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (ESSH).

Financing Costs

- 5.3.7 Financing costs are projected at £4.325m for 2019/20. This is an increase of £616k when compared to 2018/19. The increase reflects the projected increase in borrowing during the financial year required to fund the capital programme.

Bad and Doubtful Debts

- 5.3.8 No change is proposed to the budgetary provision for bad and doubtful debts. This will remain at £250k for 2019/20 to reflect the potential for increased rent arrears and/or bad debts.

Capital from Current Revenue (CFCR)

- 5.3.9 CFCR enables the Council to utilise available revenue resources to help fund capital projects and thus reduce the requirement for prudential borrowing. The Housing Investment Plan sets out the repairs and maintenance proposals for the Council's housing stock in 2019/20. These will be financed through the HRA revenue and capital budgets. For 2019/20, it is proposed to set CFCR at £3.705m to allow the Council to maintain an operating surplus of £1.132m at year end.

Downsizing Incentive Scheme

- 5.3.10 It is proposed to maintain the annual budget for the Downsizing Incentive Scheme at £72k for 2019/20. It is anticipated that the new dedicated staff resource that will be responsible for managing the scheme will be in place by 1 April 2019.

Service Developments

- 5.3.11 Service developments of £39k have been included in the budget for 2018/19. These developments include:

- i) New technology to support the collection of house rents
£5k is provided within this budget to support the continued investment in mobile ICT solutions for the area housing teams and other housing teams as required.
- ii) Review of Business Plan
£12k is provided within this budget to fund the 3 yearly review of the Council's Housing Business Plan.
- iii) Community Safety Team
Funding of £22k will be required to fund the Research and Information Officer within the Community Safety Team. This post provides a supporting role in dealing with anti-social behaviour and neighbour disputes relating to council housing. The long-term funding of this post will be reviewed in 2019/20.

Progress on these service improvements will be reported to Communities Committee during 2019/20.

5.4 Income

5.4.1 Rental income is the primary source of income for the HRA. The HRA must balance (or the deficit must be funded by General Services). The level of income generated within the HRA continues to influence what the Council can fund in its housing activities.

5.4.2 Rent increases have helped to maintain housing services at current levels and provide new build housing. In recent years, increases have been higher than the rate of inflation mainly to fund new build housing. These increases are set out below:

Year	Rent increase
2015/16	4.5%
2016/17	5%
2017/18	4%
2018/19	4%

5.4.3 The Housing Business Plan Review (2016) modelled the impact of potential rent increases on the Council's new build housing programme. This review concluded that the Council could afford to build 70 new properties per annum over 3 years (2017/18 to 2019/20) if rents were increased by 4% annually over the same period. All tenants were consulted on the proposed increase and the majority of those who responded were supportive of the increase on the basis that it would help fund new build housing.

5.4.4 The Tenant Survey (2018) surveyed all 5,909 tenants to gather feedback on the housing services they currently receive. A return rate of 40% was received making this a robust and credible survey. In terms of affordability, the main issues raised by tenants were as follows:

- 8.4% of tenants not in receipt of full housing benefit stated that their rent is difficult or very difficult to afford;
- 34% of tenants indicated that their rent is just about affordable; and
- 45.2% of tenants stated that they have experienced fuel poverty over the last 12 months. Ideally, tenants wanted to put their heating on but could not afford to do so.

5.4.5 In response to these findings, the Head of Service and key staff from Housing and Finance reviewed the financial assessment model that was previously completed as part of the Business Plan (2016). A number of factors over the past two financial years (increased levels of CFCR, lower borrowing costs, lower interest rates and lower than expected rent arrears) have reduced the anticipated levels of risk that were predicted in the financial model (2016). Consequently, the Council is financially able to deliver its new build programme (210 units over 3 years) without the need to further increase house rents.

- 5.4.6 The Scottish Housing Regulator requires local authorities to take the views of tenants into consideration when setting rent increases. The proposed budget has considered their views. The overall rent increases since 2015/16 have also been considered. Based on both factors and the updated financial modelling in 2018, it is proposed that housing rents are frozen at current levels for 2019/20. This will result in an average council house rent (based on 52 weeks) for 2019/20 of £59.84 per week.
- 5.4.7 Based on the HRA Statistical Bulletin 2018/19 published by the Scottish Government in October 2018, Moray continues to have the lowest average council house rents in Scotland.
- 5.4.8 A review of the Housing Business Plan in 2019 will examine future rent levels and the affordability of these.
- 5.4.9 An increase in grass cutting charges of 3.5% is proposed. An increase in garage site rents of 7% is also proposed (this is a two yearly increase).

6. THREE YEAR PROJECTION

- 6.1 A three year projection for the HRA budget is provided in **APPENDIX III**.

7. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The provision of new affordable housing, the maintenance of the Council's housing stock and dealing with homelessness are priorities identified within the Corporate Plan and 10 Year Plan, the Council's Local Housing Strategy and Strategic Housing Investment Plan (SHIP) and the Housing and Property Service Plan.

(b) Policy and Legal

There is no policy or legal implications arising from this report.

(c) Financial Implications

The financial implications of the budgetary proposals are considered throughout this report. Details of budget proposals are included within the Appendices. Subject to the Council agreeing all of the proposed charges, the HRA Budget for 2019/20 is projected to balance, with a surplus of £1.132m from 2018/19 being carried forward.

(d) Risk Implications

Any risks associated with the budget proposals are identified in this report.

(e) Staffing Implications

There are no staffing implications arising from this report.

(f) Property

None.

(g) Equalities/Socio Economic Impact

There are no equalities/socio economic impacts arising from this report.

(h) Consultations

This report has been developed with the assistance of and in close consultation with the Council's Finance Service. Consultation on this report has been carried out with the Head of Financial Services and senior managers within the Housing and Property Service. Tenants were also consulted on current rents and possible increases and the decision to freeze rents for 2019/20 is a reflection that their views have been given proper and due consideration.

8. CONCLUSION

- 8.1 This report presents the HRA Budget proposals for 2019/20. It also includes a three year financial projection to 2021/22. The proposed budget enables the Council to complete its 3 year new build programme of 70 units per annum (2017/18 to 2019/20) without the need to increase house rents further in 2019/20. A review of the Housing Business Plan will be completed in 2019 to ensure the Council's housing activities remain fundable and affordable. The review will consider current and future risks and also future rent increase options. The outcome of the review will be reported to the Communities Committee later in 2019/20 and will also inform the Housing Revenue Account budget for 2020/21.**

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Background Papers:	Held by author
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