REPORT TO: **MORAY COUNCIL ON 12 FEBRUARY 2020**

SUBJECT: **HOUSING REVENUE ACCOUNT BUDGET 2020/21**

BY: **DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)**

1. REASON FOR REPORT

1.1 This report presents the Housing Revenue Account (HRA) Budget and Housing Investment Plan for 2020/21 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 that council house rents increase by 3% for 2020/21;

(iii) agrees that garage rents are increased by 7% (this is a two yearly increase);

(iv) agrees service developments at a cost of £50k;

(v) agrees that grass cutting charges are increased by 3.5%; and

(vi) notes the three year projection to 2023 (APPENDIX III).

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. This is 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 Business Plan was last reviewed in 2019.

4. PROJECTED OUTTURN 2019/20

4.1 The Council agreed its HRA Budget for 2019/20 on 27 February 2019 (paragraph 6 of the Minute refers). Reports on budgetary performance have been presented to the Communities Committee throughout 2019/20.

4.2 The last HRA budget monitoring report presented to the Communities Committee on 17 December 2019 (paragraph 8 of the Minute refers) identified the main variations in the projected outturns to 31 March 2020 as follows –

4.3 Expenditure

4.3.1 **Supervision and management** - an underspend of £440k was projected. This variance resulted from projected underspends in staffing (£296k), Insurance (£168k), shared accommodation costs (£45k) and other minor cumulative net underspends (£18k). This is reduced by a projected overspend in voids (£87k).

4.3.2 **Sheltered Housing** - an underspend of £10k was projected due to lower energy costs and the transfer of the rates liability for the communal facilities at Gurness Circle to the Moray Integration Joint Board. This is an appropriate transfer given that these facilities are now being used to provide day care services for older people.

4.3.3 **Repairs and Maintenance** - an underspend of £411k was projected. Planned/Cyclical works was projected to underspend (£733k) but this would be reduced by projected overspends in response repairs (£269k) and voids (£53k).

4.3.4 **Financing costs** - an underspend of £469k was projected due to lower borrowing requirements, lower expenditure on new build and the continued level of Capital from Current Revenue (CFCR) used to keep borrowing to a minimum.

4.3.5 **Bad and Doubtful debts** - an underspend of £125k was projected due to lower write-offs than originally expected.

4.3.6 **CFCR** - the level of Capital from Current Revenue (CFCR) was projected to increase by £1.5m due to underspends elsewhere across the HRA budget.

4.3.7 **Downsizing Incentive Scheme** – it is currently projected that the full budget of £72k will be spent by year end.

4.3.8 **Service Developments** – an underspend of £5k was projected due to the Business Plan costing less than expected as well as a small underspend in the ICT budget.

4.3.9 **Total expenditure on the HRA** - was projected to be £41k higher than budgeted.

4.4 Income

4.4.1 Minor variations were projected for income on non-dwelling rents, house rents and other income during 2019/20.

4.4.2 Total income to the HRA was projected to be £41k higher than originally budgeted for 2019/20.

4.4.3 Overall, a surplus balance of £1.172m is projected for the HRA budget in 2019/20.

4.5 The HRA cannot operate in deficit. The Business Plan Review 2019 recommended that a minimum surplus of £750k should be carried forward. To reflect current and potential future risks, it is considered prudent to carry forward a slightly higher surplus than the minimum recommended.

5. BUDGET PROPOSALS FOR 2020/21

5.1 As in previous years, Officers have considered in detail the base budget agreed for 2020/21. Each cost centre within the HRA budget is scrutinised by the Head of Housing and Property, Finance staff and the budget service managers on a line by line basis.

5.2 **APPENDIX I** details the proposed HRA Budget for 2020/21. Comments on the proposed budget can be made as follows:-

5.3 Expenditure

5.3.1 The total expenditure proposed amounts to £20.643m. The main areas of expenditure are considered below.

Supervision and Management

5.3.2 The budget proposed for supervision and management costs is £4.239m. This provides for a 3% pay award and also takes account of reduced insurance premiums.

5.3.3 Based on the HRA Statistical Bulletin 2019/20 published by the Scottish Government in October 2019, Moray will continue to be in the lowest quartile (6^{th}) of Council's with regards to supervision and management costs per house.

Sheltered Housing

5.3.4 It is proposed to reduce the Sheltered Housing Budget by £11k to £22k for 2020/21. This reduction reflects the transfer of non-domestic rates to the Moray Integration Joint Board for the use of the communal facilities at Gurness Circle.

Repairs and Maintenance

5.3.5 Repairs and maintenance is the largest block of expenditure within the HRA. The level of expenditure proposed - £6.981m – will be mainly targeted towards improving the Council's existing housing stock. The proposed revenue expenditure in the Housing Investment Plan summarised in **APPENDIX II**.

Planned Maintenance and Improvements

5.3.6 The Housing Investment Plan continues to reflect the investment priorities that tenants identified within the Tenants Survey (2019). Higher investment is required to replace older/inefficient heating systems as well as deliver other home improvements (i.e. new kitchens, bathrooms, windows, etc.). Capital investment is also required in order to meet the Energy Efficiency Standard for Social Housing (EESSH) and link smoke/CO2 detectors in every council property to comply with updated legislation.

Financing Costs

5.3.7 Financing costs are projected at £4.236m for 2020/21. This is a decrease of £89k when compared to the previous year's budget. The decrease assumes a revised interest rate of 3.93% against projected borrowing of £13.842m. This level of borrowing is required to fund the Housing Investment Capital Programme for 2020/21.

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 2020/21 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 reduce the requirement for prudential borrowing. The Housing Investment Plan sets out the repairs and maintenance priorities for 2020/21. These will be financed through the HRA revenue and capital budgets. For 2020/21, it is proposed to set CFCR at £4.793m to allow the Council to maintain an operating surplus of £1.100m 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 2020/21.

Service Developments

5.3.11 A service development of £50k has been included in the budget for 2020/21. This is required to fund the upgrade of ICT housing systems to include a new module for Asset Management. Progress on the implementation of the new module will be reported to Communities Committee during 2020/21.

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 from General Services). The level of income generated within the HRA continues to influence what the Council can fund with regards to its housing activities.

5.4.2 The Housing (Scotland) Act 2001 requires social landlords to consult tenants and take account of their views when making decisions about any proposed rent increase. In 2019/20, this was clearly demonstrated when the Council froze council house rents for that year. Such views however must be balanced with the Council's ability to fund all of its housing activities and maintain a balanced budget.

5.4.3 From 28 November 2019 to 10 January 2020, tenants were consulted on the proposed rent increase and why it was necessary to increase the charge by 3% for 2020/21. Of the 6,021 tenants who were consulted, 269 responded. This equates to 0.13% of all Council tenants. Responses on the consultation were as follows:

Responses	Number	%	Overall
Strongly agree	21	7.81%	39.78%
Agree	86	31.97%	
Neither Agree nor disagree	27	10.04%	10.04%
Disagree	60	22.30%	50.19%
Strongly disagree	75	27.88%	
Total	**269**	**100%**	

5.4.4 The Housing Business Plan Review (2019) which was reported to Council on 27 November 2019 (paragraph 6 of the Minute refers) modelled the financial investment that will be required to improve the housing stock. The main investment priorities must include:

i) Meeting the Energy Efficiency Standard for Social Housing (EESSH);
ii) Increasing the number of heating replacements;
iii) Carrying out electric testing within the housing stock;
iv) Linking smoke/CO2 detectors in all council houses;
v) Upgrading property elements (i.e. kitchens, bathrooms, etc.); and
vi) Delivering new build housing.

5.4.5 The Review (2019) concluded that the Council would need to make some key financial decisions for 2020/21 in order to fund all of the additional work programmes (as detailed in 5.4.4). The Review recommended that the number of new builds should reduce from 70 to 50 (this figure will now be reviewed on an annual basis) and apply a 3% rent increase for 2020/21 to ensure that all of the Council's housing activities remain fundable and affordable.

5.4.6 The overarching priority for the Council must be to improve tenants' homes. This can only be achieved by increasing rents by 3% which equates to inflation + 1%.

5.4.7 On the basis of a 3% rent increase in 2020/21, the total projected house rent income would be £20.571m. This level of increase equates to an average rent increase of £1.79 per week for existing council house tenants (on the basis of 52 weeks). Such an increase would result in an average council house rent (also based on 52 weeks) of £62.43 per week.

5.4.8 Based on the HRA Statistical Bulletin 2019/20 published by the Scottish Government in October 2019, Moray will continue to have the lowest average council house rents in Scotland.

5.4.9 The Moray Tenants Forum was consulted on the proposed rent increase and the majority are in favour of this because it supports the ongoing improvement of tenants' homes.

5.4.10 An increase in grass cutting charges of 3.5% is also proposed. An increase in garage 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 is projected to balance, with a surplus of £1.100m 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 Chief Financial Officer; Tracey Sutherland, Committee Services Officer and senior managers within the Housing and Property Service.

8. CONCLUSION

8.1 This report presents the HRA Budget proposals for 2020/21. It also includes a three year financial projection to 2022/23. The Housing Business Plan Review (2019) recommended that the number of new

builds must reduce from 70 to 50 and a 3% rent increase will be required to ensure that the Council's housing activities remain fundable and affordable. The number of new builds will be reviewed on an annual basis.

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Background Papers:	Held by author
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