REPORT TO: SPECIAL MEETING OF MORAY COUNCIL ON 18 FEBRUARY 2021

SUBJECT: HOUSING REVENUE ACCOUNT BUDGET 2021/22

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 2021/22 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 Council:

(i) agrees the proposed HRA Budget for 2021/22 (APPENDIX I) and Housing Investment Plan (APPENDIX II);

(ii) considers the results of consultation with tenants on options for the 2021/22 rent increase;

(iii) considers the results of the updated rent affordability assessment;

(iv) agrees Council house rents increase of 3% for 2021/22;

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

(vi) agrees service developments at a cost of £119k;

(vii) 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. Since 2005, the Council has agreed a Housing Business Plan over a 30 year period and reviewed it 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.

3.2 The Council has a statutory requirement to consult with tenants and consider their views when setting rents. Tenants must be given notice of any rent increase 4 weeks before the start of the next rent period. On 1 December 2020, the Economic Growth, Housing & Environmental Sustainability Committee agreed (paragraph 13 of the draft Minute refers) to consult with Council tenants on options for the rent increase for 2021/22 and to take account of their views when setting the Housing Revenue Account Budget (HRA) for 2021/22, due to be presented to Council in February 2021.

4. PROJECTED HRA OUTTURN 2020/21

4.1 On 12 February 2020, the Council agreed its HRA Budget for 2020/21 (paragraph 12 of the Minute refers). Reports on budgetary performance have been presented to Committee throughout 2020/21.

4.2 The most recent HRA budget monitoring report was presented to the Economic Growth, Housing & Environmental Sustainability Committee on 16 February 2021 and identified the main variations in the projected outturns to 31 March 2021 as follows –

Expenditure

4.3. **Supervision and management** - an underspend of £203k was projected. This variance resulted from projected underspends in staffing (£244k), Central Support Service and Shared Accommodation charges (£88k), Software and Hardware (£22k), insurance (£17k) and other minor cumulative underspends (£13k). This is reduced by a projected overspend in voids (£133k), Laptops for Homeworking (£21k), Council tax on empty properties (£8k) and Common Housing Register (£19k).

4.4 **Sheltered Housing** – a minor overpend of £1k was projected.

4.5 **Repairs and Maintenance** - an overspend of £126k was projected. Underspends include planned maintenance (£1,075k), response repairs (£1,045k) and voids (£231k). The overspend relates to the Building Services costs (£2,477k) as a result of COVID-19 delays. During the year COVID-19, has restricted work that can be carried out on site by Building Services and external contractors.

4.6 **Financing costs** - an underspendof £36k was projected due to lower than estimated borrowing levels and interest rates.

4.7 **Bad and Doubtful debts -** an underspend of £55k was projected based on write off and arrears levels to date.

4.8 **CFCR -** the level of Capital from Current Revenue (CFCR) was projected to reduce by £343k due to overspends elsewhere across the HRA budget.

4.9 **Downsizing Incentive Scheme** – an underspend of £36k was projected due to fewer transfers during the COVID-19 lockdown.

4.10 **Service Developments** – an underspend of £26k was projected as staff resources were diverted to maintaining key services during the pandemic.

4.11 **Total expenditure on the HRA** - was projected to be £572k lower than budgeted.

Income

4.12 Total income to the HRA was projected to be £500k lower than budgeted for 2020/21 This was mainly due to lower income from house rents (£440k) with COVID-19 restrictions causing major delays in the letting of vacant houses and the completion of new homes.

4.13 Overall, a surplus balance of £2.219m is projected for the HRA budget in 2020/21.

4.14 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, including COVID-19, it is considered prudent to carry forward a higher surplus than the minimum recommended.

5. PROPOSED HRA BUDGET 2021/22

5.1 As in previous years, Officers have considered in detail the base budget agreed for 2021/22. Each cost centre within the HRA budget is scrutinised by the Acting Head of Housing and Property, Finance staff and the budget service managers and this has included an assessment of the continued impact of COVID-19 on both income and expenditure. It is assumed that restrictions will continue into the 2021/22 financial year and this will have an impact on income. However, it is possible that restrictions on construction works in homes will be eased to allow investment programmes to continue.

5.2 **APPENDIX I** details the proposed HRA Budget for 2021/22. Comments on the proposed budget can be made as follows:-

Expenditure

5.3. The total expenditure proposed amounts to £21.203m. The main areas of expenditure are considered below.

5.4 **Supervision and Management**

The budget proposed for supervision and management costs is £4.297m. This provides for a 2% pay award and also makes allowance for increased voids costs at a revised level of £230k.

5.5 The HRA Statistical Bulletin 2019/20, published by the Scottish Government in October 2019, reported that Moray was in the lowest quartile (6th) of Council's with regards to supervision and management costs per house. The Bulletin for 2020/21 has not yet been published but it is anticipated that the Council will continue to be in the lowest quartile for these costs.

5.6 **Sheltered Housing**
The Sheltered Housing Budget is maintained at current level of £0.022m for 2021/22.

5.7 **Repairs and Maintenance**
Repairs and maintenance is the largest block of expenditure within the HRA. The level of expenditure proposed - £7.678m – will be targeted mainly towards improving the Council's existing housing stock. An optimistic assumption on the lifting of the current COVID-19 restrictions has been taken in line with the Scottish Government's continued support of the construction sector. The proposed revenue expenditure in the Housing Investment Plan is summarised in **APPENDIX II**.

5.8 **Planned Maintenance and Improvements**
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. Continued COVID-19 restrictions would impact the expenditure of this budget, but also the ability to meet the legislative requirments for fire detection systems and Housing Regulator requirements for EESSH.

5.9 **Financing Costs**
Financing costs are projected at £3.880m for 2021/22. This is a decrease of £356k when compared to the previous year's budget.

5.10 **Capital from Current Revenue (CFCR)**
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 2021/22. These will be financed through the HRA revenue and capital budgets. For 2021/22, it is proposed to set CFCR at £4.910m to allow the Council to maintain an operating surplus of £2.219m at year end.

5.11 **Downsizing Incentive Scheme**
It is proposed to maintain the annual budget for the Downsizing Incentive Scheme at £72k for 2021/22.

5.12 **Service Developments**
A service development of £119k has been included in the budget for 2021/22.

5.13 The last Housing Revenue Account Bussiness Plan was produced in 2019. However, since this report it has been recognised that the impact of the COVID-19 restrictions and the receipt of the Stock Condition Survey have introduced additional risks. It is proposed to carryout a Business Plan Review with consultants Arneil Johnson to establish the future risks to the HRA Business Plan at a cost of £10k.

5.14 There is a statutory requirement to complete a Housing Need and Demand Assessment to facilitate the housing land allocations in the next Local Development Plan. The proposed budget for this activitiy is £17k.

5.15 A Tenant Satisfaction survey is programmed to be carried out in 2021 as part of our statutory requirement to consult with tenants at a cost of £16k.

5.16 The trial to develop a hand held solution to record annual servicing of systems such as gas, oil and air source heating systems has been successful and it is planned to develop this to support all the properties at a cost of £35k. This will replace the current paper based systems and provide detailed information for our submission to the Housing Regulator.

5.17 On 27 August 2019 Communities Committee agreed (paragraph 13 refers) to the investigation of a Housing Inspector officer to tackle issues of poor condition of some council tenancies. It is proposed to bring a report to this Committee setting out the full scope of any new job description and associated costs. A sum of £41k has been allowed for in the Service Development budget should this post be approved.

<u>Income</u>

5.18 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.

5.19 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. The views of tenants must, however, be balanced with the Council's ability to maintain and improve services, invest in its housing stock and maintain a balanced budget.

6. <u>TENANT CONSULTATION ON 2021/21 RENT INCREASE</u>

6.1 During December 2020 and to 8 January 2021, tenants were consulted on a range of options for the proposed rent increase for 2021/22. As well as these options, the consultation also asked tenants if COVID-19 was having an impact on their household finances. The consultation involved a letter to 5,983 tenants setting out the options and with a questionnaire and a pre-paid envelope for replies. A "survey monkey" was also set up which could be accessed from a link on the Council's website. The consultation was advertised in the Winter edition of the Tenants' Voice newsletter and on the Moray Council Tenants' Facebook page. The Moray Tenants' Forum has been unable to meet due to COVID-19 restrictions but the views of members were canvassed remotely as part of the consultation.

6.2 The rent consultation received a total of 668 responses, a response rate of just over 10%. This was more than double the 269 responses to the 2020/21 rent increase consultation.

6.3 Tenants were consulted on three rent increase options:

- a rent freeze at 0%;
- an inflation only increase of 2%; and
- an inflation plus 1% increase amounting to 3%.

In presenting the options, the consultation letter advised tenants that rents are used to fund investment in their homes and in new housing and that the level of rent increase would have an impact on the Council's ability to maintain services and levels of investment. The letter also provided a comparison between the Council's rents and those of other local authorities, as well as the local housing associations.

6.4 Tenant responses to the rent increase options are provided in the table below:

Option	**Number**	**%**
0%	160	23.95%
2%	85	12.73%
3%	390	58.38%
Answered	**635**	**95.06%**
Skipped	33	4.94%

As part of the consultation, tenants were invited to provide comments on the options chosen. The main reason given by those supporting a rent increase was to pay for improvements to their homes, invest in new housing and maintain services. Those choosing the rent freeze option were mainly concerned about their ability to afford a rent increase but some also expressed concern that they were still waiting for improvements to their homes. A recurring theme of most comments was the need to improve the quality of the Council's housing stock, particularly in terms of its energy efficiency. This was a key finding of the 2018 Tenants' Survey.

6.5 Tenants were asked if COVID-19 had affected their ability to pay their rent:

	Number	**%**
Not at all	458	68.56%
A little	105	15.72%
A lot	42	6.29%
Answered	**605**	**100%**
Skipped	63	9.43%

Reduced income from loss of hours worked and furlough were the main reasons given by those for whom the pandemic had impacted on the affordability of their rent.

6.6 Of those tenants whose household finances had been affected a lot by COVID-19, 73% supported a rent freeze, 7% a 2% increase and 20% a 3% increase.

6.7 The majority of Moray Tenants' Forum members consulted were in favour of the 2% and 3% increase options to support investment in stock improvement and housing services. However, some tenant representatives were concerned that households who had suffered a reduction in income as a result of the pandemic may struggle to pay their rent.

7. RENT AFFORDABILITY ASSESSMENT

7.1 Arneil Johnson, the consultants who carried out the 2019 Review of the Housing Business Plan, were commissioned to update the assessment of the affordability of rents to our tenants. Applying a range of income to rent scenarios and taking account of lower quartile wages in Moray and available benefits, the updated assessment estimated the impact of the three rent increase options for 2021/22 on affordability. The assessment also benchmarked the proposed increases with the 2021/22 rents of comparator local authorities and housing associations.

7.2 The key findings of the assessment were as follows:

Rent Freeze at 0%: rents would remain 4% cheaper on average to comparable local authorities and 25% less than locally operating RSLs.

Increase at 2%: rents would be 2% lower on average to comparable local authorities and 23% less than locally operating RSLs.

Increase at 3%: rents would be 1% lower on average to comparable local authorities and 22% less than locally operating RSLs.

7.3 The assessment found that rents would continue to remain affordable to tenants in all rent increase scenarios. The rent freeze option was the most favourable to tenants in terms of affordability and would enable better household budgeting throughout the year ahead. The 2% and 3% options would require tenants to spend a greater level of their income on rent.

8. RENT INCREASE RECOMMENDATION

8.1 The Housing Business Plan Review, reported to Council on 27 November 2019 (paragraph 6 of the Minute refers), proposed that a rent increase of inflation + 1 % (3%) over next 3 financial years would be required to ensure that the Council could fund its investment priorities in a sustainable way. These priorities were:

i) Ensuring that housing stock complies with Energy Efficiency Standard for Social Housing (EESSH) as required by the Scottish Government;
ii) Replacing obsolete and inefficient heating systems;
iii) Carrying out electric testing within the housing stock;
iv) Upgrading smoke/CO2 detectors in all council houses as required by legislation;
v) Upgrading property elements (i.e. kitchens, bathrooms, etc.); and
vi) Building 50 new council houses per annum.

On 12 February 2020 the Moray Council Committee agreed that council house rents would increase by 3% for 2020/21(paragraph 12 of the Minute refers).

8.2 The HRA Budget Setting Report, presented to the Economic Growth, Housing & Environmental Sustainability Committee Council on 1 December 2020, set out the exceptional risks to the Housing Business Plan that have arisen as a result of the pandemic. These include higher rent arrears and increased void rent loss. There has also been significant delay to the new build programme and associated rental income. The DLO trading position is a major concern and could present a significant unanticipated cost to the HRA. Other impacts include major delays to the EESSH, heating replacement and smoke detector programmes and the suspension of non-essential repairs to housing stock.

8.3 At this point in time, the impact of COVID-related risk factors on the sustainability of the Housing Business Plan remains uncertain but it is likely that future adjustments will be required to be made in the revenue and cost assumptions that underpin the financial model. A further review of the Business Plan is due to be carried out during 2021/22 and will be informed by a better understanding of the impact of the pandemic on the Business Plan.

8.4 Despite the challenges of the pandemic, the results of the rent consultation would suggest that a significant majority of tenants (over 77%) would be willing to pay a higher rent to maintain the quality of their housing services, improve the housing stock and build new houses. However, the results would also suggest that there is a significant number of tenants whose household finances have been adversely affected by the pandemic (almost 25%) and are struggling to pay their rent. Although the majority of this group (73%) would not support a further rent increase, a significant minority (20%) were in favour of the 3% increase option.

8.5 As the key investment priority and highest area of revenue expenditure, the Council's progress in achieving EESSH for its housing stock is significantly behind programme. The Scottish Government expects that all social landlords must achieve compliance for all their stock by 30 December 2020. However, at 30 September 2020, only 56% of the Council's stock was EESSH compliant. This is significantly below the Scottish social housing landlord average of 90%. Given the restrictions on working in homes caused by COVID-19, progress on delivering the EESSH programme has been severely delayed during 2020/21. The commitments around EESSH will continue to create a significant budget pressure for the HRA going into 2021/22 and beyond.

8.6 Whilst the majority of tenants support a rent increase, the rent consultation, as was evident in previous years, demonstrated that their willingness to pay a higher rent is linked to an expectation that the Council will improve the housing stock and deliver other investment priorities. Unfortunately, due to exceptional circumstances, the Council has been unable to implement key elements of its investment programme during 2020/21. Nevertheless, the Council remains commited to the investment priorities detailed in paragraph 8.1. and the proposed HRA Budget allocates the level of funding required to progress these priorities during 2021/22 and meet the investment commitments that are important to our tenants.

8.7 To ensure that our activities remain fundable and affordable, and recognising the emerging risks facing the Housing Business Plan, it is considered appropriate and prudent to maintain the level of the rent increase at 3% which equates to inflation + 1%. As confirmed by the updated affordability assessment, a 3% increase would continue to remain affordable to tenants.

8.8 On the basis of a 3% rent increase in 2021/22, the total projected house rent income would be £20.880m. This level of increase equates to an average rent increase of £1.86 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 £63.93 per week.

8.9 It is anticipated that with an increase of 3%, the Council would continue to have one of the lowest overall average weekly council house rents in Scotland.

8.10 An increase in grass cutting charges of 3.5% is also proposed which is to support the increased number of new build properties programmed to be handed over in 2021/22. An increase in garage site rents of 7% is also proposed (this is a two yearly increase) to generate additional income for the HRA account.

9. 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, the Council's Local Housing Strategy, the Strategic Housing Investment Plan (SHIP) and the Housing and Property Service Plan.

(b) Policy and Legal
There are no policy or legal implications arising from this report.

(c) Financial Implications
The 2019 Business Plan had reviewed the legislative work programmes that the Council will be required to deliver in future years. It concluded that an increase of 3% over the next 3 years would ensure that the Council's housing activities remain fundable and affordable. It is planned to carryout an update of the 2019 Business Plan in 2021/22 to take account of the impact of COVID-19 and review the 3 year investment programme in the existing stock and the new build programme.

(d) Risk Implications
COVID-19 has introduced risks that had not been foreseen by the 2019 Business Plan. These risks are identified within this report and remain ongoing during the current advice and restrictions. Risks continue with the potential for delays to the delivery of the new build programme which may impact on the timing of increased rental income within the three year projections to 2023. A major Stock Condition Survey has been carried out during 2020/21 with a draft report received from the consultant at the end of January 2021. These findings need to be analysised. However, it is possible that additional areas of investment in the stock could be identified.

(e) Staffing implications
None.

(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 prepared in consultation with Finance staff. Consultation on this report has also been carried out with the Head of Financial Services, the Head of Governance, Strategy and Performance, Tracey Sutherland, Committee Services Officer and Senior Managers within the Housing and Property Service and any comments received are reflected in this report.

10. CONCLUSION

10.1 This report presents the HRA Budget proposals for 2021/22. It also includes a three year financial projection to 2023/24. The Housing Business Plan Review (2019) recommended that a 3% rent increase will be required to ensure that the Council's housing activities remain fundable and affordable.

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