



REPORT TO: ECONOMIC GROWTH, HOUSING AND ENVIRONMENTAL SUSTAINABILITY COMMITTEE ON 1 DECEMBER 2020

SUBJECT: COUNCIL HOUSE RENT LEVELS AND PREPARATION FOR THE HOUSING REVENUE ACCOUNT (HRA) BUDGET SETTING 2021/22

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

1. REASON FOR REPORT

- 1.1 To inform the Committee of the key financial planning considerations in setting Council House rents and to ask for approval to consult tenants on the rent levels to be included within the Housing Revenue Account Budget 2021/22.
- 1.2 This report is submitted to the Economic Growth, Housing and Environmental Sustainability Committee following a decision of Moray Council on 17 June 2020 to agree a simplified committee structure as a result of the COVID-19 pandemic. In the case of this Committee, the combining of the delegated responsibilities of Economic Development and Infrastructure, Community Services (Housing and Property) and Finance (budget, capital and revenue monitoring) (paragraph 9 of the Minute refers).

2. RECOMMENDATION

- 2.1 **It is recommended that the Economic Growth, Housing & Environmental Sustainability Committee:**
- (i) **agrees that Council tenants are consulted on a range of proposed rent levels as part of the HRA budget setting for 2020/21; and**
 - (ii) **agrees that the views of tenants are included within the Housing Revenue Account Budget for 2021/22, due to be presented to Council in February 2021.**

3. BACKGROUND

- 3.1 In previous years, as part of the preparation of the Housing Revenue Account (HRA) budget, the Housing Service has sought approval from the relevant service Committee to consult with tenants on the proposed Council house rent increase. This approval is usually sought in November/December of each

year prior to the rent consultation over the Christmas holiday period. The results of the consultation have informed the proposed HRA Budget for the forthcoming year, usually presented to Council for approval in February.

- 3.2 The Council has a statutory requirement to consult with tenants and take account of their views when setting rents. Tenants must be given notice of any rent increase 4 weeks before the start of the next rent period. The forthcoming period commences on 1 April 2021. However, due to a range of uncertainties related to COVID-19, officers have not yet completed their assessment of the impact of exceptional risks on the Housing Revenue Account budget for 2021/22. As they are not in a position to recommend a rent increase until this assessment has been completed, the approach to this year's consultation will be different from previous years.
- 3.3 Rather than a specified increase, tenants will be consulted on a range of potential options for 2021/22. The views expressed by tenants as well as officers' assessment of the risk factors will inform the rent increase recommendation to be presented to the Council for consideration in February 2021 as part of the HRA Budget Setting Report.
- 3.4 The rent setting level and process has recently been discussed at the meeting of the Association of Local Authority Chief Housing Officers (ALACHO) and the authorities attending that meeting consult with tenants before going to committee with any recommended rent level. Adopting the consultation method suggested in paragraph 3.3 would bring us in to line with other authorities in Scotland.

4. THE HOUSING BUSINESS PLAN

- 4.1 Council house rents are set within the financial planning framework provided by the Housing Business Plan, which assesses the affordability and feasibility of the Council's investment plans over a 30 year period. The Business Plan is reviewed on a three year cycle to provide assurance that the Council can fund its housing activities from the Housing Revenue Account (HRA) taking account of key risks factors and the affordability of rents to tenants. The most recent review was carried out in 2019 and reported to Moray Council on 27 November 2019. The review was undertaken by Arneil Johnston Consultants, working alongside Council staff
- 4.2 The 2019 Review confirmed that the Council's Housing Business Plan was fundable and affordable and could continue to facilitate effective and efficient service delivery to Council tenants, whilst providing a sustainable investment framework. The review tested the sensitivities of the key risk factors that may impact on the sustainability of the HRA:
- rent arrears;
 - void rent loss;
 - bad debt provision;
 - supervision and management costs;
 - interest rates;
 - construction costs; and
 - an under-estimation in the Capital Investment Programme.

The review concluded that the plan was affordable as long as the risk factors remained within the parameters assumed in the financial modelling.

- 4.3 The level of the Council house rents is well below the national average but Moray is a low wage economy. Rental income is the primary source of income for the Housing Revenue Account (HRA) and this means that the level of income generated will determine what the Council can fund in terms of its housing activities.
- 4.4 The 2019 Review assessed the level of rental income that would be required to finance ongoing expenditure and to fund significant capital investment in its housing stock, mainly:
- Energy Efficiency Standard for Social Housing (ESSH);
 - ESSH 2;
 - Electric Testing;
 - Upgrading all smoke and carbon detectors to a linked network;
 - Replacement of heating systems; and
 - The building of 50 new Council houses per annum over the next three years.
- 4.5 A key consideration of the 2019 Review was to ensure that Council houses remained affordable to tenants. This responded to the 2018 Tenants' Survey which reported that 34% of tenants felt their rent was just about affordable and 45% were experiencing fuel poverty. Using Scottish Government guidance on rent affordability, the review tested a number of scenarios based on different levels of rent increase and household incomes including access to welfare benefits. The review recommended that a rent increase of inflation + 1 % (3%) over next 3 financial years would remain affordable to tenants but would also ensure that the HRA could continue to fund investment commitments in a sustainable way.
- 4.6 Based on the recommendations of the review and following consultation with tenants, the Council agreed a 3% rent increase in 2020/21.

5. RISK AND UNCERTAINTY

- 5.1 COVID-19 has clearly introduced a level of risk that could not have been anticipated by the 2019 Business Plan Review. Officers have been closely monitoring the key risk indicators to assess variations from the assumptions contained in the plan. At this point in time, the implications of COVID-19 are still unravelling and there continues to be great uncertainty over the movement of risk indicators. These include rent arrears, which are slightly higher than at this point last year, and void rent loss, which has increased as a result of the suspension of lettings during lockdown between April and June 2020. In addition, COVID-19 has disrupted the new build programme with house completions and associated rental income being realised much later than anticipated.
- 5.2 As well as movements in these risk factors, costs borne by the HRA have also been subject to significant variation. In this respect the house investment

programme undertaken by the Building Services DLO had to be suspended during the lockdown period, however their overhead costs have still had to be met creating a deficit. The size of the DLO budget deficit is a major concern. The full extent of the deficit in 2020/21 will not be known until year-end but is expected to outturn at a substantial cost to the HRA budget.

- 5.3 COVID-19 has disrupted the major work programmes relating to EESSH energy work and the smoke detector upgrades and there will be significant underspend in these budgets during 2020/21. The deferral of this investment added to ongoing commitments to deliver further statutory improvements to the housing stock will create a significant budget pressure for the HRA going into 2021/22 which will require to be assessed as part of the budget setting process.
- 5.4 Whilst there have been movements in key risk indicators, the 2019 Business Plan review found that the HRA was in a healthy condition and performing well against key financial indicators including debt affordability. This would suggest that there is longer-term capacity within the Business Plan to manage the current level of risk.
- 5.5 As a result of COVID-19, many households will have suffered reduced income from employment and a rent increase could create significant financial hardship for some tenants, particularly those on low incomes. The rent assessment carried out as part of the 2019 Business Plan Review could not have taken account of the rent affordability scenarios emerging from COVID-19 and will require to be updated as part the current rent setting process.
- 5.6 Given that there is capacity within the Business Plan to manage risk, it is considered that the Council consult on a rent increase no greater than the inflation + 1 % for 2021/22. Inflation has been very volatile throughout the pandemic period and the current rate of CPI (Consumer Price Index) is not considered to be a useful measure of inflation. The UK government's target inflation is 2% and that is a more useful measure of what inflationary increases should be based on. However, in light of the emerging pressures on household finances, it is considered that tenants should also be consulted on options for a lower increase. The response to this broader range of options, together with the updated affordability assessment, will give the Council a fuller understanding the affordability of our rent increase proposals to our tenants.
- 5.7 With the risk of COVID-19 subject to ongoing assessment, officers consider that it would be prudent to carry out a further review of the Housing Business Plan next year. Although in advance of the three-year cycle, a review at that time would be informed by a greater understanding of the impact of COVID-19 on the future sustainability of the HRA. The review would also take account of the findings of the Condition Survey of the Council's housing stock, due to be completed early in 2021. This will identify the long-term level of investment required to maintain the stock in a good state of repair and ensure compliance with EESSH.

6. RENT INCREASE CONSULTATION 2021/22

- 6.1 The consultation will present tenants with the following options for the 2021/22 increase:
- 0% rent increase
 - Inflation only increase
 - Inflation +1% increase (as per Business Plan)
- 6.2 The consultation, which will begin in early December 2020 and end in early January 2021, will be publicised using social media and the winter edition of the Tenants Voice newsletter. The results will be available for the HRA Budget Setting in February 2021.
- 6.3 The information provided to tenants as part of the consultation will explain how rents are used to fund investment in their homes and will include a comparison with other local authority rents. Given the exceptional circumstances under which the consultation is taking place, information will also be provided on the risks facing the HRA in delivering investment and maintaining services.

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, 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.

(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.

(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, Lissa Rowan, Committee Services Officer and Senior Managers within the Housing and Property Service and any comments received are reflected in this report.

8. CONCLUSION

8.1 This report recommends that Council tenants are consulted on a range of proposed rent levels as part of the HRA budget setting for 2020/21.

Author of Report:	Moray MacLeod, Acting Head of Housing and Property
Background Papers:	Held by author
Ref:	CC/JS/LS – Housing Budgets