

## Housing Revenue Account Budget 2011/12

---

### The City of Edinburgh Council

10 February 2011

#### **1 Purpose of report**

- 1.1 To seek approval for the Housing Revenue Account (HRA) budget for 2011/12.

#### **2 Summary**

- 2.1 Council housing income and expenditure is accounted for through a ring-fenced account - the HRA. This report proposes an HRA budget for 2011/12, including details of the rent increase required to achieve a balanced budget, sustain the level of investment required by the Council to bring its housing stock up to the Scottish Housing Quality Standard (SHQS) by 2015, to deliver the 21<sup>st</sup> Century Homes for Edinburgh Programme and support the development of new affordable housing in the city.
- 2.2 The report recommends a 7.6% increase in Council housing rent levels. This is based on a rent strategy of increasing rents by Retail Price Index (RPI) plus 2.7% until 2015 to fund the 30 year HRA Business Plan which was approved by the Health, Social Care and Housing Committee on 11 December 2007. This rent increase also includes 0.2% reflecting the decision of the Health, Social Care and Housing Committee regarding rental policy for new Council homes.

#### **3 Main report**

##### **HRA Business Plan Assumptions**

- 3.1 The detailed HRA budget for 2011/12 is based on the HRA Business Plan 2010. The plan is a financial model over 30 years, showing the projected levels of capital investment required to meet the SHQS and beyond, together with all other HRA expenditure and income, including funding for 21<sup>st</sup> Century Homes.
- 3.2 Edinburgh's SHQS Delivery Plan was approved by the Health, Social Care and Housing Committee on 11 December 2007. This followed an extensive consultation process. The plan requires rent increases each year of RPI plus 2.7% in order to generate sufficient rental income to meet the objectives of the Business Plan which include funding the capital investment needed to achieve the SHQS and deliver 21<sup>st</sup> Century Homes.
- 3.3 The recent Scottish Housing Regulator inspection reported that the HRA Business Plan had a number of strengths, including its review process. Each

year, its key assumptions and risks are reviewed by a Business Planning Team and the plan updated and considered by Services for Communities Senior Management Team. In addition, there have been three meetings with the Edinburgh Tenants' Federation to consult on the HRA Business Plan, its updating and the annual rent setting exercise.

3.4 The following key assumptions were used in this year's plan:

- base data is the 2010/11 financial ledger data per current revised budgets.
- rent increases are set at RPI plus 2.7% until completion of the SHQS in 2015, and at RPI thereafter. The rent increase for 2011/12 includes a one-off 0.2% increase to support the 21<sup>st</sup> Century Homes Programme and is an alternative to the use of premium rents (see para 3.8).
- interest on debt is set at the pool rate of 5.6%. This assumption is subject to future base rate fluctuations and future council borrowing requirements.
- the current opening historical HRA debt is £313 million.

3.5 The HRA business plan 2010 indicates the following:

- that total HRA debt can be managed below a £400m ceiling across the life of the plan.
- the percentage of net rental income used to service HRA debt charges stays below 50% and trends downwards after SHQS.
- the HRA is projected to cover its costs each year.
- any annual HRA excess income over expenditure is used to fund new capital investment, repay old HRA debt, maintain a working balance and support 21<sup>st</sup> Century Homes funding.
- the estimated cash flow requirements of the current 21st Century Homes programme can be met by drawing on the Repairs and Renewals fund or additional borrowing, as previously approved by Committee.

3.6 There are a number of risks to the plan that have been identified. For example, the Government's welfare reform programme including housing benefit may affect the collection of rental income. Accordingly a project has been commissioned to manage this risk. In addition, the current programme of housing stock condition surveys will provide more accurate information on which to profile future capital investment and repairs programmes.

### **Rent Setting**

3.7 This report makes recommendations to align rents for new build social rented properties with the rent structure and levels for current Council housing.

- 3.8 In 2011/12, the Council expects to let its first properties built under the 21st Century Homes programme. An initial proposal was for a premium rent to be charged on new social rented homes to help pay for the costs over the lifetime of a 30 year business model. This was opposed by ETF who advocated spreading the cost across the total stock. On 5 October 2010, the Health Social Care and Housing Committee decided this approach was acceptable and should be built in to the HRA Business Plan.
- 3.9 The Council has a statutory duty to inform and consult tenants on its rent policy. This has included a rents' workshop held at the Annual Tenants Conference on 28 August 2010, an information leaflet with an invite to comment which was issued to all tenants in November 2010 with their quarterly rent statement and regular meeting with Edinburgh Tenants Federation. This leaflet gives those who became tenants since the rent policy was established, and the SHQS consultation in 2007, the opportunity to comment on rent increases, priorities for service investment, and where savings could be sought.
- 3.10 The latest inflation figures published in December 2010 showed that the annual rate of inflation as measured by the Retail Price Index was 4.7%. An inflation assumption of 4.7% translates into a rent increase of 7.6%. The HRA also has inflationary pressures to absorb, e.g. rising building and employee costs. There is also a marked upward trend in the government's measures of inflation. This proposal has been discussed with the Convenor of Edinburgh Tenants' Federation who has confirmed that this is in line with the agreed rent strategy.
- 3.11 75% of Council tenants receive full or partial housing benefit to help pay their rent. Where Council tenants are in receipt of housing benefit the full cost of the rent increase will be met through housing benefit. It is estimated that around 500 additional tenants will qualify for housing benefit as a result of this rent increase. Of the 4500 tenants who would not qualify for housing benefit approximately 3300 will pay less than the average rent increase of £5.99. Council is reminded that following a review of the rent structure in 2008, rents are transitioning towards a new rent structure and changes in rents will not be entirely due to this rent increase. The transition to the new rent structure commenced in October 2008 and will continue until the end of 2012/13. Those tenants facing the highest rent increases will be contacted and offered help to maximise their income and benefits. All tenants will be given information on the help and advice available to them if they are facing difficulties paying their rent.
- 3.12 Average Council rents are less than half the average private rented market rent in Edinburgh and are broadly comparable to average housing association rents. The Council's rent level is broadly comparable to local authority rent levels in the South East of England and considerably less than Council rent levels in London. Both areas have similar housing markets characterised by an overall shortage of housing across all tenures and high purchase and renting costs in the private sector.
- 3.13 The Scottish Housing Regulator's inspection report in 2010 recommended that "across its landlord activities, the Council should develop its approach to achieving value for money for its services and ensure that it delivers its proposed efficiency savings". The development of a Value for Money Plan for 2011/12 will be a key strategic priority. This plan will be a means for the Council

to derive maximum benefit from the resources available to deliver its housing services. It will support medium and long term savings in management and supervision costs and improvements in financial planning and budget setting.

- 3.14 The Government has set out its intention to undertake a wide ranging reform of welfare benefits. This may in the future affect tenants housing benefit income and may represent a challenge to councils on recovering rental income. Reductions in Housing Benefit for Council tenants may lead to a greater risk of rising rent arrears as tenants will need to use their own resources to meet the difference between their rent and the Housing Benefit payable. The report to Health, Social Care and Housing Committee on 7 December 2010 outlined the changes to welfare and housing benefits.

#### **4 Financial Implications**

- 4.1 The proposed HRA budget for 2011/12, based on a rent increase of 7.6%, will allow the delivery of a sustainable and affordable Business Plan and operational service levels to be sustained. The average rent for a Council home will increase from £68.88 to £74.87 per week (based on a 52 week year). Appendix 2 contains the outline Capital Programme which will be subject to a further detailed report to the Health, Social Care and Housing Committee.

#### **5 Environmental Impact**

- 5.1 The proposed budget will support capital investment in energy efficiency works. The SHQS requires that all local authority housing achieves a National Home Energy Rating (NHER) of 5. Currently the Council's average NHER is 7.2. The replacement of poorer quality, high energy consumption housing with new homes built to modern standards through 21<sup>st</sup> Century Homes will mean an overall improvement in the quality of Council housing in the city.

#### **6 Conclusions**

- 6.1 The HRA Business Plan provides a robust approach to delivering the Council and tenants' priorities of improving existing homes and building new affordable housing. Significant progress has been made in delivering the SHQS in existing homes with the first new Council homes for a generation currently being built in Gracemount.
- 6.2 The proposed rent increase of 7.6% is in line with agreed rent strategy for the HRA in the approved Business Plan.

#### **7 Recommendations**

- 7 Council is recommended to approve the proposed HRA budget for 2010/11 based on a rent increase of 7.6%.

**Mark Turley**  
Director, Services for Communities

---

Appendices	Appendix 1: Outline HRA Budget 2011 – 14 Appendix 2: Outline HRA Capital Programme 2011/12
Contact/tel/Email	Michael Thain, Strategy and Investment Manager, 0131 529 2426 Andrew Lyell, Finance Manager, 0131 529 5733
Wards affected	All
Single Outcome Agreement	National Outcome 10 – We live in well designed sustainable places where we are able to access the amenities and services we need
Background Papers	Scottish Housing Quality Standard Delivery Plan Report, Health, Social Care and Housing Committee, December 2007  Scottish Housing Regulator Inspection Report, June 2010

\*

## Appendix 1

### Housing Revenue Account Budget 2011-12 (Draft)

Narrative	2010-11 budget £m	Change £m	Change %	2011-12 proposed budget £m	Notes 1	2012-13 indicative budget £m	2013-14 indicative budget £m
<b>Income</b>							
Net rent income	70.884	4.913	7%	75.797	2, 3	80.164	84.138
Temporary accommodation	11.059	0.398	4%	11.457	4	11.767	12.120
Other income	4.774	0.185	4%	4.960	5	5.104	5.220
<b>Total income</b>	<b>86.717</b>	<b>5.496</b>	<b>6%</b>	<b>92.213</b>		<b>97.034</b>	<b>101.477</b>
<b>Expenditure</b>							
Management costs	21.976	0.324	1%	22.300	6	22.598	23.385
Repairs & maintenance	20.456	0.384	2%	20.840	7	21.338	21.992
Debt charges	33.059	1.904	6%	34.962	8	38.055	40.953
Environmental maintenance	2.471	0.089	4%	2.560	9	2.629	2.708
Temporary accommodation (direct costs)	5.729	0.206	4%	5.935	10	6.095	6.278
Other expenditure	3.027	2.590	86%	5.617	11	6.319	6.162
<b>Total expenditure</b>	<b>86.717</b>	<b>5.496</b>	<b>6%</b>	<b>92.213</b>		<b>97.034</b>	<b>101.477</b>
<b>Outturn</b>	<b>0.000</b>	<b>0.000</b>	<b>0%</b>	<b>0.000</b>		<b>0.000</b>	<b>0.000</b>

#### Notes:

1. Data based on HRA Business Plan 2010. Savings proposals for 2011-12 will be factored in the 2011 update.
2. Council House rents net of empty homes and bad debts.
3. Assumes council house rents increase by 7.6%, i.e. 2.7% re SHQS and 4.7% inflation uplift, plus 0.2% for 21<sup>st</sup> Century Homes.
4. Income from Council Houses used as managed or dispersed Temporary Accommodation
5. Largely covers service charges to tenants, non-housing rents, recovered costs from owner occupiers & hostel charges
6. Management costs employee costs, central support costs and recharges, premises and other expenditure.
7. Covers responsive, empty property repairs and sheltered housing. Adjusted for projected stock loss from demolitions and right to buy sales.
8. Capital financing costs (principal repayments, interest & expenses) of HRA debt for existing stock and planned investment programme
9. Comprises grounds maintenance costs, including empty properties and pest control.
10. Cost of temporary accommodation excluding indirect costs, capital financing and repairs, which are included elsewhere in the table.
11. Any annual HRA excess income over expenditure is used to fund new capital investment, repay old HRA debt, maintain a working balance and support 21<sup>st</sup> Century Homes funding.

Appendix 2

**Outline HRA Capital Programme 2011/12 (Draft)**

The HRA Business Plan sets a £45.250 million programme for 2011/12 with investment allocated across the main headings as follows:-

Programme heading	£million
Housing investment incl SHQS work	32.500
Neighbourhood Environment Investment	2.500
Community Care	1.600
Homelessness investment	1.100
Regeneration	5.800
21 <sup>st</sup> Century Homes investment	4.750
<b>Total</b>	<b><sup>1</sup> 48.250</b>

<sup>1</sup> Includes £3m over-programming provision

Funding source	£million
Prudential borrowing	40.400
Receipts from Council house sales	4.000
Receipts from other HRA assets	0.300
21 <sup>st</sup> Century Homes land/licence receipts	0.550
<b>Total</b>	<b><sup>2</sup> 45.250</b>

<sup>2</sup> Excludes £3m over-programming provision