
NORTH AYRSHIRE COUNCIL

18 December 2019

North Ayrshire Council

Title: Housing Revenue Account (HRA) Capital Investment Programme, Revenue Budget and Rent Levels for 2020/21

Purpose: To seek Council approval of the proposed HRA capital investment programme and revenue budget for 2020/21 and the consequential rent levels.

Recommendation: Agree to: (a) approve the HRA capital investment programme for 2020/21, as detailed in Appendix 1; (b) approve the HRA revenue budget for 2020/21, as detailed in Appendix 2; (c) approve a rent increase of 2.99% in 2020/21 for council houses, garage sites, lock-ups and sheltered housing service charges; and (d) note the indicative rent increases of 2.50% for 2021/22 and 2.50% for 2022/23.

1. Executive Summary

- 1.1 The Housing (Scotland) Act 1987 requires local authorities to maintain a Housing Revenue Account to record all income and expenditure related to the provision of Council houses.
- 1.2 The annual review of the HRA Business Plan was carried out during 2019 to assess the factors expected to impact on the HRA budget. Tenants have also been consulted on the budget proposals included within this report. This has resulted in capital and revenue budgets which deliver:
- a capital investment programme which maintains the Scottish Housing Quality Standard and works towards achieving the Energy Efficiency Standard for Social Housing (EESH) by 31 December 2020;
 - a further 340 new build houses completed by 31 March 2021, taking the total new builds to 725 units and supporting the delivery of 1,575 units of new build housing at the end of the Strategic Housing Investment Plan 2020-2025;
 - £19.331m of property related expenditure within the HRA revenue budget.

- 1.3 In order to meet these commitments, the proposed increase to housing, garage and lock-up rents and sheltered housing service charges is 2.99% for 2020/21.
- 1.4 A summary of the anticipated level of earmarked and unearmarked reserves is provided at paragraph 2.29 to the report. Based on the probable outturn for 2019/20 as at 30 September 2019, it is anticipated that the HRA will have reserves of £9.930m at the end of the financial year, of which £1.000m is unearmarked. This equates to 2% of revenue expenditure, which is at the lower end of the approved reserve policy of maintaining between 2% and 4% of revenue expenditure.
- 1.5 In recognition of the work that has been done by the Welfare Reform Advice Team in recent years to support tenants as they move over to Universal Credit and noting the Council's latest rent collection/ arrears performance, the Welfare Reform reserve will be reduced from £3.0m to £1.5m. £1.0m of the funding released will be used as Capital Funded from Current Revenue (CFCR) in 2020/21 and reduce the need for borrowing. The remaining £0.5m will be used to increase the uncommitted HRA balance to £1.5m (3%).
- 1.6 Full details of the capital and revenue budgets are contained in Appendix 1 and Appendix 2.

2. Background

- 2.1 A Special Meeting of the Council on 19 December 2018 considered housing rent levels for the three years to 2021/22. Members approved an increase of 2.93% for 2019/20 and noted the indicative rent increases of 3.65% for 2020/21 and 2.5% for 2021/22.
- 2.2 The HRA Business Plan financial model was updated during 2019 to reflect the significantly improved stock condition, together with the potential impacts of Welfare Reform. In addition, the updated plan aligns to the Strategic Housing Investment Plan 2020-25 with 1,575 new homes targeted for completion by 31 March 2025. The Business Plan provides assurance of the financial sustainability of the Council's housing stock over the 30 year period it covers.
- 2.3 As part of the annual review of the Business Plan consideration was also given to the following factors:
 - Capital and revenue expenditure requirements
 - Council house building targets
 - Inflation
 - Outcome of tenants' consultation
 - Value for Money
 - Future challenges

- Revenue and Capital balances

Capital and Revenue Expenditure Requirements

Capital

- 2.4 The proposed 2020/21 HRA capital programme of £68.448m is detailed in Appendix 1. As outlined in the appendix, the programme will be funded by a combination of capital funded from current revenue (CFCR), government grants, prudential borrowing, reserves and the affordable housing contribution.
- 2.5 The capital programme will result in major repair or improvement works to housing stock in 2020/21 including the programmes detailed below. For comparison purposes, projected outturns for 2019/20 are also provided.

Programme	No. of properties	
	2020/21	2019/20 Projected
Roofing and rendering	425	570
Insulated rendering	50	150
Electrical rewiring	240	215
Installation of new kitchens	432	402
New central heating	693	385
Installation of new bathrooms	359	331

Council House Building

- 2.6 The revised Business Plan reflects the Council's commitment to deliver a comprehensive new build programme, with a variety of house types as well as significant investment in housing for older people and those with additional support needs. Details of developments programmed for completion during 2020/21 are shown below:

2.7

Project	Number of Units	Status in 2020/21
Watt Court, Dalry	15	Final completions of 49 unit site
Flatt Road, Largs	81	81 out of 122 units
St Michael's Wynd, Kilwinning	50	50 out of 79 units
Brathwic Terrace, Arran	34	Completion due Jan 2021
Harbourside, Irvine	30	30 out of 71 units
Dalrymple Place, Irvine	33	Completion due Dec 2020
St Beya Gardens, Cumbrae	18	Completion due Jan 2021

Towerlands PS, Irvine	50	Completion due Feb 2021
Springvale Depot, Saltcoats	14	Completion due Feb 2021
Caley Court, Stevenston	15	Completion due Feb 2021
Total	340	

Details of the full Council house build programme can be found in the Strategic Housing Investment Plan 2020-2025 which was approved by Cabinet on 29 October 2019. A total of 1,575 new homes are targeted for completion by the Council by 31 March 2025.

- 2.8 The sheltered housing re-provisioning programme continues to be implemented and in February 2021 refurbishment work will be completed on the remaining two sheltered housing units at Friars Lawn, Kilwinning (22 units) and Garrier Court, Springside (19 units).
- 2.9 Following the success of previous years, funding of £2.648m will be available to continue investment in purchasing ex-local authority houses and empty homes. Acquiring these types of properties will help to address asset management and estate management issues, while increasing Council housing stock numbers.
- 2.10 The capital programme includes investment to ensure the Council meets the Energy Efficiency Standard for Social Housing (ESSH), which provides clear guidance in relation to the level of energy efficiency each Council owned house requires to achieve by 31 December 2020. Approximately 98% of the Council's housing stock already complies with ESSH; energy improvement works such as cavity wall insulation and replacement central heating are planned for those properties which are not currently compliant.
- 2.11 The Prudential Code for Capital Finance in Local Authorities requires councils to demonstrate that capital investment programmes and the level required to be funded by borrowing are affordable, prudent and sustainable. The Key Performance Indicator which demonstrates this is noted below:

Treasury Management Performance Indicators

Ratio of financing costs to net revenue stream	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
HRA	16.9%	22.8%	24.3%

Revenue

- 2.12 The proposed 2020/21 HRA revenue budget is outlined in Appendix 2. Planned expenditure of £50.573m will mainly be funded by rental income and charges for services.
- 2.13 The revenue budget includes funding of £19.331m for property related expenditure in the year. This expenditure will assist the Council in maintaining its efficient and sector-leading performance in respect of the management of void properties and planned and responsive maintenance. Additionally, provision has been made for Tenant Led Budgets and other areas of estate management such as rear sub divisional fencing and infrastructure improvements.

Outcome of Tenants' Consultation

- 2.14 The Housing (Scotland) Act 2001 requires councils to consult with tenants and have regard to the views expressed prior to setting the rents.
- 2.15 In preparing the budget for 2020/21, two options for rent increases were identified by officers and these were considered by the Business Plan Implementation Group in October 2019. The options were subsequently included in the tenants' consultation exercise that took place during October and November 2019, namely to increase rents by either 2.99% or 3.20%. The higher increase reflected an option to increase investment in Tenant Led Budgets, which are funds used to deliver projects nominated by tenants. Further information on the options considered is included within the Rent Matters Newsletter as attached at Appendix 3.
- 2.16 Responses received from the tenants' consultation indicated a 57% preference for option 1, i.e., a rent increase of 2.99% for 2020/21.

Rent Increase

- 2.17 In order to meet the investment requirements of the 30-year Business Plan, including: the Council house building programme; maintaining the SHQS; and working towards achieving the Energy Efficiency Standard for Social Housing by 31 December 2020, it is proposed to increase housing rents by 2.99% for 2020/21. The latest Business Plan indicates anticipated rent increases of 2.50% for 2021/22 and 2.50% for 2022/23.

Value for Money

- 2.18 The Council's average weekly rent is below the Scottish average Local Authority rent for 2019/20 (Council average is £72.29 compared to Scottish average of £74.26). The proposed rent increase for 2020/21 is expected to maintain the Council's position compared with the Scottish average. The Council's average rent is also significantly lower than the average for Registered Social Landlords within North Ayrshire. Details of the weekly rent charges are shown in the following table:

	Average Rent 2019/20
Scottish Local Authority Average	£74.26
North Ayrshire Council	£72.29
East Ayrshire Council	£72.72
South Ayrshire Council	£75.45
ANCHO	£83.18
Irvine Housing Association	£85.75
Cunninghame Housing Association	£87.68

- 2.19 Scotland's Housing Network benchmarks the Scottish Social Housing Charter outcome results of Scottish councils. The results include areas such as housing management performance, repairs and customer satisfaction and value for money. In 2018/19 North Ayrshire Council was once again the highest performing local authority housing service for both average re-let times and rent lost from empty properties. The Network also confirmed that the Council remains the top performer amongst local authority members in terms of both level of service and value for money.
- 2.20 During the customer satisfaction survey completed in Summer 2018, 92.1% of tenants said that the rent for their property represented good value for money.

Future Challenges

Welfare Reform

- 2.21 The changes introduced by the Welfare Reform Act 2012 have placed pressure on the management of rent collection. Universal Credit Full Service was introduced in North Ayrshire Council in November 2017. Like most local authorities who have moved to full service, an increase in rent arrears has been experienced. This is, in part, due to Universal Credit being paid monthly in arrears. The end of year position in current tenant arrears for 2018/19 was £1.228m, a 22% increase from the previous year.
- 2.22 For 2018/19 the number of tenants claiming Universal Credit increased by 1,385 compared to the previous year. 1,843 of the 2,490 tenants claiming Universal Credit at the 2018/19 year-end were in arrears, with an average debt of £396. This is a reduction in the average debt per Universal Credit claimant of £30 from 2017/18. However, it is still significantly higher than the £270 average overall debt per tenant.
- 2.23 It should be noted, however, that some arrears are considered technical, as Universal Credit claimants receive benefits, including housing costs, monthly in arrears. Direct payments from the DWP can take up to six weeks to be received by landlords. Gross technical arrears of £0.337m

were identified at 31 March 2019.

- 2.24 Nonetheless, the Council's performance in rent arrears management is very good. In 2018/19, gross rent arrears as a percentage of rent due was 3.34% (Scottish average was 5.67%). The estimated arrears within the 2020/21 budget assumes full DHP funding continuing to be available for under occupation.
- 2.25 The Welfare Reform Act 2012 poses significant risks to HRA income streams and consequently the HRA Business Plan. Welfare Reform places a number of pressures on tenants. A high proportion of council tenants are on low incomes and, prior to Universal Credit, approximately 58% were in receipt of Housing Benefit. The overall impact, once all benefit claimants migrate to Universal Credit, is expected to be significant for tenants, the local economy and the Housing Revenue Account. A UK migration pilot commenced in 2019, with full migration due to conclude in 2023.
- 2.26 The Scottish flexibilities to vary the frequency of Universal Credit payments and to make payment of rent direct to landlords has been available for over a year. The payment schedule currently used by DWP can delay payments by 5 weeks, contributing to arrears levels.
- 2.27 In order to continue to meet the priorities within the HRA Business Plan, it is essential that the risks presented by Welfare Reform and the uncertainties around future rental income are addressed. In recognition of the work that has been done by the Welfare Reform Advice Team in recent years to support tenants as they move over to Universal Credit, and noting the Council's latest rent collection/ arrears performance, the Welfare Reform reserve will be reduced from £3.0m to £1.5m. £1.0m of the funding released will be used as Capital Funded from Current Revenue (CFCR) in 2020/21 and reduce the need for borrowing. The remaining £0.5m will be used to increase the uncommitted HRA balance to £1.5m (3%). The proposed use of funds to reduce revenue expenditure contributes to the proposed rent increase of 2.99%, compared to the indicative rent increase of 3.65%.

Climate Change and Fuel Poverty

- 2.28 As part of the Council's continued approach to improve domestic energy efficiency and meet Scottish Government targets, a number of actions are being taken across the housing stock including:
- Delivery of new capital projects generating renewable and/or low carbon energy for the benefit of tenants
 - Implementation of district heating schemes comprising shared heating from renewable biomass
 - Incorporating sustainable technologies in new homes such as dual zone heating controls, waste water heat recovery systems and Sunamp heat batteries

- Retrofit of solar panel systems on up to 500 Council homes
- Providing energy advice and switching services
- Consideration of a white label energy supplier to provide lower fuel bills for tenants

Revenue and Capital Balances

- 2.29 The HRA revenue budgetary control report to 30 September 2019, presented to the Cabinet meeting of 26 November 2019, advised Members of a projected HRA balance of £9.930m at 31 March 2020. This includes an unearmarked balance of £1.000m which equates to 2% of revenue expenditure. An analysis of the HRA balances is shown in the following table:

	Balance at 31 March 2019	Use of Earmarked Funds	Projected Balance at 31 March 2020
	£m	£m	£m
HRA Not Earmarked	1.000	-	1.000
<u>HRA Earmarked</u>			
Council House Building Fund	7.025	(2.483)	4.542
Welfare Reform	3.000	-	3.000
Major Refurbishment Works	0.052	-	0.052
Infrastructure Improvements	0.545	(0.200)	0.345
Tarryholme	0.791	0.200	0.991
Total Earmarked Fund	11.413	(2.647)	8.930
Total HRA Balance	12.413	(2.647)	9.930

3. Proposals

- 3.1 The Council is invited to: (a) approve the HRA capital investment programme for 2020/21, as detailed in Appendix 1; (b) approve the HRA revenue budget for 2020/21, as detailed in Appendix 2; (c) approve a rent increase of 2.99% in 2020/21 for council houses, garage sites, lock-ups and sheltered housing service charges; and (d) note the indicative rent increases of 2.50% for 2021/22 and 2.50% for 2022/23.

4. Implications/Socio-economic Duty

Financial

- 4.1 The proposed rent increase of 2.99% in 2020/21 will provide the additional resources required to improve and maintain the Council's housing stock, with total planned revenue expenditure of £50.573m - including CFCR of £11.467m - and a capital programme totalling £68.448m in 2020/21.

Human Resources

- 4.2 None.

Legal

- 4.3 The Council has consulted with tenants on the proposed rent increases in line with the legal requirement to do so.

Equality/Socio-economic

- 4.4 The investment proposals outlined in the report will ensure the housing stock continues to support the needs of our tenants including those with accessibility issues due to age or disability.

The investment in our properties to provide safer, warmer and more fuel-efficient homes will improve the health and wellbeing of all our tenants, including young people and families.

Environmental and Sustainability

- 4.5 The HRA budget proposals and associated investment plans support key priorities within the Council's Environmental Sustainability and Climate Change strategy.

Key Priorities

- 4.6 Investment through the HRA capital programme and revenue budget supports the Council Plan 2019-24 strategic priorities, specifically:
- Aspiring Communities
 - Residents and communities enjoy good life-long health and well-being
 - Residents and communities are safe
 - Inspiring Place
 - Homes that meet residents' needs
 - A sustainable environment
 - North Ayrshire is a vibrant, welcoming and attractive environment
 - A Council for the Future
 - An efficient Council that maximises resources and provides

value for money

Community Wealth Building

- 4.7 The HRA 2020/21 budget reflects combined capital and revenue expenditure of £107.554m. As well as providing direct local employment, the HRA investment programme also provides significant procurement opportunities for local businesses.

5. Consultation

- 5.1 Housing Services engaged in a programme of consultation with key stakeholders in order to gather their views of the current service provision and priorities for future service delivery. This engagement and consultation was facilitated, in the main, through the Business Plan Implementation Group and the Tenants and Residents Network.
- 5.2 In addition a consultation on the proposed rent increases (Appendix 3) was issued to 12,791 Council tenants via the Tenants Newsletter in October 2019. The consultation period ran between October and November and tenants were asked to provide their views on two options for rent increases.

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For further information please contact Yvonne Baulk, Head of Physical Environment on 01294 324398.

Background Papers

North Ayrshire Council Draft HRA Capital plan 2020/21			
	2020/21	Future Years House Building	Total
Pogramme Description	£000	£000	£000
Council House Building			
Flatt Road (Phase 1)	6,048	1,903	7,951
St Michael's Wynd	8,836	0	8,836
Brathwic Terrace	4,193	0	4,193
Harbourside (Phase 1)	6,496	1,060	7,556
St Beya Gardens	2,135	0	2,135
Towerlands Primary School	6,375	0	6,375
Springvale Depot	1,906	0	1,906
Dalrymple Place (Redevelopment)	2,269	0	2,269
St Colms PI (Redevelopment)	3,590	801	4,391
Bourtreesill Village (Redevelopment)	891	3,091	3,982
Caley Court	2,210	929	3,140
Garnock Academy Site (Redevelopment)	2,020	292	2,312
Corsehillhead	388	640	1,027
Ayrshire Central Site (Redevelopment)	200	18,942	19,142
Watt Court	20	0	20
Refurbishment Schemes			
Friars Lawn	954	0	954
Garrier Court	204	0	204
Acquisition of Houses - Open Market	456	0	456
Improvements to Existing Stock			
Bathroom Programme	1,243		1,243
Kitchen Programme	1,504		1,504
Other Capital Works	9,504		9,504
Central Heating	2,025		2,025
Windows	155		155
Insulated Re-rendering	715		715
Electrical Re-wiring	539		539
Roofing and Rendering	2,598		2,598
Energy Efficient Standard	31		31
Professional Management Charges	944		944
TOTAL EXPENDITURE	68,448	27,657	96,105
Funded By:-			
CFCR	(11,467)	0	(11,467)
Council House Build Fund	(1,227)	(3,681)	(4,908)
Welfare Reform Reserve	(1,000)	0	(1,000)
Affordable Housing Fund	(1,290)	(1,582)	(2,872)
Capital Grants - House Building	(22,905)	(12,908)	(35,813)
Prudential Borrowing	(30,558)	(9,486)	(40,044)
TOTAL INCOME	(68,448)	(27,657)	(96,105)

NOTE: The above figures include carry forwards from 2019/20 as identified at period 6.

Draft HRA Revenue Budget 2020/21		
	Cost Type	2020/21 (£'000s)
Income	Rents:	
	Council houses	(49,600)
	Other rents	(375)
	Other Income:	
	Utilities service charges	(10)
	External recharges	(461)
	Internal recharges	(118)
	Health contribution to Common Housing Register	(9)
Gross Income		(50,573)
Expenditure	Employee Costs	4,356
	Property Costs:	
	Responsive repairs	1,896
	Void expenditure	3,324
	Planned & cyclical maintenance	8,305
	Tenant led budgets	210
	Infrastructure improvements	300
	Aids & adaptations	1,971
	Other property costs	3,325
	Supplies and Services	241
	Transport Costs	27
	Administration Costs	577
	Central Support Costs	1,884
	Payments to Other Agencies, Bodies and Persons	24
	Internal Services	2,345
	Capital Financing:	
	CFCR	11,467
	Principal repayments	3,983
	Loans fund interest	6,258
	Loans fund expenses	138
	Revenue interest	(58)
Gross Expenditure		50,573

Appendix 3

RENT CONSULTATION 2020/21 – RESULTS

Total number of tenants – 12,791

Total number of responses – 562

Percentage of tenant responses – 4.4%

Option 1. Increase rents by 2.99%	Delivers base budget	Percentage of Responses 57%
Option 2. Increase rents by 3.20%	Delivers base budget plus additional £0.100m for Tenant Led Budgets	Percentage of Responses 43%