WEST DUNBARTONSHIRE COUNCIL

Report by Chief Officer - Housing and Employability

Council: 3 March 2021

Subject: Housing Revenue Account (HRA) Estimates and Rent Setting 2021/2022

1. Purpose

1.1 The purpose of this report is to seek Council approval of the updated HRA capital programme; the HRA revenue budget for 2021/22 and to agree the level of weekly rent increase for 2021/22 which is sufficient to fund the revenue budget for 2021/22 and the associated capital investment programme.

2. Recommendations

2.1 It is recommended that Council:

i) Notes the outcome of the tenant consultation process detailed in Appendix 1;

ii) Notes the projected revenue position for 2020/21;

iii) Notes the progress made, per Appendix 2, in the HRA capital programme for 2020/21;

iv) Agrees the updated five year capital programme of work set out in Appendix 3 to this report inclusive of the Council's new house building programme and the overall resources to fund the programme;

v) Agrees the revenue budget for 2021/22 as detailed in Appendix 4;

vi) Agrees the weekly rent increase for 2021/22 at an average £1.22 on a 52 week basis (£1.35 on a 47 week basis), equating to 1.5% to meet the planned revenue HRA budget as detailed in Appendix 4;

vii) Agrees to increase rents at the Gypsy Travellers site by the 1.5%;

viii) Agrees to maintain the existing level of lock-up rent levels at £5.44 per week on a 52 week basis (£6.02 on a 47 week basis) at the same levels as for 2020/21;

ix) Notes the increase in the prudential reserve target for 2020/21 (from

£0.883m to £0.923m); and

x) Agrees the recommended use of the projected reserves as at 31 March 2021 for the purposes identified at 4.4.8 of the report.

3. Background

3.1 West Dunbartonshire Council is the landlord for a stock of some 10,000 homes located in communities across West Dunbartonshire. In delivering this role, good quality, affordable, safe, secure and warm housing is fundamental to the health and well-being of individuals and families as well as the sustainability of local communities and the success of the local economy.

3.2 In June 2012 the Council took the decision to halt the partial stock transfer process and retain the housing stock and to address the challenges of improving homes and meeting housing need by:

- Investing approximately £161 million to improve homes and meeting the Scottish Housing Quality Standard;
- Embarking on a programme of demolition and regeneration of sites; and
- Progress on a council house building programme.

3.3 In addition, through the Council's Strategic Housing Investment Plan (SHIP), supported by the Scottish Government's Affordable Housing Programme, more than 1,000 new social homes for rent will have been completed in West Dunbartonshire by the Council and its RSL partners in the period to 2022, including 467 new Council homes.

3.4 In considering the structure of the budget consideration has been given to:

- Increasing revenues and reducing costs by:
  - Focused strategic asset management of our council housing stock;
  - A housing led regeneration approach;
  - improving estate management generally; and
  - improved void performance.

- Financial Impact – ongoing implementation of various welfare reform changes and the emerging impact of the pandemic; and

- Financing the investment required to meet the Energy Efficiency Standard for Social Housing (EESSH) and the wider climate change and energy efficiency agenda.

3.5 In preparing these estimates the following factors have been taken into account:

- Nil inflation has been assumed on all non-protected budget lines;
- Provision has been made for a pay increase in line with Scottish Government's commitments on public sector pay; and
- A 4% turnover expectation has been applied to employee costs.

3.6 For financial year 2020/2021, West Dunbartonshire's average weekly rent (with regards to lettable self-contained units) of £81.45 was sixth highest of Scotland's 26 housing authorities. This equates to £2.48 (3%) above the national average for local authorities of £78.97. In comparison with the overall Scottish average including Registered Social Landlords of £82.80, West Dunbartonshire's average weekly rent was £1.35 less than this average.

4. Main Issues

4.1 HRA Capital Investment

4.1.1 At Council on 4 March 2020, a 5 year programme of HRA capital work to 2024/25 was reported and approved. Progress on 2020/21 work is shown in Appendix 2. The overall slippage in 2020/21 is projected to be £15.153m (25.29%). COVID-19 restrictions have delayed construction and improvement works.

4.1.2 The HRA capital programme is derived from data from the current stock condition survey and our annual stock assessment exercise which was reported to the Housing and Communities Committee in November 2020. The main drivers for the programme are for the Council to deliver on the key objectives of the Council's Better Homes Strategic Housing Asset Management Strategy and health and safety responsibilities. In addition to the core stock, the programme includes the Council's ambitious ongoing new house build programme 'More Homes West Dunbartonshire'.

4.1.3 Due to the long term nature of the Capital Investments , a 30 year financial business planning model is used to determine if these investments are affordable in the longer term taking account of expected inflation and debt interest rates.

4.1.4 This report outlines ambitious proposals for a major programme of investment in housing led regeneration and renewal in West Dunbartonshire that will not only significantly enhance the Council's housing stock but will also contribute to the wider transformation of West Dunbartonshire as a place, and will be central to the economic and social recovery of West Dunbartonshire in the face of the wider impacts of the pandemic.

4.1.5 The Council's new house build and housing supply programme 'More Homes West Dunbartonshire' will see significant resources invested in the creation and acquisition of new homes. The Council's commitment to increasing the housing supply, as evidenced within the Local Housing Strategy, is further reinforced through planned open market acquisitions and is incorporated into the future programme. The Council will also continue to support applications under the Scottish Government Mortgage to Rent Scheme. An expenditure budget of £83.393m for the affordable housing supply programme is factored into the 5 year capital plan, together with a projected minimum of £17.379m of Scottish Government Grant Funding available through the Affordable Housing Supply Programme. Therefore, there is a net capital cost to the HRA of £66.014m.

4.1.6 The new build programme will include the continuation of the current new build programme. It reflects the delivery of around 420 new Council homes in West Dunbartonshire under the 'More Homes West Dunbartonshire' strategic approach. Quarterly updates on progress including changes in programme will continue to be reported to the Housing and Communities Committee

4.1.7 The 5 year plan has now been rolled forward a year to 2025/26 and recognises progress made and any re-phasings of projects and anticipated funding that have been necessary. The result of this review is shown as Appendix 3 and results in the expected level of loan charges to be the following:

Year	Amount
2021/22	£11.266m
2022/23	£13.139m
2023/24	£14.384m
2024/25	£15.590m
2025/26	£16.470m

4.1.8 The investment will deliver an ongoing commitment to improving housing for tenants and future tenants of Council homes and will also support the delivery of wider Strategic Plan and Local Housing Strategy priorities, including:

- providing a pipeline of construction work with opportunities for job creation, community benefits, training and benefits to the local supply chain as a means of contributing to the wider pandemic economic recovery plan and with the potential to lever in significant external investment;
- contributing to the wider recovery plan from the pandemic, with the investment programme providing a catalyst for engagement with local communities in the development and delivery of these ambitious plans through our strong tenant participation mechanisms;
- through our Better Homes approach ensuring the design and

specification of improvements maximises opportunities to future proof homes, including the use of technology where practical and appropriate, and improve the health and wellbeing of tenants. Improving the quality of housing and the places people live helps to improve the quality of people's lives, with positive benefits for both physical and mental health and general wellbeing.

- contributing to the Council's place-shaping agenda, providing a framework for improving the quality of the places where people live and supporting tenants to be actively involved in shaping change, impacting positively on the attractiveness of West Dunbartonshire as a place to live and encouraging economic investment.
- improving the quality and appearance of neighbourhoods and delivering a consistent and cost effective approach to the maintenance and management of areas. As well as benefiting local tenants and residents, this will bring positive benefits for a range of Council services, such as open space maintenance, waste collection and recycling. Improvements to the physical environment will encourage more people to use outside spaces (this is particularly important in the context of the pandemic) and encourage physical activity.
- contributing to the achievement of climate change ambitions and the Council's Climate Change Strategy and addressing fuel poverty through the use of the highest standards of energy efficiency practices in new build construction and retrofit technologies, along with future proposed demonstration innovation projects which will be reported to the Housing and Communities Committee.

4.1.9 It should be noted that the 30 year HRA business model has been prepared on the basis that there will be fluctuations in inflation over the period of the plan. These assumptions would need to be revised in the event of long-term inflation forecasts being above target (the planning assumption for long-term inflation in the business model is 1.9% initially rising to 2.5%or additional pressures on the revenue account becoming apparent. The other key variable within the business model is the capital expenditure requirements which can alter depending on circumstances and priorities. The HRA business model has been updated this year with the revised proposed capital plan as part of the normal annual review to recognise the most up-to-date information and to consider affordability.

4.1.10 In considering affordability, a key output from the HRA business model is the percentage of rental stream that is required to fund debt charges. This is an indicator for the amount of prudential borrowing that can be undertaken without putting undue stress on the remainder of the revenue budget. When the decision was taken to retain all the housing stock in WDC the investment requirements needed to achieve the SHQS coupled with the historic debt structure of HRA debt suggested that the "debt affordability" percentage in

West Dunbartonshire should not exceed 50%. The most recent update for 2021/22 has an average percentage of 40% with a peak of 49% in 2044/45.

4.1.11 Over the 30 year period of the business model, the additional rental income stream from the new properties will offset the additional operational costs and the loan charges outlined in 4.1.6 above.

4.1.12 The Council's external auditors have raised concerns around the level of borrowing which the Council currently holds in general and analysis (which indicates that the Council has amongst the highest levels of borrowing in Scotland) includes the significant HRA investment in achieving SHQS. The annual debt affordability percentages under the most recent HRA business model update as outlined above continues to be within acceptable range and the model therefore remains robust and viable in terms of debt affordability.

4.2 HRA Revenue Estimates 2021/22

4.2.1 The revenue estimates for 2021/22 are attached as Appendix 4 showing an increase in net expenditure since 2020/21 of £0.656m. This is the amount which needs to be recovered via the proposed rent increase and equates to 1.5% based on expected housing stock and occupancy levels. Appendix 4 provides information on the breakdown of the budget and provides explanations for the main year on year variances.

4.3 Rent Increase

4.3.1 The Council is required to consider the level of weekly rent increase for the financial year 2021/22 and agree an appropriate rent rate which meets the estimated costs of providing the Housing Service in 2021/22 as identified in the Appendix 4.

4.3.2 In determining the level of weekly rent increase, due cognisance must be taken in terms of changing service demands, as well as the requirements for investment as highlighted in the Housing Asset Management Strategy and the need for robust financial planning and management to ensure that the Council delivers on its investment commitments. In addition the decision of the Council in June 2012 regarding its policy on stock retention, which set out clearly the rent increase requirements to support the Council's investment needs, must be recognised.

4.3.3 The required weekly percentage rent increase contained within the attached HRA estimate is an average £1.52 on a 52 week basis (£1.68 on a 47 week basis) which equates to 1.5%.

4.3.4 The recommended budget attached, sets a rent level that satisfies best practice in maintaining a prudential balance, ensuring that all reasonable contingencies are taken into account and is sufficient to support the Council's HRA investment programme.

4.3.5 At the rent consultation meeting held remotely on the 24 November 2020, the draft HRA Estimates for 2021/22 were presented to tenants. Discussions looked at options; the outcome of which led to the creation of 3 rent options.

4.3.6 A survey of tenants was undertaken regarding options for setting the rent and tenants were asked to select from 3 options:

<u>Option 1</u>
1.5% increase by using a proportion of the surplus generated in 2021/22. This would not affect the current New Build and Capital Investment Programmes and the wide range of services that tenants receive;

<u>Option 2</u>
1.9% increase with one week rent credit. By using a proportion of the surplus generated in 2021/22, a one off credit would be applied to all tenants' rent accounts to the value of one week's rent and will help reduce rent arrears in many cases. This would not affect the current New Build and Capital Investment Programmes and the wide range of services that tenants receive; or

<u>Option 3</u>
2.2% increase would increase the income for the Housing Revenue Account and would allow for the increase and acceleration of the delivery of certain works or services based on identified tenant priorities. The additional income would allow for an additional capital expenditure of £1.2m on priority areas for spend which will be decided by tenants in early 2021 allowing these to be delivered in 2021/22.

There were 1,344 respondents (14% of tenants) to the survey with the majority opting for option 1, as follows:

- Option 1 54.9%;
- Option 2 31.8%; and
- Option 3 13.3%.

Further information from the survey is provided in Appendix 1.

4.3.7 It is recommended that Council increase rents at the Gypsy Travellers site by the same percentage as the housing rents at 1.5%.

4.4 Reserves

4.4.1 At 31 March 2020, the HRA reserve was £3.924m, consisting of:

Reserves	£m
Regeneration of housing stock	2.441
Welfare Reform Reserve	0.500
COVID provision	0.100
2020/21 prudential reserve	0.883
Total	**3.924**

4.4.2 The standing Council policy is that an HRA Prudential Reserve of 2% of gross expenditure should be maintained. Based upon the recommended budget for 2021/22, this equates to £0.923m for 2021/22 (previously £0.883m). The increase in the prudential reserve is therefore £0.040m for 2021/22. It is prudent to recommend that the budget for 2021/22 retains reserves at this level.

4.4.3 It is currently forecast (per the probable outturn identified in the Budgetary Control report for Period 10 which was presented to Council on 24 February 2021) that there will be an in-year surplus on the HRA revenue account at the end of 2020/21 of £2.322m which, adjusting for the £0.040m increase in the prudential target noted above, results in a net surplus of £2.282m.

4.4.4 Council policy established a number of years ago is that any surpluses will be earmarked for the purpose of regeneration of the housing stock unless specific provisions are required. It is anticipated that all of the £2.441m reserve held at March 2020 in respect of regeneration of stock will be utilised during 2020/21.

4.4.5 As advised a significant proportion of the projected underspend in 2020/21 leading to a surplus position is the currently projected underspend in relation to revenue repairs. This has been caused as a result of Scottish Government imposed restrictions during lockdown periods. As was reported to Council in COVID-19 Update reports to June 2020 and August 2020 Councils this issue has been considered by COSLA and was subject of a report to COSLA Leaders in May 2020. At the time of the report to the June 2020 Council it was anticipated that this would lead to Scottish Government guidance. However this is now known not to be the subject of guidance from the Scottish Government. What remains is a position whereby the position of an internal trading arrangement has been considered by COSLA and Audit Scotland (as reported to COSLA Leaders in May 2020) in consultation with the Scottish Government. The view taken is that:

"*structures within Councils vary with a result that some costs, especially around maintenance, are either charged directly to the HRA or recharged from the General Fund. Confirmation has now been given that all such costs can be charged to the HRA, irrespective of Council structures, and irrespective of* *whether services have actually been provided. This is consistent with other actions Councils have taken with financial support to external firms, and charges expenditure where there is budget provision, thereby avoiding a further cost pressure*".

4.4.6 On the above basis a number of other Councils with similar arrangements to WDC have or plan to make charges from their equivalent of Building Services to their HRA revenue accounts. This does not necessarily mean that this Council needs to follow suit.

4.4.7 Within the General Fund the financial impact of COVID-19 for 2020/21 is not yet fully known and Scottish Government funding and potential Scottish Government allowed fiscal flexibilities aim to mitigate and minimise such financial impact to the General Fund. However the final position is not yet determined. On this basis the potential for a charge from Building Services to the HRA remains an option for Members to consider. It is hoped – as has been stated at Council meetings that the financial impact within the general Fund can be minimised, however in order to allow Council flexibility during this financial year it is recommended that an element of the surplus is earmarked at this stage to allow Council appropriate decision-making flexibility between now and the final costs of COVID-19 being known within the General Fund and absolute clarity being available from the Scottish Government on any fiscal flexibilities that may be used. Officers will be speaking to WDTRO about this issue in advance of the Council meeting.

4.4.8 Based on the above it is recommended that the projected surplus is earmarked by Council as follows:

- to allow the implementation of the recommended rent rise of 1.5% by utilising £0.800m of reserves for this purpose;
- to allow flexibility for Council in relation to the financial impact of COVID-19 £1.282m is used for any potential funding to Building Services for 2020/21 and to align to the expected additional costs incurred in order to progress the repairs backlog that has arisen due to COVID; and
- £0.100m has been set-aside in reserves to mitigate for the possible effect of COVID on rent collection. Due to the ongoing nature of the pandemic it is recommended that this should be increased by £0.200m to £0.300m.

4.4.9 Therefore by 31 March 2021 the above would result in the reserves being as follows:

Reserves	**£m**
Repairs Backlog / COVID-19 Building Services payment	1.282
To implement 1.5% rent rise	0.800
Welfare Reform Reserve	0.500
COVID rent income provision	0.300
2021/22 prudential reserve	0.923
Total	**3.805**

4.4.10 In terms of the adequacy of reserves, the prudential level of reserves is viewed as being at an adequate level to deal with any financial shocks to the budget, based on previous experience and future expectations specifically in relation to income streams. As can be seen, the level of reserve remains planned to meet the prudential level and is therefore judged as being adequate.

5. People Implications

5.1 There are no personnel issues.

6. Financial and Procurement Implications

6.1 The financial implications are as detailed within the report and appendices.

6.2 All procurement activity carried out by the Council in excess of £50,000 is subject to a contract strategy. The contract strategy for the HRA Capital Programme will be developed by the Corporate Procurement Unit in consultation with Housing officers. The contract strategy will include, but is not limited to; contract scope, service forward plan, the market, procurement model and routes – including existing delivery vehicles, roles and responsibilities, risks, issues and opportunities and on-going contract management. Opportunities to maximise the positive social, economic and environmental impact for the Council through the relevant procurement processes will be developed in line with procurement policy.

7. Risk Analysis

7.1 The key driver for determining rents for Council properties is the HRA investment plan. Failure to set rents consistent with the delivery of this plan will potentially result in insufficient funding being available to meet the aspirations highlighted above.

7.2 In producing the budget a number of assumptions have been made in relation to performance around rent recovery, voids and the impact of welfare reform. These issues will be closely monitored during 2021/22 and members advised of any significant variations that will impact materially on the sufficiency of the budget as proposed.

7.3 In terms of the capital programme, the main financial risks relate to:

i) whether inflation increases costs, resulting in plans requiring to be reviewed upwards;
ii) Longer-term affordability requires to be considered in determining appropriate levels of capital funding.

Ongoing budgetary control processes will monitor the above issues and any issues will be reported to a future Council meeting for consideration.

8. Equalities Impact Assessment (EIA)

8.1 An EIA screening has been undertaken by officers and no issues were identified.

9. Consultation

9.1 The Council has a statutory requirement to carry out a rent consultation exercise. Details of the consultation can be seen in Appendix 1.

9.2 A HRA budget scrutiny group (Joint Rent Group) is now well established involving tenant representatives. This group meet with Officers and the Convenor monthly and examines the HRA to ensure increased transparency and demonstrate Value for Money to tenants.

10. Strategic Assessment

10.1 The proposals contained in this report directly address all of the Council's strategic priorities. The investment in, and provision of attractive affordable housing will also indirectly support the objective of economic growth and employability through supporting employment and improving place attractiveness.

10.2 Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and Officers to pursue the five strategic priorities of the Council's Strategic Plan. This report forms part of the financial governance of the Council.

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Date: 20 February 2021

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Appendices:	Appendix 1: Consultation information Appendix 2: HRA Capital Projects Forecast Outturn and Slippage 2020/21 Appendix 3: HRA Capital programme Financial Year 2021/26 Appendix 4: 2021/22 Housing Revenue Account Draft Revenue Estimate
Background Papers:	EIA screening Consultation Planning Sheet
Wards Affected:	All