

# North Lanarkshire Council Report

## Communities and Housing Committee

approval  noting

Ref GT/AN/IMcC

Date 20/11/19

## Housing Revenue Account – 2020/21 Revenue Estimates

**From** Robert Steenson, Executive Director (Enterprise and Communities)  
**Email** telferg@northlan.gov.uk **Telephone** Greg Telfer, Business Finance Manager, 01698 302836

### Executive Summary

The purpose of this report is to present to Committee information that will enable to Council to set its Housing Revenue Account (HRA) budget for 2020/21.

### Recommendations

It is recommended that Committee:

- (1) Notes the base budget adjustments detailed in Appendix 1.
- (2) Notes the key business planning assumptions at Appendix 2.
- (3) Notes the updated 30-year financial model summarised at Appendix 3.
- (4) Notes the base budget savings outlined in Appendix 4.
- (5) Considers the allocation of HRA surplus balances as detailed in paragraphs 2.4 and 2.5.
- (6) Agrees to review the financial assumptions contained within this report at a meeting in December 2019 to approve the HRA Revenue Estimates 2020/21.
- (7) Otherwise notes this report.

### The Plan for North Lanarkshire

Priority Improve North Lanarkshire's resource base

Ambition statement (25) Ensure intelligent use of data and information to support fully evidence based decision making and future planning

## 1. Background

- 1.1 Income and expenditure in relation to a local authority's own direct provision of housing must be recorded within a Housing Revenue Account (HRA) as set out in the Housing (Scotland) Act 1987. In addition, this act sets out the requirement for local authorities to set an annual budget which also supports financial management and control and helps ensure that expenditure is linked to the key priorities of the tenants.
- 1.2 North Lanarkshire is Scotland's largest local authority landlord, with a housing stock of approximately 36,284. The number has increased marginally over the last year reflecting additions to the stock through the Council's new supply programme, buy back schemes, partially offset by the impact of tower re-provisioning and the residual impact of right to buy sales. The right to buy scheme closed to all new applicants on 31 July 2016 with applications received by that date continuing to progress through to completion.
- 1.3 The Council approved its 2019/20 HRA budget of £140m on 20 December 2018, 99% of which is funded from rents.
- 1.4 The average weekly rent in North Lanarkshire of £67.43 continues to be the second lowest amongst Scottish local authority landlords and is 9.2% below the Scottish average of £74.26.
- 1.5 In setting the HRA budget and rent levels in December 2017, the Council agreed to an average rental increase of 5% for 2018/19 and 5% for the subsequent three years up to 2021/21, subject six monthly monitoring reports being submitted to Committee and a review being undertaken after two years.
- 1.6 Committee has received regular updates on the progress of delivering the Council's ambitious plans for housing through the Economic Regeneration Delivery Plan. This has been further strengthened through The Plan for North Lanarkshire approved in March 2019 with specific focus on three key programmes of work supported by the current rent strategy:
  - PO13 – New Supply Programme
  - PO14 – Tower Strategy
  - PO15 – Housing Investment Programme
- 1.7 Significant progress to date includes:
  - An increase in the target for new supply housing from 2,150 by 2027 to 5,000 by 2035,
  - Continued progress on identifying and delivering new build sites across North Lanarkshire,
  - The approval and development of plans to investment and re-provision the Council's tower properties,
  - Delivery of a mainstream capital programme for 2018/19 of £56.500m and for 2019/20 of £68.230m as part of an enhanced investment programme to deliver £253m of improvements by 2021/22.
  - An expansion of Council buy back schemes which will allow for around 130 properties to be brought back into use each year.
- 1.8 *30-year Business Plan*  
The Council's 30-year Business Plan for HRA has been updated to reflect the four year 5% rental rises until 2021/22. Thereafter, the average annual rent rise

is assumed to be 3% reflecting HM Treasury's long-term Consumer Price Index (CPI) inflation target of 2% plus an additional 1%.

*Housing Benefit / Universal Credit*

- 1.9 Approximately 21,414 council tenants in North Lanarkshire (59%) are in receipt of Housing Benefit or the housing cost element of Universal Credit.
- 1.10 A rent increase would result in some tenants receiving more Housing Benefit and some existing non-claimants becoming entitled to Housing Benefit. However, unless their circumstances change, most tenants will be liable for the same contribution towards their rent, with Housing Benefit making up the difference.
- 1.11 Tenants currently entitled to the full housing cost element of Universal Credit would have their Universal Credit payment uplifted to reflect any rent increases up to the Local Housing Allowance cap.

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## 2. Report

*HRA Revenue Estimates*

- 2.1 In assessing the budgetary requirements of the Housing Revenue Account for 2020/21, a number of variables and factors have to be considered and analysed before determining the adjustments required in the base budget position. These base budget adjustments are outlined in Appendix 1, with the main factors described below.
  - 2.1.1 Cost Pressures (£4.743m) to ensure that the HRA can continue to deliver a highly performing repair and maintenance programme, effective housing management and support and deliver the approved capital programme, including:
    - Employee cost pressures totalling £1.007m incorporating the agreed pay award of 3% for 2020/21 and ensuring full provision is made for prior year pay awards.
    - Property cost pressures totalling £1.557m, including the impact of contract inflation on the cost of housing repairs and maintenance.
    - The cost of funding capital investment in line with the current 30-year Business Plan (£1.591m).
    - The impact of service realignments and the review of support service recharges to HRA (£1.077m).
    - These are partially offset by the impact of fluctuations in housing stock on rent levels (£0.489m)
  - 2.1.2 Additional rental income following the Council's decision to approve an annual rent rise of 5% from 2018/19 to 2021/22. The 5% rise applicable to 2020/21 will generate additional rental income of £6.359m.
  - 2.1.3 Base Budget Savings are considered each year to ensure that the HRA continues to direct its resources towards key priorities. Appendix 4 outlines base budget savings of £0.314m that will be implemented by the service in 2020/21.
  - 2.1.4 The combined impact of these adjustments is annual recurring growth of £1.930m which will contributed to the delivery of the relevant part of The Plan for North Lanarkshire as outlined in paragraph 1.6. This can be summarised as follows:

	£m
Cost Pressures (see Appendix 1)	(4.743)

Additional Rental Income	6.359
Base Budget Saving (see Appendix 4)	0.314
<b>Recurring investment in Ambition Programme</b>	<b>1.930</b>

#### *HRA Business Plan*

2.2 The assumptions underpinning the 30-year business plan have been reviewed and updated to reflect the 2018/19 outturn, budget projections for the current financial year, the base budget adjustments summarised in paragraph 2.1 and the timing of new investment required over the remainder of the business planning period. The assumptions linked to new housebuilding, buy back schemes and implementation of the tower strategy will continue to be refined and the Business Plan updated accordingly.

2.3 The business planning assumptions are detailed in Appendix 2 and a summary of the reviewed financial model is set out at Appendix 3.

#### *Use of Surplus Balances*

2.4 As part of its long-term HRA budget strategy, it is the Council's policy to set aside approximately 1% of the HRA budget as a core reserve. As a result, the core reserve now stands at £1.450m.

2.5 In addition, the HRA reserve balances include a Change Management / Risks & Uncertainty reserve of £3.235m. Should there be no further call on this reserve, it would be considered as part of the 2020/21 budget setting process. This excludes the surplus projected in the current financial year which totalled £0.121m at Period 7. However, it should be noted that the Communities and Housing Committee has been asked to make decisions on rent strategy and a Universal Credit Assistance Fund that could have an impact on reserve resources available for future consideration.

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### **3. Equality and Diversity**

#### 3.1 Fairer Scotland Duty

The HRA budget for 2020/21 will ensure that the Council can continue to provide a highly effective and responsive housing management service for all tenants and improve the health and wellbeing and economic outcomes of communities through the delivery of significant additional capital investment in high quality and affordable social housing.

#### 3.2 Equality Impact Assessment

It is not expected that any community with protected characteristics will be adversely affected by the 2020/21 HRA budget.

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### **4. Implications**

#### 4.1 Financial Impact

The financial implications of the 2020/21 Revenue Estimates are outlined throughout the report.

#### 4.2 HR/Policy/Legislative Impact

No implications.

#### 4.3 Environmental Impact

No implications.

#### 4.4 Risk Impact

- 4.4.1 All activities undertaken by the council are subject to risk, and in acknowledging the Council's approved Risk Management Strategy (September 2012), Services manage these as part of their overall corporate and service planning process. The current economic climate, in particular, has the potential to impact upon the Council's ability to provide quality services within approved budget levels.
- 4.4.2 The Government's proposals for welfare reform include a number of changes to the housing benefit system which present significant financial risks to the HRA, including increasing rent arrears and cash collection costs, combined with lower levels of rental income. This will continue to be closely monitored during 2020/21.

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### 5. Measures of success

- 5.1 The Council is required to set a balanced budget for the Housing Revenue Account with expenditure plans fully funded by income, largely from housing rents.
- 5.2 The setting of an annual budget and thereafter monitoring the budget ensures that tenants can have confidence that the Council and its officers are accountable for the spending decisions they make.

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### 6. Supporting documents

- 6.1
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|------------|-----------------------------------|
| Appendix 1 | Base Budget Adjustments 2020/21   |
| Appendix 2 | HRA Business Planning Assumptions |
| Appendix 3 | Summary of 30-year Business Plan  |
| Appendix 4 | Base Budget Savings 2020/21       |



**Robert Steenson**  
**Executive Director (Enterprise and Communities)**

**Housing Revenue Account  
Base Budget Adjustments 2020/21**

	<b>£000</b>	<b>£000</b>
<b>Employee Costs</b>		
Pay awards (including confirmation of pay awards from 1 April 2018)		1,007
<b>Property Costs</b>		
Housing repairs inflation and stock movements	1,341	
Trading operations	163	
Energy costs	28	
Pest control costs	25	
		1,557
<b>Capital Financing Costs</b>		
Loan charges		1,591
<b>Service Realignments &amp; Support Service Charges</b>		
Out of Hours Customer Contact	346	
CCTV Provision	150	
Support Service Review	581	
		1,077
Impact of changes in stock values		(489)
<b>Cost Pressures Total</b>		<b>4,743</b>

## HRA Business Planning Assumptions

Item	2020/21	Basis / Comment
General inflation	2%	Based on the Government's long-term inflation forecast for the economy
Contract inflation:		
Mears	2.91%	Housing repairs uplifted in line with building indices.
Saltire	2.91%	
Other	2.91%	
Capital investment	3%	Capital investment targets increased to target inflation plus 1% growth to maintain SHQS/ESSH ratings.
Pay awards	3%	Based on envisaged scenario within NLC's Medium Term Financial Plan.
Trading accounts inflation	2%	Baseline impact based on CPI inflation target but will be adjusted to reflect prior year impacts.
Superannuation	19.3%	Based on envisaged scenario within NLC's Medium Term Financial Plan
National Insurance (Employers)	13.8%	Based on envisaged scenario within NLC's Medium Term Financial Plan
Interest rates	3.45%	The business plan assumes that interest rates will increase incrementally over the longer term to 6%
Housing Stock	36,284	Mid-year stock projections
Rent increase	5%	Based on approved rent increases from 2018/19 to 2021/22

## Summary of 30-year Business Plan

Year	Five Year Bands							35 Year Totals
	2015/20	2020/25	2025/30	2030/35	2035/40	2040/45	2046/50	
Average Mainstream Housing Stock	35,745	35,097	34,371	33,351	32,447	32,240	32,240	
New Build Housing Stock	537	1,251	2,316	3,557	4,601	5,000	5,000	
<b>Average Housing stock</b>	<b>36,282</b>	<b>36,348</b>	<b>36,687</b>	<b>36,908</b>	<b>37,048</b>	<b>37,240</b>	<b>37,240</b>	
<b>Capital Investment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
Prudential borrowing	188,569	250,320	235,650	205,623	266,896	357,074	384,225	1,888,357
Capital receipts	14,281	0	0	0	0	0	0	14,281
Other receipts / Government Grants	28,070	61,562	13,787	0	0	0	0	103,419
Sub total	230,920	311,882	249,437	205,623	266,896	357,074	384,225	2,006,057
CFCR	140,258	128,478	133,130	153,936	167,542	163,882	173,779	1,061,005
Total resources	371,178	440,360	382,567	359,559	434,438	520,956	558,004	3,067,062
<b>Loan Analysis</b>								
Opening debt	199,905	317,267	512,752	670,141	769,421	886,642	1,071,906	199,905
Prudential borrowing	152,812	250,319	235,651	205,623	266,894	357,074	384,225	1,852,598
Principal repayment - historic debt	7,875	3,123	1,535	0	0	0	0	12,532
Principal repayment - new borrowing	27,575	51,711	76,727	106,343	149,673	171,810	215,012	798,853
Closing debt	317,267	512,752	670,141	769,421	886,642	1,071,906	1,241,119	1,241,119
Per house (£) - Closing Stock	8,745	14,107	18,267	20,847	23,933	28,784	33,328	33,328
<b>Housing Revenue Account</b>								
Loan charges	81,420	132,727	210,907	292,760	373,546	446,114	558,337	2,095,811
Other costs	570,513	688,766	734,603	801,776	898,996	1,024,413	1,131,196	5,850,265
	651,933	821,493	945,510	1,094,536	1,272,542	1,470,527	1,689,533	7,946,076
Other income	(71,942)	(95,470)	(95,470)	(95,470)	(95,470)	(95,470)	(95,470)	(644,762)
Balance to be financed by rents	579,991	726,023	850,040	999,066	1,177,072	1,375,057	1,594,063	7,301,314
Average weekly rent (£)	61.48	76.83	89.12	104.11	122.20	142.02	164.64	
Rental Income	579,991	726,023	850,040	999,066	1,177,072	1,375,057	1,594,063	7,301,314
Net Growth one off CFCR each year	(0)	0	0	0	0	0	0	
Yearly % increase	3.80%	3.93%	3.13%	3.17%	3.13%	3.00%	3.00%	

## Base Budget Savings 2020/21

	<b>£000</b>
<b>Housing Management Model</b> Following the approval of the revised Housing Management Model at Communities and Housing Committee in February 2019, a saving of £28,000 has been realised.	28
<b>Overtime</b> Enhanced control of overtime working will further reduce employee costs	50
<b>Void Rent Loss</b> The Service's continued success in reducing the level of empty properties has resulted in savings on void rent loss over a number of years	50
<b>Property Costs</b>	48
<b>Energy</b> Savings identified from reduced usage	50
<b>Other Minor Cost Savings</b> Combination of minor savings within property, supplies and transport related costs	10
<b>Giro Bank Transactions</b> Saving due to increase in direct debit take up	18
<b>Other Housing Charges</b> Additional income generated from a 5% increase on other housing charges	60
<b>Total base budget savings</b>	<b>314</b>