

FALKIRK COUNCIL

Subject: HOUSING REVENUE ACCOUNT & COUNCIL HOUSE RENTS 2014/15 – 2016/17
Meeting: FALKIRK COUNCIL
Date: 12 February 2014
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1. INTRODUCTION

- 1.1 There is a statutory requirement on local authorities to review the level of council house rents annually. This report presents for Members' consideration, a draft Housing Revenue Account (HRA) for the financial year 2014/2015 and makes recommendations on the level of council house and other rental charges. The report also gives consideration to indicative rent increases for 2015/16 and 2016/17.

2. BACKGROUND

- 2.1 Falkirk Council is landlord to approximately 16,000 tenants (2014/15 mid-year estimate). The Scottish Government has intimated that the cost of providing council housing requires to be self-financing from house rents and other income, although a small amount of grant is received for hostels. In reviewing council house rents, Members should also be aware that approximately 9,200 (58%) of council tenants are in receipt of Housing Benefit. 6,800 (42%) of those are in receipt of a passported award which means that about 4 in every 10 tenants will be fully protected from any change in their rent unless they are affected by the Welfare Reform changes that were implemented during 2013/14 and are outlined at paragraph 2.3.
- 2.2 The remaining c2,400 (16%) of council tenants are in receipt of a partial award of Housing Benefit. It should be noted that most of those will also be protected from the impact of the rent increase, however there will be a few of those tenants who will find they have more rent to pay.
- 2.3 Significant changes were made to the Housing Benefit calculation from April 2013 as part of the Government's ongoing Welfare Reform programme:
1. Social Sector Size Criteria for under occupancy (approx. 2,400 working age Falkirk Council tenants);
 2. Benefit Cap for those whose income from Social Security Benefits including Housing Benefit exceeds a cap (approx 10 Falkirk Council tenants affected).

Those subject to the size criteria face a 14% or 25% reduction in the rent used to calculate their benefit award. Most of them will have more rent to pay if increase is applied.

The abolition of Housing Benefit and the roll-out of Universal Credit has been delayed and is now not expected to take place until at least April 2016. A review of funding and charging arrangements for affected properties will need to be undertaken before Universal Credit takes effect. Examples of this are charges that occur in temporary accommodation and private sector leasing and include furnishings and water and sewerage charges, etc.

3. TENANT CONSULTATION

- 3.1 Social landlords have an obligation to consult tenants regarding proposals to change rents and have regard to their views in setting new rent levels. As such, a tenant consultation exercise was undertaken during November/December 2013.
- 3.2 The consultation sought tenant feedback on the indicative rent increase for 2014/15 agreed in February 2013 as part of the 2013/14 budget. Tenants were consulted on an indicative increase of 3.6%, equivalent to £1.99 per week.
- 3.3 Tenants were consulted through a variety of methods to encourage responses. The consultation mechanisms were promoted through a combination of advertising; a newsletter article and direct notification to people who have previously expressed an interest in participating in consultation exercises. The following methods of consultation were undertaken:
- A postal questionnaire, supported by an article and survey in the tenants newsletter “In the Neighbourhood”
 - An on-line survey and feedback via email
 - A presentation and question and answer session at the Tenants and Residents Forum
 - Information sessions held at each Neighbourhood Office, where information on rent levels was provided and views were sought from people visiting the offices
- 3.4 The consultation sought the views of tenants on whether they felt the indicative rent increase for 2014/15 was affordable; whether they felt that the rent increase represented value for money and how satisfied or dissatisfied they were with Falkirk Council as their landlord.
- 3.5 A total of 148 survey returns were received, which represents an increase of approximately one-third on previous year response levels. The local office information sessions provided the greatest number of responses. The majority of respondents were either satisfied or very satisfied with the indicative rent increase in terms of its affordability (60% compared to 64% in 2012) and value for money (64% compared to 62% in 2012). When asked about overall satisfaction with the Council as a landlord, the majority of respondents (76%) were satisfied or very satisfied, similar to last year’s satisfaction levels.
- 3.6 Analysis of the comments received back from the survey, indicate that tenants’ concerns around affordability are influenced by the pressures being experienced on household incomes due to wider economic factors. In particular, concerns related to the impacts of Welfare Reform changes and the recession were a common theme. The response feedback highlights the importance of the current work being undertaken in respect of assisting people from falling into poverty, including enhanced welfare benefit and debt advice; access to welfare fund resources and mechanisms to help people in larger homes mitigate the impacts of size criteria benefit changes.

4. PERFORMANCE

- 4.1 The budgeted current average rent stands at £55.41 per week and Appendix 1 illustrates a breakdown of what tenants are paying for. Members will note that 69% of the current rent is directed at repaying borrowing costs and paying for the cost of day to day maintenance and improvements, while the remainder is towards the costs of managing tenancies.
- 4.2 Since the 2013/14 budget was approved there have been a number of new build and mortgage to rent properties added to the housing stock and a continued reduction in the number of house sales. This has had an effect on the actual average weekly rent which is now calculated to be £55.47 per week as a result of a slightly different profile of house types.

4.3 The Scottish Government publishes a set of performance indicators for council housing, which allow comparison of the Council's performance against the other 25 local authority landlords. Based on a comparison of actual outturn figures for last financial year (2012/13), the main points arising are that Falkirk Council had:

- The 3rd lowest rent
- The 3rd highest level of repairs and improvement expenditure per house
- The 6th lowest supervision and management costs

5. SCOTTISH HOUSING QUALITY STANDARD (SHQS)

5.1 Members will be aware that the Council continues to invest in the housing stock through the HRA Investment Programme and Repairs and Maintenance contracts. A full stock condition survey of the Council's 16,000 houses was completed three years ago and identified that approximately £400 million at today's prices will be required to be spent over the next 30 years to ensure the Council's housing stock is properly maintained in line with SHQS.

5.2 The Council has in place a Housing Asset Management Plan, providing a strategic and planned approach to maintaining and improving our housing stock. The Plan sets the framework and basis for future capital and revenue investment. It will therefore be necessary for capital and revenue funding to be aligned with future investment requirements, to ensure that the Council's housing stock continues to be maintained in accordance with SHQS beyond 2015. This approach is integral to the development of the Housing Investment Programme and corresponding revenue budget decision-making.

5.3 It is proposed that approximately £60m is provided in 2014/15 both in revenue and capital funding to maintain and improve our housing stock and associated estates. This investment covers both internal and external work to our housing stock, along with environmental improvements to our estates and other housing assets, including garage sites and lock-ups.

6. HOUSING REVENUE ACCOUNT

6.1 Expenditure on the draft Housing Revenue Account for 2014/2015 is estimated to be some £54.4m. There is a shortfall of £1.7m which requires an average rent increase of £103.48 p.a. or £1.99 per week (+3.6%) on the existing average rent. A summary of the draft Housing Revenue Account is shown at Appendix 2.

The main influences in preparing the Budget are summarised below:-

- (i) Employee Expenses (+£42,000)
Employee expenses are expected to increase by £42,000 (0.7%) mainly due to increments and pay inflation.
- (ii) Property Costs (+£1,050,000)
Property costs are set to increase by £1,050,000 (4.2%) after allowing for the impacts of building and property related inflation.

(iii) Supplies & Services (+£119,000)

Supplies & Services have increased by £119,000 (3.0%) after allowing for a higher level of irrecoverable rents due to the effect of benefit changes and general inflationary increases. As outlined in para 2.3 above, the Government's Welfare Reform Programme has significantly impacted on those tenants currently in receipt of Housing Benefit. Whilst it is too early to fully assess the longer-term impacts on the HRA from Welfare Reform changes, the Council has initially seen an increase of c30% in rent arrears since April 2013. This is consistent with the experience of other Local Authorities. As such, a higher level of irrecoverable rents due to the effect of benefit changes has been provided.

As other welfare reform changes are introduced going forward, tenants will experience further financial pressures making it more difficult to meet their rent liability, increasing the likelihood of further increases in the level of arrears. Consequently, this will place increased pressure on the HRA and in particular reserves; rent levels and the affordability of future improvement and maintenance work.

Access to additional advice and support has been put in place to assist affected tenants through the change process and these measures will be core service priorities in the coming year.

(iv) Capital Charges (-£5,234,000)

There will be reduced capital charges of £5,234,000 (41.3%) as a result of long-term debt maturing and this has allowed for increased CFCR of £3.5m.

The capital charge estimates for 2015/16 and 2016/17 also include provision for the financing of the Housing Investment Programme being considered by Members as a separate item on the agenda. The financing costs of this ongoing investment have been accommodated within the recommended HRA budget as a result of the anticipated reduction in the Council's level of housing debt in 2014/15.

(v) Council House Stock

The number of houses available for letting is also a significant factor in determining rent levels. Sales in the current year are projected at 50. It is estimated that a further 50 will be sold next year. An estimated 168 houses have been added to the stock in 2014/15 for new build, buy-backs and mortgage to rent properties.

(vi) HRA Reserves

In previous years, reserves have been used to mitigate the level of annual rent increases. As a result of long-term debt maturing and the resultant reduced loan charges, the use of reserves is not required for this purpose in the short-term. This has allowed for additional CFCR to be included in the Housing Investment Programme, which will help in reducing future loan charge costs for the HRA.

The Housing Revenue Account reserve balance is projected to be £5.1m by 31st March 2014. A financial modeling exercise of the HRA over the forthcoming 50 year period has been undertaken to assess the reserve position going forward. In order to maintain future rent increases at an affordable level, the current projected level of reserves (£5.1m) is considered to be prudent to meet future revenue and capital investment requirements. This level is in line with the Scottish average of c10% of annual expenditure.

(vii) Income

In last year's report it was highlighted that the Scottish Government intended to review the arrangement for the ring-fenced grant for hostel funding. This grant has now been mainstreamed and the Council has been informed that this will reduce from the current level of £0.545m to £0.535m in 2014/15 and £0.423m in 2015/16. Depending on the overall local government finance settlement for future years, our indicative funding for 2016/17 and 2017/18 is £0.310m and £0.198m respectively. The indicative budget in appendix 2 takes account of this.

7. RENT CHARGES

- 7.1 Appendix 3 illustrates for Members the existing and proposed house rental charges by house size, based on a proposed increase of 3.6%.
- 7.2 It is proposed that lock-up rent charges are increased by 3.6% in line with house rents. As such, the current average lock-up rent will increase from approximately £5.52 per week to £5.72. The total stock of lock-up garages is approximately 2,800 and this charge will generate net income of £650,000.
- 7.3 It is also recommended that the rent of garage sites increase from £76 per annum to £77 per annum which will yield around £53,000 net income in total from approximately 700 occupied sites.
- 7.4 It is recommended that the Castings Hostel rents are increased in line with the average increase in house rents from £142.65 per room per week (excluding fuel charges) to £147.78 per room per week.
- 7.5 It is also recommended that the homeless properties income generated from rent and service charges increase in line with the average increase in house rents from £165.37 average per property per week to £171.32 property per week.

8. FINANCIAL YEARS 2015/16 AND 2016/17

- 8.1 To assist Members in the strategic planning process, Appendix 2 also gives an **indication** of the likely Revenue Budget and rent increases required for the two financial years beyond 2014/15. Summary figures are detailed below taking account of the additional borrowing required to fund the Housing Investment Programme being considered separately by Members. It should be noted that these indicative rents are subject to the uncertainties of rates of inflation, interest rates and the number of houses sold.

| <u>Financial Year</u> | <u>Indicative Budget</u> | <u>Indicative Rent Increase</u> |
|-----------------------|------------------------------|-------------------------------------|
| | £'000 | |
| 2015/16 | 56,271 | £2.06 p.w. (3.6%) |
| 2016/17 | 58,349 | £2.14 p.w. (3.6%) |

- 8.2 The indicative budget and rent increases will be used as the basis of tenant consultation to be undertaken later in 2014. The outcomes of this consultation will be reflected in next year's HRA budget report.

9. CONCLUSIONS

- 9.1 Increasing rent levels is the only way Falkirk Council, as landlord, can continue to have sustained investment programmes to improve its housing stock. The rent increase of £1.99 referred to above allows for additional investment to assist in meeting the requirements of the Scottish Housing Quality Standard and demand for affordable housing.
- 9.2 The proposed rent increase is in line with the level tenants were consulted on, with the majority of respondents satisfied in terms of affordability and value for money.
- 9.3 The report also provides an indication of future budget levels and rent increases for 2015/16 and 2016/17 to assist Members in the strategic planning process.

10. RECOMMENDATIONS

Members are invited to approve the Draft Housing Revenue Account budget for 2014/15, with the following specific recommendations:-

- 10.1 **Rent increase of 3.6% to be applied from 1st April 2014. The average fortnightly charge would therefore increase from £120.16 to £124.47, based on the 24 fortnightly periods with no rent being charged during the fortnightly periods commencing 30 June 2014 and 29 December 2014.**
- 10.2 **Lock-up garage rentals to increase from an average of £5.52 per week to £5.72 per week.**
- 10.3 **Garage site rentals to increase from £76 per annum to £77 per annum.**
- 10.4 **Castings Hostel rentals increase from £142.65 per room per week to £147.78 per week (excluding fuel charges)**
- 10.5 **Homeless property rentals increase from an average of £165.37 per week to £171.32 per week.**
- 10.6 **Note the indicative budgets and rent increases for 2015/16 and 2016/17 as representing the best information available at this time.**

Chief Finance Officer

Director of Corporate & Neighbourhood Services

Date: 5 February 2014

LIST OF BACKGROUND PAPERS

1. * Revenue Budget Working Papers

* Item not for publication on the grounds that it involves the disclosure of exempt information as defined in Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973.

Any person wishing to inspect the above background papers should telephone Falkirk (01324) 506300 and ask for Mr. B. Smail or (01324) 590788 and ask for Mr. D. McGhee.