

Housing  
Revenue  
Account &  
Council House  
Rents 2016/17  
– 2018/19

**FALKIRK COUNCIL**

**Subject: HOUSING REVENUE ACCOUNT & COUNCIL HOUSE RENTS 2016/17 – 2018/19**  
**Meeting: FALKIRK COUNCIL**  
**Date: 17 February 2016**  
**Author: DIRECTOR OF CORPORATE & HOUSING SERVICES**

**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 2016/2017 and makes recommendations on the level of council house and other rental charges. The report also gives consideration to indicative rent increases for 2017/18 and 2018/19.

**2. BACKGROUND**

2.1 Falkirk Council is landlord to over 16,000 tenants. The Scottish Government has intimated that the cost of providing council housing must be self-financing from house rents and other income.

2.2 In reviewing council house rents, Members should also be aware that approximately 8,900 (56%) of council tenants are in receipt of Housing Benefit (HB), with approximately 6,500 (41%) in receipt of a maximum HB award. This means that about 4 in every 10 tenants will be fully protected from any change in their rent.

2.3 The remaining c2,400 (28%) of council tenants that are in receipt of HB receive a partial award. Generally these tenants will be protected from a rent increase. However, the underlying household income for working age claimants (or at least the elements that are from state benefits) will be frozen at 2015/16 levels and this may impact on tenants ability to maintain rent payments.

2.4 It should also be noted that during 2016/17 the expansion of the Digital Service for Universal Credit will include new claims for couples and families and will see a number of tenants move on to Universal Credit. They will now have their housing costs paid along with their monthly Universal Credit payment. The geographic timetable for the migration of all existing working age HB claims to Universal Credit has not yet been announced by DWP.

2.5 There are also several other planned changes to Welfare Benefits in 2016/2017 including the removal of the Family Premium and a further reduction in the Benefit Cap level from £26,000 to £23,000 which will result in more tenants being affected through either a reduction or a possible complete loss of Housing Benefit.

### **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 via a pre-paid postal survey within the Winter edition of the 'Tenant Talk' Magazine; a postal survey of over 400 tenants on the Housing Services consultation register; a postal survey; meeting with registered tenants organisations and also face to face discussions with residents of Castings Hostel and the Travelling Peoples Site. This follows on from an extensive independent telephone consultation exercise with over 1,000 tenants in relation to rent levels undertaken in December 2014.
- 3.3 As part of the consultation this year, tenants were specifically consulted on the indicative rent increase for 2016/17 agreed in February 2015 as part of the 2015/16 budget i.e. 3.6%, equivalent to £2.15 per week. 67% of respondents were satisfied that the proposed increase was affordable and 69% stated that the proposed rent increase represented value for money.
- 3.4 In addition, the views of tenants were sought on their satisfaction with the Council as a landlord. 80% of respondents advised that they were either very satisfied or satisfied with the Council as a landlord.
- 3.5 Consultation will also take place with tenants on the proposal to stop the Garden Aid Scheme.

### **4. PERFORMANCE**

- 4.1 The budgeted current average rent stands at £59.64 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 2015/16 budget was approved there have been a number of new build, buybacks 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 £59.70 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 the most recently available figures i.e.: 2015/16, the main points arising are that Falkirk Council had:
- The 5th lowest rent
  - The 3rd highest level of repairs and improvement expenditure per house
  - The 8th lowest supervision and management costs

### **5. SCOTTISH HOUSING QUALITY STANDARD (SHQS)**

- 5.1 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 in the housing stock and is based on stock condition survey data.

- 5.2 Capital and revenue funding therefore requires to be aligned with future investment requirements as set out in the Housing Asset Management Plan, to ensure that the Council's housing stock continues to be maintained in accordance with SHQS. This approach is an integral part of the development of both the Housing Investment Programme and corresponding revenue budget decision-making.
- 5.3 It is proposed that over £40m is provided in 2016/17 both in revenue and capital funding in order 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 2016/2017 is estimated to be £58.6m. There is a shortfall of £1.8m which requires an average rent increase of £111.80 p.a. or £2.15 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 (+£109,000)  
Employee expenses are expected to increase by £109,000 (1.6%) mainly due to increments and pay inflation.
- (ii) Property Costs (+£350,000)  
Property costs are set to increase by £350,000 (1.3%) after allowing for the impacts of building and property related inflation.
- (iii) Supplies & Services (+£24,000)  
Supplies & Services have increased by £24,000 (0.5%) after allowing for a higher level of irrecoverable rents due to the effect of housing benefit changes and general inflationary increases.

As 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 possible further increase in the level of arrears. Access to additional advice and support has been put in place to assist affected tenants through the change process. This is in addition to the rent recovery difficulties which are likely to arise from the monthly in arrears payment of Universal Credit. Consequently, increased pressure will be placed on the HRA and in particular reserves, rent levels and the affordability of future improvement and maintenance work.

- (iv) Capital Charges (+£943,000)  
Capital charges are anticipated to increase by £943,000 (10.2%) due to the financing costs of the increased level of Housing Investment being undertaken.
- (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 138 houses have been added to the stock in 2016/17 for new build and buy-back properties.

(vi) HRA Reserves

No application from reserves is planned for 2016/17, with the current projected level of reserves 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 £0.423m in 2015/16. 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.

- 6.2 On 1 April 2016 responsibility for a number of Adult Health and Social Care functions will transfer from both the Council and Forth Valley Health Board to an Integration Joint Board (IJB), in line with legislation passed by the Scottish Government. Any resources attached to those functions will also transfer. The Council will transfer a range of functions involving adult social care services. For the HRA, the housing aids and adaptations function will transfer to the IJB. This will involve c£1.2m of resources which is included in the budget at Appendix 2. However, these resources will continue to be ring-fenced and can only be used for the benefit of HRA tenants.

## 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 £5.93 per week to £6.14. The total stock of lock-up garages is approximately 2,700 and this charge will generate net income of £640,000.
- 7.3 It is also recommended that the rent of garage sites increase from £78 per annum to £79 per annum which will yield around £50,000 net income in total from approximately 670 occupied sites.
- 7.4 It is recommended that the Castings Hostel rents are increased in line with the average increase in house rents from £153.10 per room per week (excluding fuel charges) to £158.61 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 £177.49 average per property per week to £183.88 property per week.

## 8. FINANCIAL YEARS 2017/18 AND 2018/19

- 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 2016/17. 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> £'000	<u>Indicative Rent Increase</u>
2017/18	60,772	£2.23 p.w. (3.6%)
2018/19	63,205	£2.31 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 2016. The outcomes of this consultation will be reflected in next year's HRA budget report.

## 9. CONCLUSIONS

- 9.1 Increasing rents is the only way Falkirk Council, as landlord, can continue to have a sustained investment programme to improve its housing stock. The rent increase of £2.15 referred to above allows for additional investment to assist in meeting the continuing requirements of the Scottish Housing Quality Standard and to provide additional affordable housing, through new build and buy-backs, in order to help meet demand.
- 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 2017/18 and 2018/19 to assist Members in the strategic planning process.
- 9.4 Going forward, there are also changes which will require the current method of rent and service charge setting to be reviewed, including the District Valuer stopping calculation of GAV's for new properties and direct housing payments proposed under Universal Credit. As such, work is being undertaken to review and consider options for basing future rent and service charge setting, which better align with current and forthcoming requirements. Tenant consultation will also be necessary on any proposed changes to the basis of future rent and service charge setting.

## 10. RECOMMENDATIONS

- 10.1 **Members are invited to approve the Draft Housing Revenue Account budget for 2016/17, with the following specific recommendations:-**
- 10.2 **Rent increase of 3.6% to be applied from 1<sup>st</sup> April 2016. The average fortnightly charge would therefore increase from £129.34 to £134.00, based on the 24 fortnightly periods with no rent being charged during the fortnightly periods commencing 27 June 2016 and 26 December 2016.**
- 10.3 **Lock-up garage rentals to increase from an average of £5.93 per week to £6.14 per week.**
- 10.4 **Garage site rentals to increase from £78 per annum to £79 per annum.**
- 10.5 **Castings Hostel rentals increase from £153.10 per room per week to £158.61 per week (excluding fuel charges)**

- 10.6 Homeless property rentals increase from an average of £177.49 per week to £183.88 per week.
- 10.7 Note the indicative budgets and rent increases for 2017/18 and 2018/19 as representing the best information available at this time.

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**DIRECTOR OF CORPORATE & HOUSING SERVICES**

**Ref: AAA170215 – HRA & Council House Rents**

**Date: 25 January 2016**

**LIST OF BACKGROUND PAPERS**

1. \* Revenue Budget Working Papers

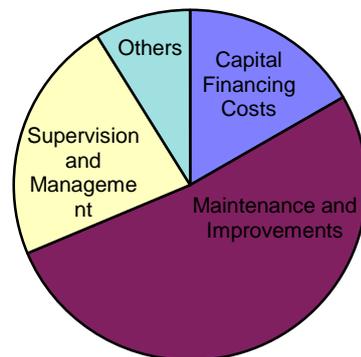
\* Item not for publication on the grounds that it involves the disclosure of exempt information as defined in Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973.

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.

**WHAT TENANT PAYS FOR**  
**2015/16 REVENUE BUDGET**

	£ per week	%
Capital Financing Costs	10.70	17
Maintenance and Improvements	33.37	52
Supervision and Management	14.48	22
Others	5.67	9
Total Expenditure	<u>64.22</u>	<u>100</u>
<u>Less :</u> Income	4.58	
Average Weekly Rent	<u>59.64</u>	

**Analysis of Total Expenditure**



**FALKIRK COUNCIL  
2016/17 HOUSING REVENUE ACCOUNT**

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Employee Expenses	6,848	6,957	7,084	7,213
Property Expenses	25,968	26,319	26,966	27,632
Transport Expenses	8	8	8	8
Capital Funded from Current Revenue	4,264	5,365	4,923	5,003
Supplies & Services	4,447	4,471	4,508	4,546
Third Party Payments	1,697	1,257	1,007	1,007
Support Services	4,007	4,074	4,136	4,199
Capital Charges	9,233	10,176	12,140	13,597
	56,473	58,626	60,772	63,205
Financed By:				
House Rents	48,781	50,645	52,746	55,014
Other Income	5,935	6,158	6,127	6,210
Use of Reserves	-	-	-	-
	54,717	56,803	58,873	61,224
Shortfall to be financed by rent increase	1,756	1,823	1,899	1,981
Estimated Housing Stock	16,295	16,314	16,400	16,510
Required Annual Rent Increase	£107.64	£111.80	£115.96	£120.12
Weekly Rent increase ( £ )	£2.07	£2.15	£2.23	£2.31
Weekly Rent increase ( % )	3.6%	3.6%	3.6%	3.6%
Weekly Rent	£59.70	£61.85	£64.08	£66.39

Note

Figures for years 2017/18 to 2018/19 are indicative only

	£m	£m	£m	£m
HRA Balances	£5.1	£5.1	£5.1	£5.1
	(projected)			

**PROPOSED RENT INCREASE (Standard Lets)**  
**FINANCIAL YEAR 2016/17**  
**RENT PERIOD COMMENCING 4th APRIL 2016**

**APPENDIX 3**

<b>Average Increase</b>	<b>£2.15 Per Week</b>	<b>£4.66 Per Fortnightly Rent Period</b>	<b>£111.80 Per Year</b>
<b>Maximum Increase</b>	<b>£4.00 Per Week</b>	<b>£8.67 Per Fortnightly Rent Period</b>	<b>£208.00 Per Year</b>

( Annual Amounts equal Fortnightly Amounts times 24 )

<b>No of Bedrooms</b>	<b>Average Weekly Rent</b>			<b>Average Fortnightly Period Rent (24 Periods per year)</b>		
	<b>Current Average Rent £</b>	<b>Average Weekly Increase £</b>	<b>Proposed Budgeted Rent £</b>	<b>Existing Budgeted Rent £</b>	<b>Average Period Increase £</b>	<b>Proposed Budgeted Rent £</b>
1	49.26	1.77	51.03	106.73	3.84	110.57
2	58.60	2.11	60.71	126.96	4.57	131.53
3	66.17	2.38	68.55	143.37	5.16	148.53
4+	75.71	2.73	78.44	164.04	5.91	169.95
All	59.70	2.15	61.85	129.34	4.66	134.00

(based on 52 week year)

**NOTE : RENT IS CHARGED OVER 24 FORTNIGHTS & NO RENT WILL BE PAYABLE DURING THE FOLLOWING PERIODS :-**

**WEEKS 13 & 14**  
**WEEKS 39 & 40**

**COMMENCING 27TH JUNE 2016**  
**COMMENCING 26TH DECEMBER 2016**

**ENDING 10TH JULY 2016**  
**ENDING 8TH JANUARY 2017**