

FALKIRK COUNCIL

Subject: HOUSING REVENUE ACCOUNT & COUNCIL HOUSE RENTS 2015/16 – 2017/18
Meeting: FALKIRK COUNCIL
Date: 11 February 2015
Author: JOINT REPORT BY DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES AND CHIEF FINANCE OFFICER

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 2015/2016 and makes recommendations on the level of council house and other rental charges. The report also gives consideration to indicative rent increases for 2016/17 and 2017/18.

2. BACKGROUND

- 2.1 Falkirk Council is landlord to approximately 16,000 tenants (2015/16 mid-year estimate). The Scottish Government has intimated that the cost of providing council housing must be self-financing from house rents and other income, although a small amount of grant is received for hostels.
- 2.2 In reviewing council house rents, Members should also be aware that approximately 9,000 (56%) of council tenants are in receipt of Housing Benefit (HB), with approximately 6,600 (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, unless they are affected by the Welfare Reform changes that were implemented during 2013/14.
- 2.3 The remaining c2,400 (15%) of council tenants in receipt of HB receive a partial award. It should be noted that whilst some of these will also be protected from the impact of the rent increase, many will find they have more rent to pay as the Department for Work and Pensions (DWP) intend to apply a 1% increase in income for working age benefits and 2.5% for pension age related income for 2015/16.

2.4 As Members will be aware, significant changes were made to the HB 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. Benefits Cap for those whose income from Social Security Benefits including Housing Benefit exceeds a cap (6 Falkirk Council tenants affected at this time).

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 a rent increase is applied. However, additional monies are expected to again be awarded by Scottish Government for 2015/16 to mitigate the impact of this in Scotland through Discretionary Housing Payments (DHP). Tenants are expected to be afforded protection from the impact of this change by being given an award of DHP, where they express intent to claim, to offset by HB loss. A detailed update on the position with Welfare Reform was presented to the Executive in December.

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 October/November 2014 by an independent market research company.
- 3.2 The consultation sought tenant feedback from over 1,000 tenants via a telephone survey, with interviews spread pro-rata across each of the Council's geographical areas. In addition, quotas were set for those in receipt of housing benefit and those who pay full rent within each of these geographical areas.
- 3.3 Tenants were specifically consulted on the indicative rent increase for 2015/16 agreed in February 2014 as part of the 2014/15 budget i.e. 3.6%, equivalent to £1.99 per week. 62% of respondents were satisfied with the proposal and a further 12% were neither satisfied nor dissatisfied.
- 3.4 In addition, the views of tenants were sought on whether they felt that the rent increase represented value for money, with 82% stating that they considered the rent charge to be very or fairly good value for money, with only 10% considering that their rent was poor value for money. Additionally, 80% of tenants consulted felt that the rent payment for their property was affordable. Finally, only one-third of tenants advised that they would not be willing to pay a higher rent in exchange for increased investment.

4. PERFORMANCE

- 4.1 The budgeted current average rent stands at £57.46 per week and Appendix 1 illustrates a breakdown of what tenants are paying for. Members will note that 68% 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 2014/15 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 £57.57 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 actual outturn figures i.e.: 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 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 beyond 2015. 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 approximately £60m is provided in 2015/16 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 2015/2016 is estimated to be £56.5m. There is a shortfall of £1.8m which requires an average rent increase of £107.64 p.a. or £2.07 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 (+£209,000)
Employee expenses are expected to increase by £209,000 (3.3%) mainly due to increments and pay inflation.
- (ii) Property Costs (+£651,000)
Property costs are set to increase by £651,000 (2.5%) after allowing for the impacts of building and property related inflation.

(iii) Supplies & Services (+£82,000)

Supplies & Services have increased by £82,000 (2.0%) after allowing for a higher level of irrecoverable rents due to the effect of benefit changes and general inflationary increases. As outlined above, the Government's Welfare Reform Programme has significantly impacted on those tenants currently in receipt of Housing Benefit. The Council saw an increase of 44% in current tenant rent arrears between April 2013 and March 2014. Even though full mitigation for Social Sector Size Criteria has been provided for 2014/15, in the form of DHP, it is likely that we will be unable to collect a material proportion of the, now established, arrears that accrued during 2013/14 when the restriction was introduced, without full mitigation.

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.

(iv) Capital Charges (+£1,781,000)

Capital charges are anticipated to increase by £1,781,000 (23.9%) 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 2015/16 for new build, buy-backs and mortgage to rent properties.

(vi) HRA Reserves

No application from reserves is planned for 2015/16, 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 £0.535m 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 £5.72 per week to £5.93. 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 £77 per annum to £78 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 £147.78 per room per week (excluding fuel charges) to £153.10 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 £171.32 average per property per week to £177.49 property per week.

8. FINANCIAL YEARS 2016/17 AND 2017/18

- 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 2015/16. 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	
2016/17	58,517	£2.15 p.w. (3.6%)
2017/18	60,667	£2.22 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 2015. 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 £2.07 referred to above allows for additional investment to assist in meeting the 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 2016/17 and 2017/18 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 2015/16, with the following specific recommendations:-
- 10.2 Rent increase of 3.6% to be applied from 1st April 2015. The average fortnightly charge would therefore increase from £124.73 to £129.22, based on the 24 fortnightly periods with no rent being charged during the fortnightly periods commencing 29 June 2015 and 28 December 2015.
- 10.3 Lock-up garage rentals to increase from an average of £5.72 per week to £5.93 per week.
- 10.4 Garage site rentals to increase from £77 per annum to £78 per annum.
- 10.5 Castings Hostel rentals increase from £147.78 per room per week to £153.10 per week (excluding fuel charges)
- 10.6 Homeless property rentals increase from an average of £171.32 per week to £177.49 per week.
- 10.7 Note the indicative budgets and rent increases for 2016/17 and 2017/18 as representing the best information available at this time.

Chief Finance Officer

Director of Corporate & Neighbourhood Services

Date: 27 January 2015

LIST OF BACKGROUND PAPERS

1. * Revenue Budget Working Papers

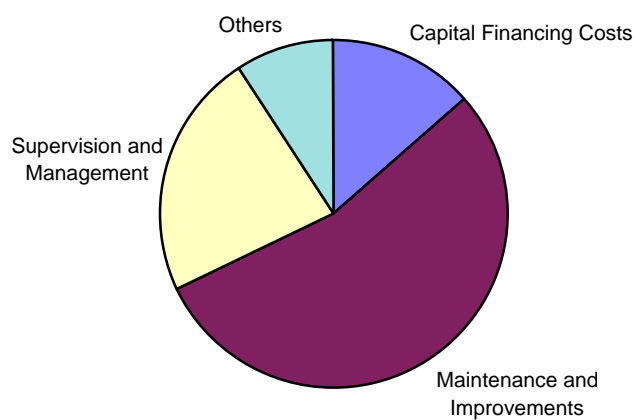
* Item not for publication on the grounds that it involves the disclosure of exempt information as defined in Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973.

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
2014/15 REVENUE BUDGET

	£ per week	%
Capital Financing Costs	8.42	14
Maintenance and Improvements	33.68	54
Supervision and Management	14.21	23
Others	5.68	9
Total Expenditure	<u>61.99</u>	<u>100</u>
 <u>Less :</u> Income	 4.53	
Average Weekly Rent	<u>57.46</u>	

Analysis of Total Expenditure



APPENDIX 2

**FALKIRK COUNCIL
2015/16 HOUSING REVENUE ACCOUNT**

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Employee Expenses	6,425	6,634	6,759	6,887
Property Expenses	25,765	26,416	27,278	28,172
Transport Expenses	32	33	33	34
Capital Funded from Current Revenue	4,855	4,264	4,208	3,504
Supplies & Services	4,140	4,222	4,252	4,283
Third Party Payments	1,865	1,697	1,252	1,002
Support Services	3,900	4,007	4,114	4,224
Capital Charges	7,452	9,233	10,621	12,561
	<u>54,434</u>	<u>56,506</u>	<u>58,517</u>	<u>60,667</u>
Financed By:				
House Rents	46,485	48,781	50,792	52,898
Other Income	6,277	5,969	5,896	5,865
Use of Reserves	-	-	-	-
	<u>52,762</u>	<u>54,750</u>	<u>56,688</u>	<u>58,763</u>
Shortfall to be financed by rent increase	1,672	1,756	1,829	1,904
Estimated Housing Stock	16,116	16,295	16,378	16,463
Required Annual Rent Increase	£103.48	£107.64	£111.80	£115.44
Weekly Rent increase (£)	£1.99	£2.07	£2.15	£2.22
Weekly Rent increase (%)	3.6%	3.6%	3.6%	3.6%
Weekly Rent	£57.57	£59.64	£61.79	£64.01

Note

Figures for years 2016/17 to 2017/18 are indicative only

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

Average Increase	£2.07 Per Week	£4.49 Per Fortnightly Rent Period	£103.48 Per Year
Maximum Increase	£3.50 Per Week	£7.58 Per Fortnightly Rent Period	£181.92 Per Year

(Annual Amounts equal Fortnightly Amounts times 24)

<u>No of Bedrooms</u>	<u>Indicative Average Weekly Rent</u>			<u>Average Fortnightly Period Rent (24 Periods per year)</u>		
	<u>Existing Budgeted Rent £</u>	<u>Average Weekly Increase £</u>	<u>Proposed Budgeted Rent £</u>	<u>Existing Budgeted Rent £</u>	<u>Average Period Increase £</u>	<u>Proposed Budgeted Rent £</u>
1	45.86	1.65	47.51	99.37	3.58	102.95
2	54.48	1.96	56.44	118.03	4.25	122.28
3	61.56	2.22	63.77	133.37	4.80	138.17
4+	72.33	2.60	74.93	156.71	5.64	162.35
All	57.57	2.07	59.64	124.73	4.49	129.22

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

WEEKS 13 & 14
WEEKS 39 & 40

COMMENCING 29TH JUNE 2015
COMMENCING 28TH DECEMBER 2015

ENDING 12TH JULY 2015
ENDING 10TH JANUARY 2016