

The background of the slide features a large, light blue watermark of the City of Edinburgh's coat of arms. It includes a crown at the top with four thistles, a shield divided into four quarters (quarterly), and a motto scroll at the bottom. The quarters contain: a castle tower, a stag's head, a ship on waves, and an eagle with wings spread. The motto scroll reads 'ANE FOR A'.

Agenda Item 5

**Housing Revenue Account &
Council House Rents
2017/18 – 2019/20**

Falkirk Council

Title: Housing Revenue Account & Council House Rents 2017/18 – 2019/20
Meeting: Falkirk Council
Date: 22 February 2017
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 The purpose of this report is to approve the Housing Revenue Account and associated council house rent and other rental charges for 2017/18. The report also provides information on indicative rent increases for 2018/19 and 2019/20.

2. Recommendation

Council is asked to:-

- 2.1 Approve the Housing Revenue Account budget for 2017/18 in Appendix 2.
- 2.2 Approve a house rent increase of 3.6% to be applied from 1st April 2017, increasing the average fortnightly charge from £133.98 to £138.80.
- 2.3 Approve lock-up garage rents increase from an average of £6.14 per week to £6.36 per week.
- 2.4 Approve garage site rents increase from £79 per annum to £80 per annum.
- 2.5 Approve Castings Hostel rents increase from £22.66 per room per day to £23.48 per room per day (excluding fuel charges).
- 2.6 Approve homeless property rents increase from an average of £183.88 per week to £190.50 per week.
- 2.7 Note the indicative budgets and rent increases for 2018/19 and 2019/20 as representing the best available information at this time.

3. Background

- 3.1 Falkirk Council is landlord to over 16,000 tenants. The cost of providing council housing must be self-financing from house rents and other income. There is a statutory requirement to review the level of council house rents annually.
- 3.2 In reviewing council house rents, Members should also be aware that approximately 8,300 (52%) of council tenants are in receipt of Housing Benefit (HB), with approximately 5,700 (36%) in receipt of a maximum HB award. This means that just under 4 in every 10 tenants will be fully protected from any change in their rent.
- 3.3 The remaining c2,600 (16%) of council tenants that are in receipt of HB receive a partial award. Generally these tenants will also 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 continue to be frozen at 2015/16 levels and this may impact on tenants ability to maintain rent payments.
- 3.4 We have over 500 tenants already on Universal Credit and that number will continue to grow throughout 2017/18, albeit limited predominantly to single tenants without children. In March 2018 Full Service Universal Credit will be rolled out in the Falkirk area. From this date, new claims will include couples and families.
- 3.5 The Department of Work and Pensions have still to confirm the timetable for the migration of those customers currently in receipt of Housing Benefit to Universal Credit, but it is planned between 2019 and 2022.

4. Performance

- 4.1 The budgeted current average rent stands at £61.83 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 2016/17 budget was approved the stock base has changed due to additional properties being added to the housing stock through new build and buybacks, offset by additional house sales. This has had an effect on the actual average weekly rent which is now calculated to be £61.83 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.: 2016/17, 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 the 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 c£40m is provided in 2017/18 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 The main influences in preparing the Budget are summarised below:-
- (i) Employee Expenses (+£103,000)
Employee expenses are expected to increase by £103,000 (1.8%) mainly due to increments, pay inflation and increased employers pension contributions.
 - (ii) Property Costs (+£580,000)
Property costs are set to increase by £580,000 (2.4%) after allowing for the impacts of building and property related inflation.
 - (iii) Supplies & Services (+£34,000)
Supplies & Services have increased by £34,000 (0.8%) after allowing for a higher level of irrecoverable rents due to the effect of housing benefit changes and general inflationary increases.
 - (iv) Capital Charges (+£1,063,000)
Capital charges are anticipated to increase by £1,063,000 (10.4%) 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. An additional 100 houses have been included in the estimated stock figures for 2017/18 for new build and buy-back properties.

(vi) HRA Reserves

No application from reserves is planned for 2017/18, 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 c8% of annual income.

(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. Our funding for 2017/18 is £0.198m and 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 transferred from both the Council and Forth Valley Health Board to an Integration Joint Board (IJB). For the HRA, the housing aids and adaptations function funding transferred to the IJB. This involves £1.1m of resources 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 £6.14 per week to £6.36. The total stock of lock-up garages is approximately 2,670 and this charge will generate net income of c£700,000.
- 7.3 It is also recommended that the rent of garage sites increase from £79 per annum to £80 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 £22.66 per room per day (excluding fuel charges) to £23.48 per room per day.
- 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 £183.88 average per property per week to £190.50 property per week.

8. Financial Years 2018/19 and 2019/20

- 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 2017/18. 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 levels of rent arrears. In addition, additional funding for capital investment in relation to a replacement programme of doors and windows will be required in future years.

<u>Financial Year</u>	<u>Indicative Budget</u>	<u>Indicative Rent Increase</u>
	£'000	
2018/19	62,689	£2.31 p.w. (3.6%)
2019/20	65,110	£2.39 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 2017. The outcomes of this consultation will be reflected in next year's HRA budget report.

9. Consultation

- 9.1 Social landlords have an obligation to consult tenants regarding proposals to change rents and have regard to their views in setting new rent levels. An independent face to face satisfaction survey has been undertaken with over 1,000 tenants. The survey indicates that 84.7% of tenants are satisfied with the overall service provided by the Council and 79.6% of tenants feel that the rent for their property represents good value for money.
- 9.2 A tenant consultation exercise was also undertaken via meetings with registered tenants organisations and residents of Castings Hostel and the Travelling Peoples Site.
- 9.3 As part of the consultation this year, tenants were specifically consulted on the indicative rent increase for 2017/18 agreed in February 2016 as part of the 2016/17 budget i.e. 3.6%, equivalent to £2.23 per week. 9.6% of respondents felt that the proposed increased rent would be difficult to afford.
- 9.4 Going forward, it is planned to have a feature article on rent and value for money in a future edition of Tenant Talk. In addition, recent information from the Scottish Housing Regulator will be used to inform future rent consultations.

10. Implications

Financial

- 10.1 Expenditure on the draft Housing Revenue Account for 2017/2018 is estimated to be £60.3m. There is a shortfall of £1.9m which requires an average rent increase of £116 p.a. or £2.23 per week (+3.6%) on the existing average rent. A summary of the Housing Revenue Account is shown at Appendix 2.
- 10.2 The revenue costs associated with borrowing required to fund the Investment Programme requires to be met from the Council's Housing Revenue Account (HRA) through rental income. The financing costs of the Investment Programme have been accommodated within the recommended HRA budget. Given the long-term impacts and affordability of the capital investment programme, the financial impacts on the HRA budget have been modelled over the next 50 years to ensure future financial viability of the HRA budget.

Resources

- 10.3 The HRA budget set outs the estimated resources required to ensure that the Council continues to invest in its housing stock and deliver quality services to our tenants.

Legal

- 10.4 There are no legal implications anticipated.

Risk

- 10.5 As welfare reform changes are implemented and economic austerity continues, tenants will experience further financial pressures. This will make it more difficult to meet their rent liability, increasing the likelihood of possible increases in the level of arrears. Access to additional advice and support has been put in place to assist affected tenants through the change process.
- 10.6 In addition, rent recovery difficulties are likely to arise from the monthly in arrears payment of Universal Credit. Consequently, increased pressure will be placed on the financial viability of the HRA and in particular reserves, rent levels and the affordability of future improvement and maintenance work.

Equalities

- 10.7 There are no equalities implications anticipated.

Sustainability/Environmental Impact

- 10.8 There are no sustainability or environmental implications anticipated.

11. Conclusions

- 11.1 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 £2.23 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.
- 11.2 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.
- 11.3 The report also provides an indication of future budget levels and rent increases for 2018/19 and 2019/20 to assist Members in the strategic planning process.
- 11.4 Going forward, there are also changes which will require the current method of rent and service charge setting to be reviewed. 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.

Director of Corporate & Housing Services

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Date: 9 February 2017

Appendices

- 1. What Tenants Pay For – 2016/17 Revenue Budget Analysis
- 2. Housing Revenue Account
- 3. 2017/18 Rent Levels

List of Background Papers:

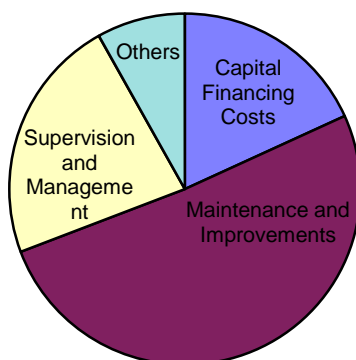
The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

None

WHAT TENANT PAYS FOR
2016/17 REVENUE BUDGET

	£ per week	%
Capital Financing Costs	11.99	18
Maintenance and Improvements	33.66	51
Supervision and Management	14.96	23
Others	5.37	8
Total Expenditure	<u>65.98</u>	<u>100</u>
<u>Less :</u> Income	4.15	
Average Weekly Rent	<u>61.83</u>	

Analysis of Total Expenditure



FALKIRK COUNCIL
2017/18 HOUSING REVENUE ACCOUNT

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Employee Expenses	5,814	5,917	6,057	6,200
Property Expenses	24,651	25,231	25,877	26,540
Transport Expenses	12	12	13	13
Capital Funded from Current Revenue	6,365	6,814	8,770	8,864
Supplies & Services	4,040	4,074	4,113	4,154
Third Party Payments	1,696	1,443	1,439	1,439
Support Services	5,519	5,531	4,139	4,201
Capital Charges	10,176	11,239	12,282	13,699
	<hr/> 58,626	<hr/> 60,261	<hr/> 62,689	<hr/> 65,110
Financed By:				
House Rents	52,468	52,595	54,857	57,153
Other Income	5,804	5,773	5,857	5,900
Use of Reserves	-	-	-	-
	<hr/> 56,803	<hr/> 58,368	<hr/> 60,714	<hr/> 63,052
Shortfall to be financed by rent increase	1,823	1,893	1,975	2,058
Estimated Housing Stock	16,314	16,353	16,463	16,555
Required Annual Rent Increase	£111.80	£115.76	£120.12	£124.28
Weekly Rent increase (£)	£2.15	£2.23	£2.31	£2.39
Weekly Rent increase (%)	3.6%	3.6%	3.6%	3.6%
Weekly Rent	£61.83	£64.06	£66.37	£68.76

Note

Figures for years 2018/19 to 2019/20 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 2017/18
RENT PERIOD COMMENCING 3rd APRIL 2017**

APPENDIX 3

	Weekly (52 weeks)	Fortnightly (24 Periods)	Yearly
Average Increase	£2.23	£4.83	£115.76
Maximum Increase	£4.00	£8.67	£208.00

No of Bedrooms	Average Weekly Rent			Average Fortnightly Period Rent (24 Periods per year)		
	Current Average Rent £	Average Weekly Increase £	Proposed Budgeted Rent £	Existing Average Rent £	Average Period Increase £	Proposed Budgeted Rent £
1	51.04	1.84	52.88	110.59	3.98	114.57
2	60.71	2.19	62.90	131.54	4.74	136.28
3	68.58	2.47	71.05	148.58	5.35	153.93
4+	78.48	2.83	81.31	170.06	6.12	176.18
All	61.83	2.23	64.06	133.98	4.82	138.80

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

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

**COMMENCING 26TH JUNE 2017
COMMENCING 25TH DECEMBER 2017**

**ENDING 9TH JULY 2017
ENDING 7TH JANUARY 2018**