

Agenda Item 5

**Housing Revenue Account & Council
House Rents 2018/19 – 2020/21**

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Falkirk Council

Title: Housing Revenue Account & Council House Rents 2018/19 – 2020/21

Meeting: Falkirk Council

Date: 15 January 2018

Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

1.1 The purpose of this report is to provide Members with options to consider in relation to council house rent and other rental charges for 2018/19. The report also sets out the financial implications of each rent option and Members are asked to approve the resultant Housing Revenue Account budget, based on the selected rental charge option. The report also provides information on indicative rent levels for 2019/20 and 2020/21.

2. Recommendation

Council is asked to consider the rent increase options outlined in the report and:-

- 2.1 **Agree a level of rent increase for 2018/19 and the resultant rent charges as set out in Appendix 4.**
- 2.2 **Approve the Housing Revenue Account budget for 2018/19 as set out in Appendix 2, subject to any necessary adjustments.**
- 2.3 **Note the indicative budgets and rent levels for 2019/20 and 2020/21 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 8,100 (51%) of council tenants are in receipt of Housing Benefit (HB), with approximately 5,600 (35%) 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 c2,500 (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 around 600 tenants already on Universal Credit and that number will grow quickly in 2018/19 as, from March 2018, it is no longer limited to single tenants without children. 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. Significant increases in rent arrears have been experienced in those areas where Universal Credit has been fully rolled out. The impacts on rental income within Falkirk will require to be factored into future budgets.

4. Performance

- 4.1 The budgeted current average rent stands at £64.06 per week and Appendix 1 illustrates a breakdown of what tenants are paying for. Members will note that 72% 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 2017/18 budget was approved the stock base has changed due to additional properties being added to the housing stock through new build and buybacks. This has had an effect on the actual average weekly rent which is now calculated to be £64.05 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.: 2017/18 budgets, the main points arising are that Falkirk Council had:
 - The 5th lowest rent
 - The 4th highest level of repairs and improvement expenditure per house
 - The 7th lowest supervision and management costs
- 4.4 Further detailed information on performance is available from the 2017 Landlord Report to Tenants, which is published on the Council's website.

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 In 2018/19 it is estimated that c£52m is required in both 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 (+£194,000)
Employee expenses are expected to increase by £194,000 (2.9%) mainly due to increments, pay inflation and increased employers pension contributions.
- (ii) Property Costs (+£610,000)
Property costs are set to increase by £610,000 (2.5%) after allowing for the impacts of building and property related inflation.
- (iii) Supplies & Services (+£40,000)
Supplies & Services have increased by £40,000 (1.1%) after allowing for a higher level of irrecoverable rents due to the effect of housing benefit changes and general inflationary increases.
- (iv) Capital Charges (+£586,000)
Capital charges are anticipated to increase by £586,000 (5.2%) due to the financing costs to ensure our stock meets the Scottish Housing Quality Standard and deliver the programme of additional affordable housing, as per the Strategic Housing Investment Plan agreed by Executive in October 2017.
- (v) Council House Stock
The number of houses available for letting is also a significant factor in determining rent levels. An additional 94 houses have been included in

the estimated stock figures for 2018/19 for new build and buy-back properties.

(vi) 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 2018/19 is £0.178m and the indicative budget in Appendix 2 takes account of this.

6.2 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) in April 2016. For the HRA, the housing aids and adaptations function funding transferred to the IJB. This involves £1.2m 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. Financial Years 2019/20 and 2020/21

7.1 To assist Members in the strategic planning process, Appendix 2 also gives an indication of the likely Revenue Budget and rent levels required for the two financial years beyond 2018/19. It should be noted that these indicative rents are subject to the uncertainties of rates of inflation, interest rates and levels of rent arrears.

| <u>Financial Year</u> | <u>Indicative Budget</u> | <u>Indicative Rent Increase</u> |
|-----------------------|--------------------------|---------------------------------|
| | £'000 | |
| 2019/20 | 65,185 | £2.39 p.w. (3.6%) |
| 2020/21 | 68,107 | £2.47 p.w. (3.6%) |

7.2 The indicative budget and rent increases will be used as the basis of tenant consultation to be undertaken later in 2018. The outcomes of this consultation will be reflected in next year's HRA budget report.

8. Consultation

8.1 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 was undertaken with over 1,000 tenants in late 2016. The survey indicated that 84.7% of tenants were satisfied with the overall service provided by the Council and 79.6% of tenants felt that the rent for their property represents good value for money.

8.2 A tenant consultation exercise was also undertaken via meetings with registered tenants organisations and residents of Castings Hostel and the Travelling Peoples Site.

- 8.3 As part of the consultation undertaken in late 2016, tenants were specifically consulted on the indicative rent increase for 2017/18 i.e.: 3.6%, equivalent to £2.23 per week. 9.6% of respondents felt that the proposed increase rent would be difficult to afford.
- 8.4 Building upon the 2016 consultation, further tenant consultation was undertaken in November/December 2017. A copy of the consultation leaflet issued to tenants is included in Appendix 3. Tenants were specifically consulted on a range of potential rent increase options for 2018/19, with over 16,400 consultation questionnaires issued. There were 1,011 responses, which represents a 6% response rate. The consultation feedback showed the following:

| | Option 1 1.9% | Option 2 2.9% | Option 3 3.6% | Option 4 3.9% |
|-----------|--------------------------|--------------------------|--------------------------|--------------------------|
| Responses | 338 (39%) | 191 (22%) | 130 (15%) | 201 (23%) |

Note: 151 respondents did not answer this question.

The majority of responses indicated a preference for a rent increase between 2.9% and 3.9%.

- 8.5 Responses to the recent consultation also indicated that:
- 76% described the value for money of the rent for their property as very good or fairly good, with 10% describing the value for money of their rent as fairly poor or very poor.
 - 72% were either very satisfied or satisfied that their chosen rent option represented value for money
 - 60% of respondents pay their rent in full i.e.: don't receive any housing benefit
 - 79% were either very satisfied or satisfied with Falkirk Council as a landlord.

9. Rent Charges Options

- 9.1 As the Housing Revenue Account must be self-financing from rents, the financial implications of each different rent option must either be met from changes in expenditure and/or utilisation of reserves.
- 9.2 In considering utilisation of reserves, Members must consider how and when these are used as they can only be used once. Use of reserves must also comply with the Council's reserves policy. The current projected level of reserves is £5.1m, which is 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.
- 9.3 Given that over 70% of rental income funds property improvements and maintenance, the implications of the different rent options have been expressed in terms of changes to capital expenditure. The following table summarises the impacts of the different rent options.

| | Option 1 1.9% | Option 2 2.9% | Option 3 3.6% | Option 4 3.9% |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Average Weekly Rent Increase | £1.22 | £1.86 | £2.31 | £2.50 |
| Average Weekly Rent | £65.27 | £65.91 | £66.36 | £66.55 |
| Rental Income Impact, compared to Appendix 2 | -£914,000 | -£376,000 | £0 | +£161,000 |
| Capital Investment Impact | -£12m | -£5m | £0 | +£2m |

- 9.4 Appendix 4 outlines the house rental charges by house size, based on each rent increase option. In considering the rent increase options for houses, consideration is also required in relation to non-housing rental charges i.e.: lock-up rent charges; garage sites; Castings Hostel rents and homeless property rents. Details of these are also shown in Appendix 4.
- 9.5 Members are asked to consider each rent option and determine the rent increase for 2018/19, taking into account the associated implications in terms of housing capital investment and/or reserves.
- 9.6 The Administration propose a rent increase for 2018/19 of 3.6%, as outlined in Option 3 above and the associated rent levels as outlined in Appendix 4. In proposing this level of increase, the Administration also propose approval of the 2018/19 Housing Revenue Account as set out in Appendix 2.

10. Implications

Financial

- 10.1 Expenditure on the draft Housing Revenue Account for 2018/2019 is estimated to be c£62.4m, based on maintaining housing investment levels to ensure our stock meets housing standards and deliver a programme of additional affordable homes to help meet demand. A summary of the Housing Revenue Account is shown at Appendix 2.
- 10.2 A range of rent increase options are set out in para 9.3 above, together with the revenue impacts associated with different levels of housing investment, to ensure the Council's Housing Revenue Account (HRA) is fully funded from rental income.

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 payment in arrears 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 going forward.

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. Paragraph 9.3 highlights the financial implications of different rent options in terms of the impacts these options have on housing investment.
- 11.2 Members are asked to consider the rent options outlined in the report, within the context of the implications for housing improvement and investment, together with the tenant consultation outcomes.
- 11.3 The report also provides an indication of future budget levels and rent levels for 2019/20 and 2020/21 to assist Members in the strategic planning process.

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Appendices

1. What Tenants Pay For – 2017/18 Revenue Budget Analysis
2. 2018/19 Housing Revenue Account
3. Rent Increase Consultation 2017 Leaflet
4. 2018/19 Rent Level Options

List of Background Papers:

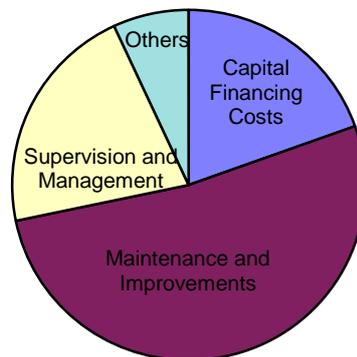
The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

None

WHAT TENANT PAYS FOR
2017/18 REVENUE BUDGET

| | £ per week | % |
|------------------------------|---------------|------------|
| Capital Financing Costs | 13.22 | 20 |
| Maintenance and Improvements | 35.24 | 52 |
| Supervision and Management | 14.43 | 21 |
| Others | 4.68 | 7 |
| Total Expenditure | <u>67.57</u> | <u>100</u> |
| <u>Less :</u> Income | 3.51 | |
| Budgeted Average Weekly Rent | <u>64.06</u> | |

Analysis of Total Expenditure



FALKIRK COUNCIL
2018/19 HOUSING REVENUE ACCOUNT

| | 2017/18 £'000 | 2018/19 £'000 | 2019/20 £'000 | 2020/21 £'000 |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Employee Expenses | 6,781 | 6,975 | 7,056 | 7,200 |
| Property Expenses | 24,381 | 24,991 | 25,615 | 26,257 |
| Transport Expenses | 12 | 13 | 13 | 13 |
| Capital Funded from Current Revenue | 8,055 | 8,288 | 9,309 | 9,659 |
| Supplies & Services | 3,486 | 3,526 | 3,567 | 3,609 |
| Third Party Payments | 1,780 | 1,780 | 1,780 | 1,780 |
| Support Services | 5,020 | 5,020 | 5,020 | 5,020 |
| Capital Charges | 11,239 | 11,825 | 12,825 | 14,569 |
| | 60,754 | 62,418 | 65,185 | 68,107 |
| Financed By: | | | | |
| House Rents | 51,761 | 53,819 | 56,430 | 59,206 |
| Other Income | 7,101 | 6,661 | 6,725 | 6,770 |
| Use of Reserves | - | - | - | - |
| | 58,862 | 60,480 | 63,155 | 65,976 |
| Rent increase | 1,892 | 1,938 | 2,030 | 2,131 |
| Estimated Housing Stock | 16,108 | 16,159 | 16,353 | 16,561 |
| Required Annual Rent Increase | £115.96 | £120.12 | £124.28 | £128.44 |
| Weekly Rent increase (£) | £2.23 | £2.31 | £2.39 | £2.47 |
| Weekly Rent increase (%) | 3.6% | 3.6% | 3.6% | 3.6% |
| Weekly Rent | £64.05 | £66.36 | £68.75 | £71.22 |

Note

Figures for years 2019/20 to 2020/21 are indicative only

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

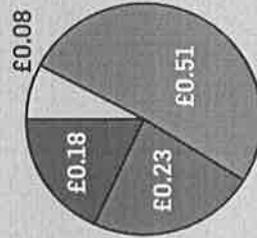
We want you to have your say on the level of Falkirk Council's proposed rent increase for 2018/19. As our tenant, your rent goes towards paying for a whole range of services that directly affect you. That's why your opinion is important to us.

Tell us what you think and your Housing Service will donate £1 to the Trussell Trust Foodbank (Falkirk Council area) for every survey returned. Simply complete the short survey and return it to us in the prepaid envelope provided by Friday 8 December 2017.

What does your rent pay for?

The chart below shows how the money you pay in rent is spent on the services you receive.

How was your rent spent



- Maintenance & Improvement Costs
- Supervision & Management Costs
- Capital Financing Costs
- Other

The rent we receive allows us to maintain and improve the council's housing stock, with approximately 70 pence in every pound collected spent on Repairs; Planned Investment e.g. new kitchens; bathrooms; roofs and heating systems and also to increase the supply of additional affordable homes.

How does Falkirk Council compare?

Did you know, in comparison with the other 25 local authority landlords in Scotland:

- Falkirk Council's rents are amongst the lowest. The average local authority rent in Scotland for 2016/17 was £74.44 per week, compared to £61.87 per week in Falkirk, £12.57 per week lower. We are the 5th lowest amongst all local authority landlords
 - Falkirk had the 3rd highest level of repairs and improvement expenditure per house
 - Falkirk's supervision and management costs were the 8th lowest in Scotland
 - Falkirk plan to spend more than £50m over the next 3 years upgrading the standard of 66,000 homes
 - Falkirk plan to deliver a further 270 new homes over the next 3 years, together with buying back 270 additional homes, increasing the number of additional affordable homes being provided by over 540 in the next 3 years.
 - 8 out of 10 of tenants surveyed (80%) said that their rent represented very or fairly good value for money, compared to 14% who said it was neither good nor poor value. 6% said it was very or fairly poor value for money.
 - 93.1% of Falkirk Council's properties currently meet the Scottish Housing Quality Standard (SHQS).
- If you would like to see how Falkirk Council's performance compares against other landlords, you can visit the Scottish Housing Regulator's website at www.scotlshousingregulator.gov.uk

Why does my rent have to increase each year?

We need to ensure that the rent we collect is enough to pay for the costs of maintaining and managing over 16,000 homes. Rent increases are necessary to meet increased running costs due to factors such as inflation and interest rates.

Additionally, increases in rent help to provide income to continue to invest in improving our homes to meet quality and energy efficiency standards and to build new homes.

Rent Consultation

You have a right to be consulted on any rent increases that Falkirk Council proposes. The results of the consultation will be presented to a future meeting of Falkirk Council, where the final decision on a rent increase for 2018/19 will be made.

Please fill in the short survey and return it to us by Friday 8 December 2017 to make sure your voice is heard and your opinion counts. If you'd prefer, you can complete the survey online at www.falkirk.gov.uk/rentconsultation 2018-19

1. Please select your preferred rent option (Please tick your preferred option)

The following table outlines the number of properties that are anticipated to be improved, based on 4 different rent increase options. Whatever option is chosen includes all the improvements listed below it.

Option 3 (3.6% increase) will ensure that our properties will meet the Scottish Housing Quality Standard and help support the delivery of additional affordable homes to help meet demand.

The current (2017/18) average weekly rental charge for a Falkirk Council property is £64.10.

| Rent Increase | Option 1: 1.9% £1.22 per wk | Option 2: 2.9% £1.86 per wk | Option 3: 3.6% £2.31 per wk | Option 4: 3.9% £2.50 per wk |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Average Rent Level | £65.32 | £65.96 | £66.41 | £66.60 |
| New Roofs & Roughcasting | 123 houses | 457 houses | 690 houses | 791 houses |
| New Kitchens & Bathrooms | 244 houses | 903 houses | 1,364 houses | 1,563 houses |
| Electrical System Upgrades | 599 houses | 2,216 houses | 3,344 houses | 3,831 houses |
| New Heating Systems | 131 houses | 486 houses | 733 houses | 840 houses |
| Please tick your preferred option | | | | |

RENT OPTIONS 2018/19

APPENDIX 4

| | | OPTION 1 | OPTION 2 | OPTION 3 | OPTION 4 |
|--|---------------|--------------------|---------------|------------------|---------------|
| CURRENT AVERAGE RENT | £64.05 | 1.90% | 2.90% | 3.60% | 3.90% |
| AVERAGE WEEKLY INCREASE | | £1.22 | £1.86 | £2.31 | £2.50 |
| MAXIMUM INCREASE | | £2.20 | £3.35 | £4.15 | £4.50 |
| WEEKLY RENT | | | | | |
| 1 BEDROOM | | £53.92 | £54.45 | £54.82 | £54.98 |
| 2 BEDROOMS | | £64.14 | £64.77 | £65.21 | £65.40 |
| 3 BEDROOMS | | £72.39 | £73.10 | £73.60 | £73.81 |
| 4 BEDROOMS + | | £82.89 | £83.70 | £84.27 | £84.51 |
| AVERAGE | | £65.27 | £65.91 | £66.36 | £66.55 |
| NOTE: | | | | | |
| Rent is charged over 24 fortnights and no rent will be payable during the following periods: | | | | | |
| | | FROM | | TO | |
| Rent Weeks 13 and 14 | | 25th June 2018 | | 8th July 2018 | |
| Rent Weeks 39 and 40 | | 24th December 2018 | | 6th January 2018 | |

| | CURRENT | OPTION 1 | OPTION 2 | OPTION 3 | OPTION 4 |
|---------------------------------------|---------|--------------|--------------|--------------|--------------|
| OTHER RENTAL CHARGES | | 1.90% | 2.90% | 3.60% | 3.90% |
| Lock-Up Garages (average, weekly) | £6.36 | £6.48 | £6.54 | £6.59 | £6.61 |
| Garage Sites (fixed, annually) | £80.00 | £81.50 | £82.30 | £82.90 | £83.10 |
| Castings Hostel (fixed, daily) | £23.48 | £23.93 | £24.16 | £24.33 | £24.40 |
| Homeless Properties (average, weekly) | £190.50 | £194.12 | £196.02 | £197.36 | £197.93 |

ADMINISTRATION PROPOSAL

The Administration propose a rent increase for 2018/19 of 3.6%, as outlined in Option 3 above. In proposing this level of increase, the Administration also propose approval of the 2018/19 Housing Revenue Account as set out in Appendix 2.