

The background of the slide features a large, light blue watermark of the Coat of Arms of the City of Edinburgh. The crest includes a crown with four thistles, a shield divided into four quarters (top-left: a castle tower, top-right: a stag's head, bottom-left: a sailing ship, bottom-right: an eagle with wings spread), and a motto scroll at the bottom with the text 'ANE FOR A'.

Agenda Item 5

**Housing Revenue Account & Council
House Rents 2020/21 – 2024/25**

Falkirk Council

Title: Housing Revenue Account & Council House Rents 2020/21 – 2024/25

Meeting: Falkirk Council

Date: 22 January 2020

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 2020/21. The report also sets out the financial implications of different rent options and Members are asked to approve the resultant Housing Revenue Account budget, based on the selected rental charge option.
- 1.2 The report also provides information on indicative rent levels for the years 2021/22 to 2024/25. Information on indicative rent levels over the next 5 years aligns with the Council's Medium Term Financial Plan (MTFP).

2. Recommendations

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

- 2.1 **Agree a level of rent increase for 2020/21 and the resultant rent charges as set out in Appendix 4.**
- 2.2 **Approve the Housing Revenue Account budget for 2020/21 as set out in Appendix 2, subject to any necessary adjustments.**
- 2.3 **Note the indicative budgets and rent levels for 2021/22 to 2024/25 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 8,000 (50%) of council tenants are in receipt of Housing Benefit (HB) or Housing Element of Universal Credit (UC). This means that half of our tenants will be fully protected from any change in their rent.
- 3.3 We have around 3,000 tenants already on UC. 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 UC, but it is planned over the period to 2023. Increases in rent arrears, at least in the short-term, have been experienced in those areas where UC is most prevalent. The impacts on rental income within Falkirk will continue to be monitored and factored into future budgets.

4. Performance

- 4.1 The budgeted current average rent stands at £68.41 per week and Appendix 1 illustrates a breakdown of what tenants are paying for. Members will note that 70% 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 funds the costs of managing tenancies.
- 4.2 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.: 2019/20 budgets, the main points arising are that Falkirk Council had:
- The 6th lowest rent;
 - The 7th highest level of repairs and improvement expenditure per house;
 - The 10th lowest supervision and management costs.
- 4.3 Further detailed information on performance is available from the 2019 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 2020/21, it is estimated that c£79m 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 (+£577,000)
Employee expenses are expected to increase by £0.58m (7%) mainly due to the transfer of functions previously undertaken by other Services on a rechargeable basis, e.g.: Community Safety Team. A corresponding reduction in rechargeable costs has also been made within the HRA budget. Increments, pay inflation and increased employer's pension contributions also contribute to the increase.
- (ii) Property Costs (+£1,296,000)
Property costs are set to increase by £1.3m (5%) due to a combination of inflation and alignment with current year spending, in particular increased voids expenditure. This reflects an increased volume of void properties arising from new builds and buybacks.
- (iii) Capital Charges (+£9,257,000)
Capital charges are anticipated to increase by £9.2m (72%). The significant increase is due to repayment of expensive historic debt. The early repayment of debt will help to reduce loan charges in the future, in order to maintain the affordability of the proposed 5 year Housing Investment Programme. This replaces the Capital Funded from Current Revenue provision of £9.4m in the 2019/20 budget.
- (iv) Council House Stock
The number of houses available for letting is also a significant factor in determining rent levels. Provision for additional houses from new build and buy-backs has been included in the estimated stock figures for 2020/21 and future years.

- 6.2 Responsibility for a number of Adult Health and Social Care functions has been transferred from both the Council and Forth Valley Health Board to the Integration Joint Board (IJB). This involves £1.4m of resources for in scope services, e.g.: housing aids and adaptations and garden aid. These resources are included in the budget at Appendix 2, however will continue to be ring-fenced and can only be used for the benefit of HRA tenants.

7. Financial Years 2021/22 to 2024/25

- 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 four financial years beyond 2020/21. 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> £'000	<u>Indicative Rent Increase</u>
2021/22	69,728	£2.11 p.w. (3.0%)
2022/23	72,733	£2.18 p.w. (3.0%)
2023/24	75,761	£2.24 p.w. (3.0%)
2024/25	78,460	£2.31 p.w. (3.0%)

- 7.2 As outlined in paragraph 4.1 above, c70% of rents is directed at repaying borrowing costs and paying for the cost of day to day maintenance and improvements. The scale and associated financing of the Council's Housing Investment Programme therefore has a major impact on rents levels going forward. A total of £316m, an average of £63m per annum, is proposed in the 5 year Housing Investment Programme. This compares to an average of £19m pa in the budget approved in 2010, a threefold increase. The programme has been increasing year on year since 2010, with nearly a doubling of the budget in the last 3 years.
- 7.3 Given the long-term financing impacts of the Housing Investment Programme, i.e.: up to 60 years for new build, consideration of the long-term affordability of the HRA is critical. As such, modelling of the financial impacts on the HRA over the next 50 years has been undertaken. The modelling indicates that minimum year on year rent increases of 3% are required to finance the Housing Investment Programme and the on-going operation of the Housing service going forward.
- 7.4 It therefore planned that the indicative budget and rent increases will form the basis of tenant consultation to be undertaken later in 2020 and that tenants are consulted on a rent increase covering the 3 year period 2021/22 to 2023/24. This will help provide more stability in terms of the funding and affordability of the Housing Investment Programme. 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. This year's consultation was undertaken during September/October 2019. A copy of the consultation leaflet issued to tenants is included in Appendix 3.
- 8.2 Tenants were specifically consulted on a range of potential rent increase options for 2020/21, with c16,500 consultation questionnaires issued by post and the survey was also available online on the Council's website for

completion. There were 1,463 responses, which represents a 9% response rate and an increase of 431 responses on the previous year level. The consultation feedback showed the following:

	Option 1 2.0%	Option 2 3.0%	Option 3 4.0%
Responses	655 (45%)	421 (29%)	241 (16%)

Note: 146 (10%) of respondents did not answer this question.

8.3 Whilst the majority of responses indicated a preference for a lower rent increase of 2%, an equivalent proportion also indicated a preference for a rent increase between 3% and 4%. There is therefore no conclusive preference to be drawn from the responses received.

8.4 Responses to the recent consultation also indicated that:

- 58% indicated that they think their chosen rent increase represents good value for money;
- 56.5% of respondents pay their rent in full, i.e.: don't receive any housing benefit.

8.5 Consultation feedback also indicated that the main areas of tenant dissatisfaction related to property condition, particularly doors, windows and the internal property condition, e.g.: kitchens. These matters are being addressed as part of the Housing Investment Programme.

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 c10% of annual income.

9.3 Long-term financial modelling has been carried out to consider the financial implications of future housing investment, whilst maintaining a viable HRA, coupled with affordable rent levels. This modelling indicates that a minimum average rent increase of 3% per annum in future years is considered necessary to deliver the levels of housing investment, as set out in the separate Housing Investment Programme report.

9.4 A significant element of capital financing costs is in relation to new build and whilst these costs are in part covered by additional rent, rent levels are not sufficient to cover the financing costs. It is estimated that the provision of 600

new homes will cost the HRA in excess of £1.2m pa going forward, requiring c2% rental increase.

- 9.5 Notwithstanding the additional cost associated with new build in particular and the financing costs of other elements of the Housing Investment Programme, a rent increase is also required to cover the impacts of inflation and other cost pressures such as irrecoverable rent arrears and increasing housing maintenance obligations.
- 9.6 Given that 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 different rent options.

	Option 1 2.0%	Option 2 3.0%	Option 3 4.0%
Average Weekly Rent Increase	£1.37	£2.05	£2.74
Average Weekly Rent	£69.78	£70.46	£71.15
Rental Income Impact, compared to Appendix 2	-£578,000	£0	+£578,000
Capital Investment Impact	-£8m	£0	+£8m

- 9.7 Other relevant factors to note in relation to rent levels include:

- The estimated Scottish average rent increase for 2019/20 was 3.3%;
- Approximately 58% of Local Authority landlords set a rent increase of 3% and above for 2019/20;
- Based on 2019/20 estimates, Falkirk has the 6th lowest rent in Scotland;
- One-off short-term capital programme changes have a limited impact on rent levels, e.g.: £1m of capital expenditure, equates to £69,000 per annum for 25 years (£0.08 per week rent).

- 9.8 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 and Castings Hostel rents.

- 9.9 Members are asked to consider each rent option and determine the rent increase for 2020/21, taking into account the associated implications in terms of housing capital investment and/or reserves.

- 9.10 The Administration propose a rent increase for 2020/21 of 3.0% and the associated rent levels as outlined in Appendix 4. In proposing this level of

increase, the Administration also propose approval of the 2020/21 Housing Revenue Account as set out in Appendix 2.

10. Implications

Financial

- 10.1 Expenditure on the draft Housing Revenue Account for 2020/21 is estimated to be c£67.3m, 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 paragraph 9.6 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 may 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 9.6 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 2021/22 to 2024/25 to assist Members in the strategic planning process.

Director of Corporate & Housing Services

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Date: 7 January 2020

Appendices

- 1. What Tenants Pay For – 2019/20 Revenue Budget Analysis
- 2. 2020/21 Housing Revenue Account
- 3. Rent Increase Consultation 2019 Leaflet
- 4. 2020/21 Rent Level Options

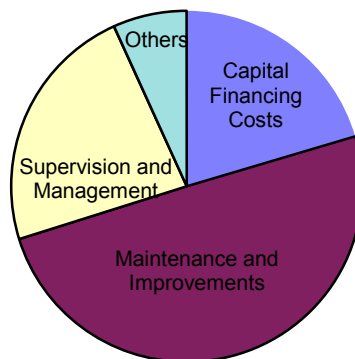
List of Background Papers:

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
2019/20 REVENUE BUDGET

	£ per week	%
Capital Financing Costs	14.90	20
Maintenance and Improvements	36.32	50
Supervision and Management	16.84	23
Others	4.96	7
Total Expenditure	<u>73.02</u>	<u>100</u>
 <u>Less :</u> Income	 4.61	
Average Weekly Rent	<u>68.41</u>	

Analysis of Total Expenditure



Falkirk Council
2020/21 Housing Revenue Account

Appendix 2

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000
Employee Expenses	7,844	8,421	8,610	8,804	9,003	9,174
Property Expenses	24,979	26,275	26,952	27,647	28,362	29,098
Transport Expenses	29	30	31	31	31	32
Supplies & Services	4,006	4,045	4,085	4,127	4,170	4,214
Third Party Payments	1,712	1,797	1,954	2,111	2,268	2,268
Support Services	4,767	4,781	4,791	4,792	4,797	4,797
Capital Funded from Current Revenue	9,421	0	0	0	0	0
Loans Charges	12,696	21,953	23,305	25,221	27,130	28,877
TOTAL EXPENDITURE	65,454	67,302	69,728	72,733	75,761	78,460
Financed By:						
House Rents	56,539	57,883	60,191	62,971	65,974	68,656
Other Income	7,218	7,683	7,731	7,873	7,807	7,744
Use of Reserves *	0	0	0	0	0	0
TOTAL INCOME	63,757	65,566	67,922	70,844	73,781	76,400
Shortfall to be financed by rent increase	1,697	1,736	1,806	1,889	1,980	2,060
Estimated Housing Stock	16,386	16,272	16,428	16,687	16,973	17,149
Required Annual Rent Increase	£103.48	£106.60	£109.72	£113.36	£116.48	£120.12
Weekly Rent Increase (£)	£1.99	£2.05	£2.11	£2.18	£2.24	£2.31
Weekly Rent Increase (%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Weekly Rent	£68.41	£70.46	£72.57	£74.75	£76.99	£79.30

NOTE

Figures for 2021/22 to 2024/25 are indicative only

	£m	£m	£m	£m	£m	£m
HRA Reserves	£5.1	£5.1	£5.1	£5.1	£5.1	£5.1

CUSTOMER
APPROVED

Rent Increase 2020/21 Consultation

Have your say on how your Housing Service is run, or how it could be improved. To find out more, contact Inspector Tenant on 01324 590796, email inspector.tenant@falkirk.gov.uk or visit us at www.falkirk.gov.uk/inspectortenant for more information.

If you would like this information in another language, Braille, large print or audio tape please contact one of our Housing Services contacts.

The Council must comply with Data Protection Legislation as defined by the Data Protection Act 2018. If you supply personal information to us you can find out how we handle personal data at www.falkirk.gov.uk/privacy



Falkirk Council

www.falkirk.gov.uk/housing

Sept 2019



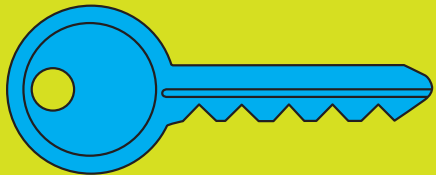
We will donate
£1
to Strathcarron
Hospice for every
survey returned.

We want you to have your say on what you think the level of Falkirk Council's proposed rent increase for 2020/21 should be.

With your rent money, Falkirk Council will:

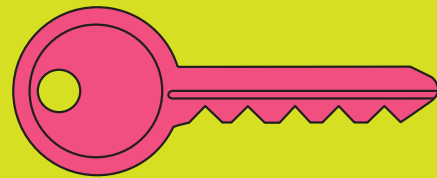
Keep rents low
Over £5 per week lower
than the Scottish local authority landlord average

6th lowest
rent compared to the other 25 Scottish local authority landlords

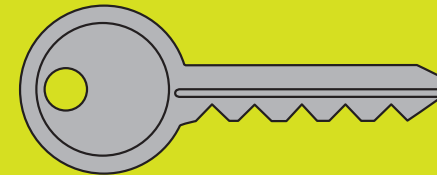


Invest in your home
Spend 70p
in every pound of rent on repairs and improvements- more than most other landlords

Will spend £156m
over next five years upgrading homes



Invest in new homes
Will spend £124m
over the next five years to deliver 1000 additional affordable homes



Keep standards high
97.7%
of our properties meet the Scottish Housing Quality Standard (SHQS)

To find out more, why not visit us at www.falkirk.gov.uk/housingperformance

Rents have to increase each year

- to continue repair and maintenance levels to our 16,000 homes.
- to meet increased running costs due to increases in inflation and borrowing costs.

Rent Consultation

The results of the consultation will be presented to a future meeting of Falkirk Council, where the final decision on a rent increase for 2020/21 will be made.

Please fill in the short survey below and return it to us by **Friday 25 October 2019**. If you'd prefer, you can complete the survey online at <https://say.falkirk.gov.uk>.



Three rent options are outlined below. Simply tick your preferred option.

Option 2 (3.0% increase) will allow us to fund our five year investment plans, i.e. £156m of home improvements and £124m to deliver around 1000 additional homes. Option 1 would mean we would have less to invest in our housing stock, whilst option 3 would mean we could invest more over the next five years.

Rent Increase	Average Rent Level	Average Housing Investment per year	Please tick your preferred option
Option.1: Inflation Only 2.0% £1.37 per week	£69.72	£104 million - improvements to c5,500 homes per year £83 million - c130 additional homes per year	
Option.2: Inflation plus 1.0% 3.0% £2.05 per week	£70.40	£156 million - improvements to c8,000 homes per year £124 million - c200 additional homes per year	
Option.3: Inflation plus 2% 4.0% £2.73 per week	£71.08	£208 million - improvements to c10,500 homes £165 million - c270 additional homes per year	

Do you think your chosen rent increase will represent good value for money?
(Please tick your answer)

☐ **Strongly agree** ☐ **Agree** ☐ **Neither agree** ☐ **Disagree nor disagree** ☐ **Strongly disagree**

Do you receive Housing Benefit to help pay for your rent? (Please tick your answer)

☐ **Yes, no rent to pay** ☐ **Yes, some rent to pay** ☐ **No, full rent to pay**

Use the space below to give us any other comments:

Interested in finding out more about how your rent money is spent? We have a new tenants group who are looking at this. They gave us their details in last year's survey. If you want to be involved, please fill in your contact details and we'll get in touch.

Name:

Address:

Post Code:

Telephone Number:

Email Address:

We will only use your personal details to contact you about this questionnaire and your details will be destroyed after three years. You can withdraw your information at any time by contacting us on 01324 590796, or emailing inspector.tenant@falkirk.gov.uk.

For more information on how we handle personal information visit our privacy pages at www.falkirk.gov.uk/privacy.

Thank you for your feedback. The next edition of the tenants' magazine, 'Tenant Talk', will outline the results of this survey and how much was donated to Strathcarron Hospice.

For further information on this survey, you should contact:
Falkirk Council,
Community Engagement Team
Corporate & Housing Services
The Forum, Callendar Business Park,
Falkirk FK1 1XR
Tel No: 01324 590796 or 01324 590858
Email: inspector.tenant@falkirk.gov.uk
Web: www.falkirk.gov.uk/inspectortenant

RENT OPTIONS 2020/21

Appendix 4

		OPTION 1	OPTION 2	OPTION 3
CURRENT AVERAGE RENT	£68.41	2.00%	3.00%	4.00%
AVERAGE WEEKLY INCREASE		£1.37	£2.05	£2.74
MAXIMUM INCREASE		£2.40	£3.60	£4.80
WEEKLY RENT				
1 BEDROOM		£57.56	£58.13	£58.69
2 BEDROOMS		£68.59	£69.26	£69.93
3 BEDROOMS		£77.47	£78.23	£78.99
4 BEDROOMS +		£88.74	£89.61	£90.48
AVERAGE		£69.78	£70.46	£71.15
NOTE: Rent is charged over 24 fortnights and no rent will be payable during the following periods:				
	FROM	TO		
Rent Weeks 13 and 14	29th June 2020	12th July 2020		
Rent Weeks 39 and 40	28th December 2020	10th January 2021		

OTHER RENTAL CHARGES		OPTION 1	OPTION 2	OPTION 3
	CURRENT	2.00%	3.00%	4.00%
Lock-Up Garages (average, weekly)	£6.78	£6.91	£6.98	£7.05
Garage Sites (fixed, annually)	£85.38	£87.09	£87.94	£88.80
Castings Hostel (fixed, daily)	£25.04	£25.54	£25.79	£26.04

ADMINISTRATION PROPOSAL
The Administration propose a rent increase for 2020/21 of 3.0%, as outlined in Option 2 above. In proposing this level of increase, the Administration also propose approval of the 2020/21 Housing Revenue Account as set out in Appendix 2.