

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 10 FEBRUARY 2015

**2015/16 HOUSING REVENUE ACCOUNT ESTIMATES INCORPORATING RENTS, CHARGES
AND ST CHRISTOPHER'S SITE RENTALS**

**JOINT REPORT BY THE HEAD OF PLANNING AND PLACE AND THE HEAD OF CORPORATE
IMPROVEMENT AND FINANCE**

ABSTRACT

This report presents estimates of income and expenditure on the Housing Revenue Account (HRA) for the financial year 2015/16, and gives background for the review of rents and charges for the year

1. RECOMMENDATIONS

It is recommended that the Committee:

- (i) Reviews and approves the capital estimates as detailed in **Appendix 1**, or as varied by Committee and subject to making proper provision for financing costs in the revenue estimates for 2015/16, as detailed in Section 9 of this report;
- (ii) Notes, as set out in section 4 of this report, the current position in the four year phased rent restructure of all council dwellings (including sheltered and dispersed accommodation) as approved by committee on 6 February 2014;
- (iii) Approves Sheltered and Dispersed Housing Service Charges for 2015/16 as set out in section 5 of this report;
- (iv) Approves a rent increase of 2.2% for garages, garage sites and stores adjacent to garages as set out in Section 5 of this report;
- (v) Approves a rent increase of 2.2% in relation to all pitches at the St Christopher's Travelling People Site at Tayock, Montrose as set out in Section 5 of this report;
- (vi) Reviews and approves the proposed revenue budget for 2015/16 as detailed in **Appendix 2** (Column 3) and Section 9 of this report, or as varied by Committee; and
- (vii) Approves the prudential indicators as shown in **Appendix 3** in compliance with Prudential Code requirements.

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT / COPORATE PLAN

2.1 This report contributes to the following local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016:

- Angus is a good place to live in, work and visit
- Individuals are supported in their own communities with good quality services

3. BACKGROUND

3.1 The HRA meets all expenditure relating to: staffing; office running costs; supplies and services; Council support services; repairs and maintenance; and capital financing charges associated with the housing service. It is a ring-fenced account and is regulated by the Housing (Scotland) Act 1987 (Section 203 - Schedule 15), recording transactions relating to the Council's housing stock of some 7,771 dwellings (as at 31 December 2014).

- 3.2 This report relates to both HRA revenue and capital expenditure and asks Committee to approve: the level of rents and charges applicable for 2015/16; capital funding proposals for the period 2015/16 to 2017/18; and the resulting revenue and capital budgets for 2015/16.
- 3.3 The report also relates to the rental and service charges to be levied at St Christopher's Travelling People Site at Tayock in financial year 2015/16. These are recorded within the Other Housing account which forms part of the overall General Fund revenue budget. This is due to be considered at a special budget setting meeting of Angus Council on 12 February 2015.

4. CURRENT POSITION

- 4.1 **Council House Rents.** Members are asked to note that year 2015/16 will be the second year into the four year phased rent restructure of all council dwellings (including sheltered and dispersed accommodation) as approved by committee on 6 February 2014 (report 76/14 refers). The new structure being implemented is underpinned by simplicity, clarity and affordability, and based on property type (bedsit, flat or house), size (number of bedrooms as defined by the Council) and whether properties are older stock or new supply. It will result in broadly similar annual increases to tenants' rents in each of the four years to 2017/18. Thereafter in financial year 2018/19 it is expected that there will be a return to applying an identical annual inflationary increase across all housing stock.
- 4.2 In the first (current) year of the phased re-structure the average weekly rent rose by £2.27 as shown in Table 1 below. In the forthcoming year 2015/16 (the second year of the rent re-structure) the average rent will rise by £2.06 to £59.53 per week. On this basis it is believed that Angus Council Rents will continue to be amongst the lowest in Scotland. Table 1 below also provides updated information on the resultant average rent rise for each subsequent year of the restructure, although it must be stressed that this is very much an overall average covering the current 7,771 housing stock level and most tenants will continue to experience a rise above or below this level.

Table1 - Average Rents

All Properties	Rent per week £	Average Increase per Week £	Average Increase per Week %
Year 1 - 2014/15	57.47	2.27	4.1
Year 2 - 2015/16	59.53	2.06	3.6
Year 3 - 2016/17	61.55	2.02	3.4
Year 4 - 2017/18	63.45	1.90	3.1
Overall 4 Year Annual Average Rent Increase		2.06	3.6

- 4.3 Table 2 below shows the phased rent changes for typical example property types over the 4 year restructure period to 2017/18. The current year lowest and highest rents are also shown for information and confirmation that some rents will fall as well as rise.

Table 2 – Typical Examples of Rent Harmonisation over the 4 year restructure exercise

Type	Current Year 1 2014/15	Year 2 2015/16	Year 3 2016/17	Year 4 2017/18	Current Year Lowest	Current Year Highest
Bedsit Flat	£40.52	£42.01	£43.51	£45.00	37.16	46.25
1 Bedroom Flat	£44.21	£46.80	£49.40	£52.00	39.38	53.24
2 Bedroom House	£67.35	£69.57	£71.78	£74.00	57.31	76.92
3 Bedroom House (New Supply)	£87.07	£88.97	£90.86	£92.75	79.15	94.54

- 4.4 The rent re-structure approved by members last year therefore established rent levels for tenants so that they know how much their rent will be until 2017/18. They will however continue to receive their statutory 28 day notice annually and members will also continue to be presented with the resultant HRA budget for approval annually.

5 PROPOSALS

Sheltered and Dispersed Housing Service Charges for 2015/16. Members will also recall that service charges are now to be set annually based on actual costs incurred in the previous full financial year. However, members also agreed that there should be a transition to this approach so that any marked increases would be smoothed out over the same four year period as the rent re-structure, moving to a calculation based on the full actual costs by 2017/18.

- 5.1 In year 2 of the four year phasing, charges at sheltered housing will fall within the indicative range shown below in table 3. As with the rent position, the mid-range shown below is very much an overall average and most tenants will experience a reduction in their service charges in 2015/16. This is mainly due to lower utilities costs resulting from a milder winter period during 2013/14, the installation of more energy efficiency measures and efficient heating systems within a number of Sheltered Housing Complexes.

Table 3. Service Charges

Service Charges	2014/15 £ per week	2015/16 £ per week	Increase / (Decrease) £ per week	Increase / Decrease %
Lowest Charge	5.21	5.30	0.09	1.7
Overall Average Charge	14.33	11.00	(3.33)	(23.2)
Highest Charge	28.36	22.61	(5.75)	(20.3)

- 5.2 **Rents for Garages, Garage Sites and Stores.** It is proposed that a rent increase of 2.2% should be applied to garages, garage sites and stores adjacent to garages. This is based on the Consumer Price Index (CPI) figure for September 2014 of 1.2% + 1%. This will help to fund a new programme of investment in garages, which is currently being planned in consultation with tenant representatives. This would see the current garage stock assessed for suitability and renovated / removed as necessary to ensure that all garages are fit for purpose. If approved, this would increase rents to the levels in Table 4 below, which also shows 2014/15 levels for comparison:

Table 4. Garage Rents

Type	2014/15 £ per annum	2015/16 £ per annum	Increase £ per annum
Garage Rents	257.92	263.64	5.72
Garage Site Rentals	84.33	86.19	1.86
Stores adjacent to Garages	227.63	232.64	5.01

- 5.3 **St Christopher's Travelling People Site at Tayock.** There are 18 double pitches available at Tayock. It is recommended that pitch rentals and service charges be increased by the same level as Garages, Garage Sites and Stores rents (2.2 %). This would yield an additional sum of £1,029.60 in the year and will increase pitch rentals (including service charges) to the levels in Table 5 below, which also shows 2014/15 levels for comparison. Some of this additional rental income will help to fund a programme of repairs and improvements which are planned at the site and which will be agreed in consultation with tenants.

Table 5 St. Christopher's site rents

St Christopher's	2014/15 £ per week	2015/16 £ per week	Increase £ per week
Double Pitch Rentals	50.13	51.23	1.10

6 CAPITAL PROGRAMME 2015/16 TO 2017/18

- 6.1 The Housing Capital Programme reflects the costs of upgrading and enhancing the Division's housing stock and other related assets over a period of time. In addition there are also significant revenue costs as a result of borrowing and capital financed from current revenue (C F C R) attached to financing the proposed capital programme.
- 6.2 The latest estimated capital spend for financial year 2014/15 is £11,378,000 and full details in this regard are contained in report 52/15, also on the agenda of this meeting.

The estimated capital spend for years beyond 2014/15 are as outlined in Table 6 below.

Table 6 - Anticipated Capital Spend Profile

2015/16	2016/17	2017/18
£	£	£
7,623,000	13,934,000	13,527,000

- 6.3 Full details of the capital programmes for the above years are contained in **Appendix 1**. Members should note the proposed reduction in the capital programme in 2015/16 is a result of a number of larger projects identified within the future years of the plan which will require significant lead in times during financial year 2015/16. This is to allow for full consultation to take place with all relevant stakeholders and designs adjusted where appropriate. These projects are planned to be on site during financial year 2016/17.
- 6.4 The estimated capital spend (£7,623,000) in 2015/16 is proposed to be funded as set out in Table 7 below. The consequent impact of this funding package on capital financing costs, etc. has been reflected within the proposed 2015/16 H R A revenue budget and is consistent with the assumptions used in the development of the Housing long term business plan.

Table 7 - Anticipated Capital Funding

Anticipated Capital Funding – 2015/16	£,000
Blank Cell	
Prudential Borrowing	0
Prudential Borrowing – Survive and Thrive	206
Capital Receipts	638
Capital Financed from Current Revenue	6,139
Transfers from HRA Earmarked Reserves	640
Blank Cell	
Total Funding Sources	7,623

- 6.5 If the 2015/16 Capital Programme does not achieve a spend of £7,623,000 it is anticipated that the first option would be to defer the application of capital receipts.
- 6.6 The estimated capital receipts position includes sales of council houses and other H R A land and property. However during financial year 2015/16 it is envisaged that there will be no major land sales. Officers whilst mindful of the Right to Buy for Tenants being abolished on 1 August 2016 will continue to adopt a cautious approach when forecasting likely council house sales into the future. To reflect this position the capital receipts estimate has been set at £1,400,000 for the financial years 2015/16 through to 2016/17. In financial year 2017/18 following the abolition of Right to Buy it is anticipated that the core level of overall disposals will reduce to no more than £100,000.
- 6.7 Members will note from the above table that it is only intended to apply £638,000 of capital receipts to fund the capital programme for 2015/16. The utilisation of the remaining £762,000 will be deferred for application in a future year and this will be carried forward in the Unused Capital Receipts Reserve on the Council's balance sheet. Members are asked to note that it is currently envisaged that this balance will be utilised in funding the capital programme for 2017/18 to help offset the initial impact of the reduction in capital receipts following the

abolition of the Right to Buy. This position is reflected on the face of the Financial Plan at **Appendix 1** with the £762,000 having been added to the core estimate of £100,000 noted at paragraph 6.6 above.

- 6.8 Members will also note the intended use of HRA earmarked reserves to finance the capital programmes during the financial years 2014/15 through 2016/17. The use of these earmarked balances reduces levels of borrowing required to finance the capital programme and provides additional flexibility in the affordability of future capital programmes.

7 FINANCIAL PLAN AFFORDABILITY

- 7.1 Members will be aware that the level of borrowing must be prudent, affordable and sustainable. In pursuit of this Prudential Indicators must be set and **Appendices 3 and 4** set out the detail in this regard.

- 7.2 **Appendix 3** reflects the net capital spends from 2014/15 to 2017/18 and assumes for the purposes only of estimating the indicators for the forward years, no inflationary rises in rents over the next four financial years.

- 7.3 **Appendix 4** provides members with monitoring information in relation to the Housing Revenue Account Prudential Indicators set in February 2014.

2014/15 – 2017/18 Capital Budget Affordability

- 7.4 Members should note that the use of an H R A Business Plan is used to inform the Housing Long Term Affordability Model. The results of this have been reflected in the latest capital outturn for financial year 2014/15 and proposed budgets for 2015/16 to 2017/18. This has then informed and updated the 30 year long term affordability exercise and this is the subject of a separate report to this Committee (report 54/15 refers).

- 7.5 Members should also note that the current Financial Plan expenditure reflects the currently projected available and affordable funding. If additional funding becomes available in the future then expenditure plans will be amended accordingly.

Significant Capital Projects to be undertaken during Financial Year 2015/16.

- 7.6 Whilst there is a planned reduction in the anticipated overall capital programme during financial year 2015/16 there continues to be significant additions and improvements to the Housing Stock.

New Build.

Eight new affordable houses are planned at Dubton, Brechin and a further three at Eastgate, Frockheim. It should be noted however that the timescales of these 2 projects are somewhat dependant on progress made by community and developer partners. In addition considerable progress toward the development of new affordable homes at Chapelpark, Forfar is also planned during the financial year.

Energy Saving.

A significant energy savings programme continues with the emphasis on external insulation works to meet statutory requirements and to reduce tenants' energy bills.

- 7.7 Members are asked to note that all new capital projects will continue to be assessed using the long term affordability model to ensure the viability of any proposals.

Long Term Affordability Review - Outcome

- 7.8 Full details of the long term affordability update and the associated results are contained in the Long Term Affordability Report (report 54/15 refers) also being presented to members at this meeting.
- 7.9 The result of the exercise indicates that the Financial Plan (**Appendix 1** of this report) from the period 2014/15 to 2017/18 and its associated revenue costs are both affordable and sustainable over the 30 year life of the Long Term Affordability Model. This is in the context of the assumptions set out in report 54/15 and accounts for potential future levels of capital spend that will be required in order to achieve and thereafter maintain the requirements of the Scottish Housing Quality Standard as a minimum.
- 7.10 Members should also note that the Financial Plan and the associated revenue implications are the primary sources of information for the calculation of the Prudential Indicators contained in **Appendix 3**. This gives additional assurance on the affordability and sustainability of the capital spending proposals for the Housing Revenue Account.
- 7.11 In light of the above, it is the view of the Head of Corporate Improvement and Finance that the suggested Financial Plan for 2014/15 to 2017/18 and associated borrowing is affordable, sustainable and prudent.

8 2014/15 REVENUE BUDGET MONITORING POSITION

- 8.1 Members are asked to note it is currently projected that there will be a surplus of some £572,000 from the Housing Revenue Account in 2014/15.
- 8.2 Further details relating to the current year revenue monitoring position is contained in report 52/15 also on the agenda of this meeting.

9 PROPOSED 2015/16 REVENUE BUDGET FOLLOWING THE IMPLEMENTATION OF YEAR 2 RENT RESTRUCTURE PROPOSALS.

- 9.1 Members may wish to note the following points in relation to the proposed 2015/16 budget.
- Financing charges overall have reduced by £102,000 as a result of:
 - Core principal, interest and debt management costs (including those relating to Survive & Thrive projects) have fallen by £62,000 reflecting:
 - the transfer of a further £7,000 of the Survive & Thrive budget to fund financing costs on completed projects;
 - projected slippage in the 2014/15 capital programme (£471,000).
 - offset by the lower 2015/16 estimated spend (£7,623,000).
 - The contribution to Survive & Thrive has reduced (£7,000) reflecting the transfer to core financing charges noted above, with the balance of £206,000 retained to fund financing costs arising from projects due to complete during 2014/15 to 2016/17.
 - Capital Financed from Current Revenue will be reduced by £33,000 mainly due to a reduction in the Capital Programme in 2015/16.
 - Supervision and management costs have increased by £120,000. This is mainly due to additional support to help ensure neighbourhood safety Scheme (£40,000) and Pay Awards and Incremental Progressions (£78,000).
 - Provision of £108,000 has been made to fund an intended increase in caretaker provision in each of the community housing teams to assist in developing pride in place in our estates and neighbourhoods.
 - The overall cost of the Homelessness Provision has reduced by £106,000 albeit this reduction is offset by a compensating and equal reduction in Homelessness Income.
 - The overall repairs and maintenance budget has been increased by £680,000 including:

- an increase to change of tenancy funding of £250,000 to improve the overall presentation and condition of properties, which will assist in reducing the time properties are unlet;
 - an increase in planned maintenance expenditure (£350,000) to allow statutory electrical testing works to Housing properties during 2015/16;
 - an increase in routine maintenance (£30,000) for potential costs relating to the Shared Apprenticeship Scheme; and
 - an uplift for contractors Inflation has been included totalling £50,000.
- Loss of Rent is to reduce by £100,000 to reflect the additional investment at the Change of Tenancy stage which is hoped will improve the letting potential of stock.

9.2 Rental income from houses (including sheltered accommodation) is based on the results of the rent restructure exercise. This data has then been adjusted for estimated house sales during the remainder of 2014/15, an estimate of the number of likely house sales in 2015/16 and the addition of a number of new build properties being occupied in 2015/16.

Total rental income from houses (after adjusting for the proposed rent restructure and the housing stock profile) would increase by some £663,000 compared to the position budgeted in 2014/15. The average rent will rise by £2.06 to £59.53 per week based on the current year average rent figure of £57.47 on a 52-week basis.

9.3 An assumed rent increase of 2.2% has been applied to garages, garage site rentals and stores adjacent to garages, the results of which are detailed in Section 5 table 4 of this report.

9.4 As a result of revised maintenance and utilities costs sheltered housing service charge income is to reduce by £38,000 in 2015/16.

9.5 The detail of the budget developed on the basis of the above assumptions is shown in **Appendix 2** (Column 3). This highlights that if approved, this budget would result in a breakeven position on the Housing Revenue Account for financial year 2015/16.

9.6 Should the Committee decide to vary the overall budget from that proposed the Heads of Planning and Place and Corporate Improvement and Finance will restate the budget position accordingly, so as to allow for the timeous preparation and issuing of statutory rent increase notices.

10 COMPARISON WITH OTHER LOCAL AUTHORITY RENT LEVELS

10.1 In previous years, Angus Council tenants have enjoyed rents amongst the lowest in Scotland, and the Council currently has the fifth lowest average rent of 26 local authorities on a 52 week basis. Naturally much depends on the final rent increases agreed by all authorities, but even allowing for the phased rent restructure outlined above, it is believed that the Council will continue to have one of the lowest average rents within Scottish Local Authorities.

10.2 For information, 2014/15 average rent levels for selected authorities on a 52 week basis provided by the Convention of Scottish Local Authorities are as follows:

Table 8 - Average Rent Levels.

Local Authority	£ per week
Aberdeenshire Council	62.90
Aberdeen Council	67.76
Angus Council	57.47
Dundee City Council	67.73
East Ayrshire Council	63.56
Fife Council	61.94
Midlothian Council	61.69
Perth & Kinross Council	62.58
Scottish Average	63.91

10.3 Members will also note from Table 8 above that the proposed financial year 2015/16 average rent in Angus of £59.53 still compares favourably with 2014/15 Local Authority rent levels indicated above as well as the Scottish Average for financial year 2014/15.

11 FUTURE RENT RISES

11.1 As indicated in the Rent setting report to members in 2014/15, the rent restructure approved by members establishes rent levels for the next three years after which the phased restructuring exercise will have been completed. Tenants will continue to know how much their rent will be until 2017/18 and will continue to receive their statutory 28 day notice annually. However, tenants have been notified that if there was an abnormally large increase in inflation in this period, there might be a need to re-assess the planned rent charges.

12 GENERAL FUND CONTRIBUTION

12.1 The budget proposals have been prepared on the basis that there will be no contribution from the General Fund.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

- R66/14 2014/15 Housing Revenue Account estimates incorporating rents, charges and St. Christopher's site rentals

**REPORT AUTHORS: Vivien Smith. Head of Planning and Place
Ian Lorimer. Head of Corporate Improvement and Finance**

EMAIL DETAILS: communitiesbusinesssupport@angus.gov.uk

List of Appendices

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