

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 6 FEBRUARY 2018

HOUSING REVENUE ACCOUNT RENT SETTING AND BUDGET STRATEGY 2018-23

**REPORT BY THE HEAD OF HOUSING, PLANNING AND REGULATORY SERVICES AND THE
HEAD OF CORPORATE FINANCE**

ABSTRACT

This report sets out the Housing Revenue Account (HRA) budget strategy for the period 2018-23 and seeks approval of rent levels and other associated charges for 2018/19. It sets out estimated income and expenditure for 2018/19, capital investment proposals, affordability assessment and recommends a £100m investment programme in new and existing stock.

1. RECOMMENDATIONS

It is recommended that the Committee:

- (i) Approves the revenue budget for 2018/19 as detailed in **Appendix 1**.
- (ii) Approves an average rent increase of 4% for Council houses and associated service charges for sheltered, retirement and dispersed accommodation as detailed in **Appendix 2**.
- (iii) Approves a rent increase of 4% for St Christopher's Travelling People Site, garages and garage sites as also set out in **Appendix 2**.
- (iv) Set a HRA Capital Plan for the financial year 2018/19 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2019/20 to 2021/22 as detailed in **Appendix 3**.
- (v) Notes that based on the assumptions made and the affordability assessment undertaken, the 2017/22 Housing Revenue Account Financial Plan is considered to be affordable, prudent and sustainable as required by the Prudential Code and as detailed in Section 8 and **Appendix 4**.
- (vi) Approves the prudential indicators as shown in **Appendix 5** in compliance with Prudential Code requirements.

2. ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN/CORPORATE PLAN

This report contributes to the following local outcomes contained within the Angus Local Outcomes Improvement Plan and Locality Plans:

- Improved physical, mental and emotional health and well-being
- An enhanced, protected and enjoyed natural and built environment
- Safe, secure, vibrant and sustainable communities

3. BACKGROUND

- 3.1 The HRA manages income from tenants' rents to meet all expenditure related to the running of the Housing Service. A core objective is that it remains profitable, paying for staffing and overheads, whilst still having ample funds for repairs and maintenance. In order to build new homes and invest in existing stock the HRA must also support any capital financing charges.

The HRA does receive some Government capital support from specific funding sources, most notably the Affordable Housing Supply Programme.

- 3.2 In February 2017 members approved the HRA 30 year Business Plan (Report 71/17). The Business Plan set out to significantly expand the Council's new build development programme and investment in existing stock by almost doubling the Capital Investment Programme to £90m over five years.
- 3.3 The Council must comply with the self-regulating Prudential Code, which requires the Council to consider the affordability and sustainability of its capital spending plans. This applies equally to the HRA Capital Plan as it does to the General Fund.
- 3.4 The rent and service charges associated with St Christopher's Travelling People Site at Tayock are recorded within the Other Housing account which forms part of the overall General Fund revenue budget, due to be considered at a special budget setting meeting of Angus Council on 15 February 2018.

4. CURRENT POSITION

- 4.1 This year the Council will complete around 40 new social rented homes. The Strategic Housing Investment Plan (SHIP) 2018/19-2022/23 (approved in September 2017, Report 330/17 refers) prioritises investment in a further 300 new Council homes giving the Council its largest new build investment programme for decades.
- 4.2 Programmes are also in place to deliver 7,000 bathroom replacements over the next eight years as well as 2,250 new heating systems and 3,000 energy efficiency measures over the next five years. These works will ensure the Council continues to deliver good quality homes and meets the Energy Efficiency Standard for Social Housing by 2020.
- 4.3 The Council is required to give its tenants 28 days notice of any change in the level of rent. Furthermore, the Housing (Scotland) Act 2001 requires the Council to consult with tenants on any proposed rent increase.

5. COUNCIL HOUSE RENTS AND SERVICE CHARGES

- 5.1 Over the last four years Council house rents have been subject to a four year phased rent restructure. The restructure has aligned rents across the stock ensuring simplicity, clarity and affordability. 2017/18 was the final year of the restructure and following discussion with the Tenants Steering Group tenants were consulted on proposals for rent increases over the summer.
- 5.2 The Tenants Steering Group agreed that rents should be increased in order to ensure the Council can continue to invest in its existing homes as well as build new affordable housing for Angus. Three rent increase options were proposed by the Tenants Steering Group and taken for wider tenant consultation through the tenants' newsletter. A total of 79 tenants responded to the consultation, representing around 1% of all tenants. The majority of respondents (58%) supported an increase of CPI +1% which equates to a 4% increase based on September 2017 CPI of 3%.
- 5.3 The proposed rent increase will have the effect of increasing the average rent to £66 per week. Rent levels in 2017/18 saw Angus Council rents remain in the lowest 25% of all local authorities. The full impact on rents for each property size is detailed in **Appendix 2**.
- 5.4 Service charges for sheltered, retirement and dispersed accommodation are set annually based on the actual costs incurred in the previous full financial year. Details of the proposed charges are provided in **Appendix 2**.
- 5.5 The rent re-structure approved by members in 2014 gave tenants certainty over rent increases to 2017/18. They have continued to receive their statutory 28 day notice annually and members have also been presented with the resultant HRA budget for approval annually. For financial year 2018/19, there has been a return to applying a single rent increase across all housing stock. Discussions have taken place with the Tenant Steering Group on whether the rent increases should continue to be agreed as a package over several years, building on the success of the four year re-structure mechanism. However, Steering Group members

were concerned that economic uncertainties due to Brexit and Welfare Reform, may mean that wages continue to lag behind inflation, which may adversely affect tenants on lower incomes. Because of these affordability concerns, the Tenant Steering Group preferred instead to opt for yearly rent reviews in the shorter term. In future years however the CPI figure from June will be used rather than September. This will ensure more meaningful consultation based on the actual rent increase rather than a notional CPI plus figure.

6. OTHER RENTS

It is proposed that a rent increase of 4% is applied to: St Christophers Travelling People Site; garages; garage sites; and stores adjacent to garages. This is based on the CPI figure (3%) for September 2017 and an uplift of 1%. The full impact on rents is detailed in **Appendix 2**.

7. CAPITAL INVESTMENT PLAN

7.1 The five year HRA Capital Programme (set out in **Appendix 3**) includes an ongoing commitment to significantly increase the Council's investment in building new homes and improving its existing stock. The HRA Capital Programme will enable £100m investment in the homes and communities of Angus.

7.2 Improvement in Existing Stock

7.2.1 The Council is committed to providing good quality, energy efficient homes through the stock improvement programme which will ensure we meet the Energy Efficiency Standard for Social Housing (EESH) by 2020, and the quality of housing meets the expectations of our tenants. The programme includes:

- Upgrading 2,250 heating systems, around 450 per year. This will focus on changing old electric systems to either gas or high performance electric, as well as replacing old boilers with more efficient models.
- Energy efficiency measures in around 3,000 homes including external insulation. This work will improve the visual appearance of properties as well as improving the energy efficiency.
- Acceleration of the bathroom programme to deliver around 7,000 new bathrooms over the next eight years. This will see a new bathroom in every Council home by 2026.
- An ongoing adaptations programme, supported by funding of up to £520,000 per annum. This supports people to live independently in their own homes for longer and ensures that properties can be adapted for those in housing need.

7.3 New Build

7.3.1 The Council is committed to supporting the Scottish Government's target to deliver 50,000 affordable homes across the country by the end of the current Parliamentary term, and providing new affordable homes for the people of Angus. An increase in funding through the Affordable Housing Supply Programme allows the Council to deliver an ambitious programme of new homes with an aim to deliver around 80 units per year over the next four years, including at least 20% for particular needs.

7.3.2 Projects proposed include large scale regeneration at Timmergreens, Arbroath, redevelopment of land at Invertay House, Monifieth and utilising surplus land at Coronation Way, Montrose. The Council will continue to provide sprinkler systems in new build homes.

7.4 Local Economy

7.4.1 Construction activity has a significant impact on the local economy and every £1 spent can generate £2.84 in indirect and direct economic stimulus. It is estimated that the proposed HRA Capital Programme could:

- Generate economic benefit of £284m over the next five years
- Create and sustain around 1800 jobs
- Support at least 12 apprenticeship places

7.5 Environment

- 7.5.1 The vision to 'create places people are proud to call home' drives the HRA investment decisions. Regeneration projects not only improve the quality of homes but also help to improve neighbourhoods and the surrounding environment. The Capital Investment Programme seeks opportunities to improve the quality of amenity space and active travel connectivity, increasing safer routes to school and cycling routes. Delivering energy efficiency improvements to existing stock may also reduce carbon emissions from domestic dwellings while meeting the 'Greener standard' in the new build programme ensures new homes are energy efficient.

8. AFFORDABILITY ANALYSIS

- 8.1 As noted in section 3 above, the Council must comply with the self-regulating Prudential Code, which requires the Council to consider the affordability and sustainability of its capital spending plans. This applies equally to the HRA capital plans as it does to the General Fund.
- 8.2 The Prudential Code only requires that affordability and sustainability of capital plans are considered over a 3 year time period. This is however considered insufficient to robustly assess the longer term impact of capital plans and therefore the HRA business plan looks at a 30 year horizon as a more robust basis for this assessment.
- 8.3 A detailed update of the HRA business plan has been undertaken and thereafter assessed against the affordability and sustainability requirement. Details of this assessment are included at **Appendix 4**.
- 8.4 By necessity the affordability assessment is based on a number of assumptions, particularly with regard to future interest rates, capital expenditure levels, receipts levels and capital projects being delivered in line with expected timescales and costs. The assessment therefore carries some risk that some or all of these assumptions may prove to be inaccurate through time.
- 8.5 Despite this risk, the Head of Corporate Finance believes that the assumptions made are robust and reasonable for the purposes of informing the Council's decisions, and the assessment confirms that the HRA Business Plan can be regarded as affordable, prudent and sustainable.

9. PRUDENTIAL INDICATORS

- 9.1 Under the terms of the Prudential Code, borrowing levels must be prudent, affordable and sustainable and there is therefore a requirement to set certain prudential indicators.
- 9.2 These are shown in **Appendix 5** for members' consideration and approval.
- 9.3 The Prudential Code also requires performance against forward looking indicators to be monitored with any significant deviations from expectations needing to be reported to members. This monitoring happens throughout the year as part of ongoing capital and treasury management monitoring and reporting processes. No significant deviations have required to be reported in the past year.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

OR

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:

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List of Appendices:

- Appendix 1: Proposed 2018/19 Revenue Budget
- Appendix 2: 2018/19 Proposed Rent and Service Charges
- Appendix 3: Financial Plan 2017/18 to 2021/22
- Appendix 4: Capital Affordability Assessment
- Appendix 5: Prudential Indicators