

**ANGUS COUNCIL**

**COMMUNITIES COMMITTEE – 12 FEBRUARY 2019**

**HOUSING REVENUE ACCOUNT RENT SETTING AND BUDGET STRATEGY 2018-23**

**REPORT BY THE HEAD OF COMMUNITIES AND THE HEAD OF FINANCE AND LEGAL**

**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 2019/20. It sets out estimated income and expenditure for 2019/20, capital investment proposals, affordability assessment and recommends a continued programme of investment in new and existing stock.

**1. RECOMMENDATIONS**

It is recommended that the Committee:

- (i) Approves the revenue budget for 2019/20 as detailed in **Appendix 1**.
- (ii) Approves an average rent increase of 3.5% for Council houses and associated service charges for sheltered, retirement and dispersed accommodation as detailed in **Appendix 2**.
- (iii) Approves a rent increase of 3.5% 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 2019/20 based on the rent strategy adopted as well as the indicative level of programme for the financial years 2020/21 to 2022/23 as detailed in **Appendix 3**.
- (v) Notes that based on the assumptions made and the affordability assessment undertaken, the 2018/23 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
- Safe, secure, vibrant and sustainable communities
- An enhanced, protected and enjoyed natural and built environment

### **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 and then £100m (Report 40/18) 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 21 February 2019.

### **4. CURRENT POSITION**

- 4.1 The strength of the Council's HRA financial position allows us to table an investment strategy for continuous improvement that will bring benefits for our current tenants and for future generations. Our vision of 'creating places that people are proud to call home', doesn't just refer to the bricks and mortar. It's about the wider outcomes and better life chances for people that high quality affordable housing can underpin, including;
- Improved health and wellbeing
  - Reductions in child poverty and fuel poverty
  - Greater stability for families
  - Improved educational attainment and employment opportunities, and
  - Increased pride in our neighbourhoods
- 4.2 This year the Council will deliver around 42 social rented homes in addition to the 14 delivered in the 2017/18 (the first year of the current planning period). The Strategic Housing Investment Plan (SHIP) 2019/20-2023/24 was approved in November 2018 (Report 345/18 refers) and prioritises investment in a further 328 Council homes. This continues the Council's largest new build investment programme for decades which will deliver around 400 Council homes within 5 years.
- 4.3 The increased programme is allowing the Council to deliver a number of exciting and ambitious projects across Angus, include the redevelopment of Chapelpark School, Forfar, which recently won a prestigious Scottish Urban Regeneration Award, and the large scale regeneration of Timmergreens, Arbroath which is due to commence onsite in 2019/20.
- 4.4 Following the increase in the new build programme, the priority is to ensure the continued strength of the HRA so that we can continue to deliver a sustainable new build investment programme well beyond 2020/21. This will require priorities to be reviewed on an ongoing basis in line with the SHIP. It is also crucial that we continue to deliver comprehensive improvements to the existing stock to make sure our homes are the best they can be and that we continue to deliver places people are proud to call home'.

### **5. COUNCIL HOUSE RENTS AND SERVICE CHARGES**

- 5.1 The Tenants Steering Group play an important role in scrutinising performance and expenditure decisions, helping to monitor the quality of service and accommodation that they

receive. They 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 proposed by the Tenants Steering Group were taken to a wider tenant consultation through an online survey and views obtained at various tenants meeting across the county. A total of 182 tenants responded to the consultation, representing around 2.5% of all tenants. The majority of respondents (81%) supported an increase of CPI +1% which equates to a 3.5% increase based on July 2018 CPI of 2.5%.

- 5.3 The proposed rent increase will have the effect of increasing the average rent to £68.56 per week. This will mean that our rents will remain as some of the most affordable in the Country. 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 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.

## **6. OTHER RENTS**

It is proposed that a rent increase of 3.5% is applied to: St Christophers Travelling People Site, garages, garage sites and stores adjacent to garages. This is based on the CPI figure (2.5%) for July 2018 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 deliver the Council's largest investment in building new homes and improving its existing stock for decades. The HRA Capital Programme will enable significant investment in the homes and communities of Angus.

### **IMPROVEMENTS IN EXISTING STOCK**

- 7.2. 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 2,000 heating systems, around 500 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 2,500 homes including external insulation. This work will improve the visual appearance of properties as well as improving the energy efficiency.
  - Further acceleration of the bathroom programme to deliver around 7,000 new bathrooms. This will see a new bathroom in every Council home by 2026.
  - An ongoing adaptations programme, supported by funding of up to £400,000 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.

### **NEW BUILD**

- 7.3. 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 Scottish Government funding through the Affordable Housing Supply Programme is allowing the Council to deliver an ambitious programme of new homes. By 2021/22 the aim is to have delivered around 400

homes, including at least 20% for particular needs. Work is also ongoing to develop pipeline projects to ensure a continued future programme.

- 7.4 Projects proposed include large scale regeneration at Timmergreens, Arbroath, redevelopment of land at Invertay House, Monifieth and utilising surplus land at Coronation Avenue, Montrose. The Council will continue to provide sprinkler systems in new build homes.
- 7.5 Opportunities to acquire sites are also being explored to ensure the Council can continue to deliver more affordable homes beyond the current planning period. This will ensure a future programme of new affordable housing delivery.

## **LOCAL ECONOMY**

- 7.6 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

## **ENVIROMENT**

- 7.7 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.

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List of Appendices:

- Appendix 1: Proposed 2019/20 Revenue Budget
- Appendix 2: 2019/20 Proposed Rent and Service Charges
- Appendix 3: Financial Plan 2018-23
- Appendix 4: Capital Affordability Assessment
- Appendix 5: Prudential Indicators