AGENDA ITEM NO 4

REPORT NO 46/16

ANGUS COUNCIL

COMMUNITIES COMMITTEE – 9 FEBRUARY 2016

2016/17 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 2016/17, and gives background for the review of rents and charges for the year

1. RECOMMENDATION(S)

It is recommended that the Committee:

(i) Notes that the HRA is in a sound financial position and can therefore continue to fund a comprehensive programme of improvements to current tenants' homes, and continue to build new homes, whilst maintaining lower than average rents.

(ii) 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 2016/17, as detailed in Section 9 of this report;

(iii) Notes, as set out in section 4 of this report, the current position in the four year phased rent restructure which will result in a 3.4% average rent increase for all council dwellings (including sheltered and dispersed accommodation) as approved by committee on 6th February 2014;

(iv) Approves Sheltered and Dispersed Housing Service Charges for 2016/17 as set out in section 5 of this report;

(v) Approves a rent increase of 0.9% for garages, garage sites and stores adjacent to garages as set out in Section 5 of this report;

(vi) Approves a rent increase of 0.9% 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;

(vii) Reviews and approves the proposed revenue budget for 2016/17 as detailed in Appendix 2 (Column 3) and Section 9 of this report, or as varied by Committee; and

(viii) 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 7,774 dwellings (as at 31 December 2015).

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 2016/17; capital funding proposals for the period 2016/17 to 2018/19; and the resulting revenue and capital budgets for 2016/17.

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 2016/17. 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 18 February 2016.

4. CURRENT POSITION

4.1 **Council House Rents.** Members are asked to note that year 2016/17 will be the third year into the four year phased rent restructure of all council dwellings (including sheltered and dispersed accommodation) as approved by committee on 6th 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 year of the phased re-structure the average weekly rent rose by £2.27 as shown in Table 1 below. In the second (current) year the average rent rose by £2.06 to £59.53 per week. In the forthcoming year 2016/17 (the third year of the rent re-structure) the average rent will rise by £2.02 to £61.55 per week. On this basis it is believed that Angus Council Rents will continue to be amongst the lowest in Scotland. Table 1 below provides updated information on the resultant average rent rise for each year of the restructure, although it must be stressed that this is very much an overall average covering the current 7,774 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 charges 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	Year 1 2014/15	Current 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	39.77	45.83
1 Bedroom Flat	£44.21	£46.80	£49.40	£52.00	43.59	52.83
2 Bedroom House	£67.35	£69.57	£71.78	£74.00	62.87	75.94
3 Bedroom House (New Supply)	£87.07	£88.97	£90.86	£92.75	83.68	93.95

4.4 The rent re-structure approved by members in 2014 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 2016/17. 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 3 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 2016/17. This is mainly due to lower utilities costs resulting from recent milder winters, the installation of more energy efficiency measures and efficient heating systems within a number of Sheltered Housing Complexes.

Table 3. Service Charges

Service Charges	2015/16 £ per week	2016/17 £ per week	Increase / (Decrease) £ per week	Increase / Decrease %
Lowest Charge	5.21	5.35	0.14	2.6
Overall Average Charge	14.33	9,52	(4.81)	(33.6)
Highest Charge	28.36	15.77	(12.59)	(44.4)

5.2 **Rents for Garages, Garage Sites and Stores.** It is proposed that a rent increase of 0.9% should be applied to garages, garage sites and stores adjacent to garages. This is based on the Consumer Price Index (CPI) figure (-0.1%) for September 2015 and an uplift of 1%. This will help to fund a new programme of investment in garages, which is currently being piloted following consultation with tenant representatives. As part of the Asset Management Strategy the current garage stock is being assessed for suitability, and renovated or 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 2015/16 levels for comparison:

Table 4. Garage Rents

Type	2015/16 £ per annum	2016/17 £ per annum	Increase £ per annum
Garage Rents	263.64	266.24	2.60
Garage Site Rentals	84.33	85.09	0.76
Stores adjacent to Garages	227.63	229.68	2.05

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 (0.9%). This would yield an additional sum of £430.56 in the year and will increase pitch rentals (including service charges) to the levels in Table 5 below, which also shows 2015/16 levels for comparison. Some of this additional rental income is helping to shape the delivery of repairs and improvements which are being implemented at the site following consultation with tenants.

Table 5 St. Christopher's site rents

St Christopher's	2015/16 £ per week	2016/17 £ per week	Increase £ per week
Double Pitch Rentals	51.23	51.69	0.46

6 CAPITAL PROGRAMME 2016/17 TO 2018/19

6.1 The Housing Capital Programme reflects the costs of upgrading and enhancing the Service'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 2015/16 is £6,792,000 and full details in this regard are contained in report 45/16, also on the agenda of this meeting.

The estimated capital spend for years beyond 2016/17 are as outlined in Table 6 below.

Table 6 Anticipated Capital Spend Profile

2016/17	**2017/18**	**2018/19**
£	£	£
11,448,000	17,031,000	13,844,000

6.3 Full details of the capital programmes for the above years are contained in Appendix 1. Members should note that the proposed significant increases in the capital programme is a result of a number of larger projects now identified following full consultation with all relevant stakeholders and project designs adjusted where appropriate.

6.4 The estimated capital spend (£***11,448,000***) in 2016/17 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 2016/17 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 – 2016/17	**£,000**
Blank Cell	
Prudential Borrowing	2,828
Prudential Borrowing – Survive and Thrive	0
Capital Receipts	1,205
Capital Financed from Current Revenue	7,135
Transfers from HRA Earmarked Reserves	280
Blank Cell	
Total Funding Sources	11,448

6.5 If the 2016/17 Capital Programme does not achieve a spend of £***11,448,000*** 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 2016/17 it is envisaged that there will be no major land sales. Officers are mindful of the Right to Buy for Tenants being abolished on 1 August 2016. Based on the number of house sale applications at various stages received to date, members will note that capital receipts received during financial year 2015/16 will be carried forward and utilised in financial Year 2017/18, to reduce the need to borrow in the first full year following the abolition. To reflect this position, the capital receipts estimate has been set at £1,205,000 for the financial years 2016/17 and £1,598,000 in 2017/18.

6.7 Members will also note the intended use of HRA earmarked reserves to finance the capital programmes during the financial years 2016/17 through 2018/19. 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. Appendices 3 and 4 set out the detail in this regard.

7.2 Appendix 3 reflects the net capital spends from 2015/16 to 2018/19 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 HRA Prudential Indicators set in February 2015.

2015/16 – 2018/19 Capital Budget Affordability

7.4 Members should note that the use of an HRA 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 2015/16 and proposed budgets for 2016/17 to 2018/19. This has then informed and updated the 30 year long term affordability exercise which is the subject of a separate report to this Committee (report 47/16 refers).

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

Significant Capital Projects to be undertaken during Financial Year 2016/17.

7.6 There is a planned significant increase in the anticipated overall capital programme during financial year 2016/17 to fund major new build projects and improvements to the existing Housing Stock.

New Build.

29 new affordable houses are planned to start at Chapelpark, Forfar; 11 at Viewmount, Forfar; 41 in the Abbey Quarter, Arbroath and a further 3 at Eastgate, Frockheim. It should be noted however that the timescales of the first 3 projects will span a number of financial years.

Energy Saving.

A significant energy saving programme continues with the emphasis on home insulation upgrading works, to meet the Scottish Government's Energy Efficiency Standard for Social Housing (EESSH) targets, and to reduce tenants' energy bills.

Bathroom Replacement Programme

A major programme is proposed, to replace bathrooms in the majority of the housing stock. This is in response to customer consultation exercises in which tenants told us that having a modern bathroom was one of their highest priority aspirations after having a good kitchen. Some 10% of the existing stock has already had bathrooms improved as part of modernisations or adaptations. This leaves some 7000 homes needing improvement. It is proposed that the programme starts in 2016/17 and is delivered over some 9 years to 2025. The programme is a considerable financial and logistical undertaking so is being planned in close consultation with tenant representatives on the Tenants' Steering Group.

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 47/16 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 2015/16 to 2018/19 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 47/16 and accounts for potential future levels of capital spend that will be required in order to maintain the requirements of the Scottish Housing Quality Standard which was achieved during 2014/15.

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 HRA.

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 2015/16 to 2018/19 and associated borrowing is affordable, sustainable and prudent.

8 2015/16 REVENUE BUDGET MONITORING POSITION

8.1 Members are asked to note it is currently projected that there will be a surplus of some £797,000 from the Housing Revenue Account in 2015/16.

8.2 Further details relating to the current year revenue monitoring position is contained in report 45/16 also on the agenda of this meeting.

9 PROPOSED 2016/17 REVENUE BUDGET FOLLOWING THE IMPLEMENTATION OF YEAR 3 RENT RESTRUCTURE PROPOSALS.

9.1 Members way wish to note the following points in relation to the proposed 2016/17 budget.

- Financing charges including Capital Financed From Current Revenue (CFCR) have increased by £462,000 as a result of:

  An increased CFCR contribution (£996,000) resulting from a significantly increased capital programme in 2016/17. This then reduces borrowing as far as possible to give increased funding flexibility to support suitable future year capital programmes.

  Core principal, interest and debt management costs have fallen (£141,000) as a result of slippage in the previous years' capital programme, and the use of previous year-end surplus to finance the programme, reducing the need for planned borrowing.

  Whilst there is further capacity to undertake special repayments this year, it is anticipated that the payment will reduce by £393,000.

- Supervision and management costs have increased by £302,000. This is mainly due to;
  - Increased property recharge resulting from the addition of an Occupational Therapist post £50,000.
  - Pay Awards and Incremental Progressions (£91,000).
  - Provision of £211,000 has been made to fund additional resources as a result of Service Re-design to take account of Health and Social Care Integration and developing pride in place in our estates and neighbourhoods.

- The overall repairs and maintenance budget has been increased by £111,000 mainly due to;

- Increased number of Gas Maintenance service / repairs to be undertaken in 2016/17 £190,000.

- Increased Environmental improvements budget £90,000 to continue the improvement in the overall presentation of our Housing estate.

- Uplift for contractors' Inflation and Grounds Maintenance Works has been included at £22,000 and £4,000 respectively.

  The above position has been offset somewhat by

- The inclusion of a £120,000 budget for the recharging of repairs where our properties have been damaged by tenants.

- a reduction of £75,000 in the Electrical testing budget within planned maintenance to reflect the programme of works as indicated in report 299/15 to this Committee in August 2015.

• Loss of Rent is to reduce by £280,000 reflecting the continued additional investment at the Change of Tenancy stage which is hoped will improve the letting potential of stock through time by £80,000. In addition the Bad debt provision has been reduced by £200,000 as it is likely that fewer of our Tenants than originally anticipated will be affected by the introduction of Universal Credit.

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 2015/16, an estimate of the number of likely house sales in 2016/17, and the addition of a number of new build properties being occupied in 2016/17. Total rental income from houses (after adjusting for the proposed rent restructure and the housing stock profile) would increase by some £710,000 compared to the position budgeted in 2015/16. The average rent will rise by £2.02 to £61.55 per week based on the current year average rent figure of £59.53 on a 52-week basis.

9.3 An assumed rent increase of 0.9% 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 £62,000 in 2016/17.

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 2016/17.

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 fourth 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, 2015/16 average rent levels for selected authorities on a 52 week basis provided by the Scottish Government are as follows:

Table 8 - Average Rent Levels

Local Authority	£ per week
Aberdeenshire Council	66.50
Aberdeen Council	70.11
Angus Council	**59.53**
Dundee City Council	69.42
East Ayrshire Council	63.48
Fife Council	63.98
Midlothian Council	65.35
Perth & Kinross Council	64.07
Scottish Average	65.95

10.3 Members will also note from Table 8 above that the proposed financial year 2016/17 average rent in Angus of £61.55 still compares favourably with 2015/16 Local Authority rent levels, as well as the Scottish Average for financial year 2015/16.

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 two 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 in the unlikely event that 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:

- R76/14 2014/15 Housing Revenue Account estimates incorporating rents, charges and St. Christopher's site rentals

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