
NORTH AYRSHIRE COUNCIL

Agenda Item 9

20 December 2017

North Ayrshire Council

Title: **Housing Revenue Account (HRA) Capital Investment Programme, Revenue Budget and Rent Levels for 2018/19**

Purpose: To advise Council of the HRA capital investment programme and revenue budget for 2018/19 and the consequential rent levels.

Recommendation: That Council:

- (a) approves the HRA capital investment programme for 2018/19, as detailed in the attached Appendix 1;
 - (b) approves the HRA revenue budget for 2018/19, as detailed in the attached Appendix 2;
 - (c) approves a rent increase of 2.79% in 2018/19 for council houses (including sheltered housing);
 - (d) approves an increase of 2.79% for garage sites and lock-ups;
 - (e) approve an increase of 7% in sheltered housing service charges, as part of equalisation of the cost of service charges, for existing tenants; and
 - (f) notes the indicative rent increases of 2.93% for 2019/20 and 3.65% for 2020/21.
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1. Executive Summary

- 1.1 The Housing (Scotland) Act 1987 requires local authorities to maintain a Housing Revenue Account to record all income and expenditure related to the provision of Council houses.

- 1.2 The annual review of the HRA Business Plan was carried out during 2017 to assess the factors expected to impact on the HRA budget. Tenants have also been consulted on the budget proposals included within this report. This has resulted in capital and revenue budgets which deliver: -
- a capital investment programme which maintains the Scottish Housing Quality Standard and works towards achieving the Energy Efficiency Standard for Social Housing (EESH) by 2020;
 - a further 36 new build houses by 31 March 2019 taking the total new builds to 296 units, supporting the target of 1,000 units of new build housing over the 10 year period to 31 March 2022;
 - £17.167m of property related expenditure within the revenue account.
- 1.3 In order to meet these commitments the proposed increase to housing rents is 2.79% for 2018/19.
- 1.4 A summary of the anticipated level of earmarked and unearmarked reserves is provided. Based on the probable outturn as at the end of September 2017 it is anticipated that the HRA will have reserves of £14.468m at the end of the financial year, of which £1.000m (2.1% of revenue budget) is unearmarked. This is at the lower end of CIPFA's recommended level of reserves of between 2% and 4%.
- 1.5 Full details of the capital and revenue budgets are contained in Appendix 1 and Appendix 2.

2. Background

- 2.1 A Special Meeting of the Council on 1 March 2017 gave consideration to rent levels for the three years to 2019/20. Members approved an increase of 2.79% for 2017/18 and noted the indicative rent increases of 2.79% for 2018/19 and 2.93% for 2019/20.
- 2.2 The HRA Business Plan financial model was updated during 2017 to reflect the significantly improved stock condition together with the potential impacts of Welfare Reform. In addition, the updated plan now provides for the commitment to build an additional 250 units over and above the previous target of 750 new build housing units by 31 March 2022. The Business Plan provides assurance of the financial sustainability of the Council's housing stock over the 30 year period it covers.

2.3 As part of the annual review of the Business Plan consideration was also given to the following factors:

- Capital and revenue expenditure requirements
- Council house building targets
- Inflation
- Outcome of tenants' consultation
- Value for Money
- Future challenges
- Revenue and Capital balances

Capital and Revenue Expenditure Requirements

Capital

2.4 The proposed 2018/19 HRA capital programme of £29.427m is detailed in Appendix 1. As outlined in the appendix, the programme will be funded by a combination of capital funded from current revenue (CFCR), government grants, prudential borrowing, reserves and the affordable housing contribution.

2.5 The capital programme will result in the housing stock receiving major repair or improvement works in 2018/19, including the following:

Programme	No. of properties	
	2018/19	2017/18 projected
Installation of new double-glazed windows	86	100
Roofing and rendering	739	816
Insulated rendering	51	101
Electrical rewiring	78	200
Installation of new kitchens	230	270
New central heating	424	350
Installation of new bathrooms	220	1,200

Council House Building

- 2.6 The revised Business Plan includes the recently approved addition of 250 new build houses, taking the total number of units to be delivered by 31 March 2022 to 1,000. Details of developments on site during 2018/19 are shown below:

Project Location	No. of properties
Dickson Drive, Irvine (phase 2)	24
Watt Court, Dalry	33
Canal Court, Saltcoats	36
Flatt Road, Largs	122
Brathwic Terrace, Brodick	26
Harbourside, Irvine	80
Ardrossan Road, Seamill	31
Totals	352

Details of the full Council house build programme, including the additional 250 units can be found in the Strategic Housing Investment Plan which was reported to Cabinet on 26 September 2017.

- 2.7 A sheltered housing refurbishment programme is also underway, with work on site at Dickson Court, Beith (22 units) due for completion October 2018 and Connell Court, Kilbirnie (17 units), due to complete March 2019. Refurbishment work is due to start at the former Redcross House site in Irvine which will deliver 20 units of supported accommodation.
- 2.8 The Prudential Code for Capital Finance in Local Authorities requires Councils to demonstrate that capital investment programmes and the level required to be funded by borrowing are affordable, prudent and sustainable. The key Performance Indicators which demonstrate this is noted below;

Treasury Management Performance Indicators

Ratio of financing costs to net revenue stream	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA	16.6%	18.0%	19.2%

Revenue

- 2.9 The proposed 2018/19 HRA revenue budget is outlined in Appendix 2. Planned expenditure of £48.598m will mainly be funded by rental income and charges for services.

- 2.10 The revenue budget includes funding of £17.167m for property related expenditure in the year. This expenditure will assist the Council in maintaining its efficient and sector-leading performance in respect of management of void properties and planned and responsive maintenance.

Outcome of Tenants' Consultation

- 2.11 The Housing (Scotland) Act 2001 requires councils to consult with tenants and have regard to the views expressed prior to setting the rents.
- 2.12 In preparing the budget for 2018/19, two options for rent increases were identified by officers and these were considered by the Business Plan Implementation Group in September 2017. The options were subsequently included in the tenants' consultation exercise that took place in October and November 2017, namely to increase rents by either 2.79% or 3%. The difference of 0.21% reflected the option to increase the Estates Based Projects budget from £0.204m to £0.300m. Further information on the options considered is included within the Rent Matters Newsletter as attached at Appendix 3.
- 2.13 Responses received from the tenants' consultation indicated a 63% preference for option 1, a rent increase of 2.79% for 2018/19.

Rent Increase

- 2.14 In order to meet the investment requirements of the 30 year Business Plan, including the Council house building programme; maintaining the SHQS; and working towards achieving the Energy Efficiency Standard for Social Housing by 2020, it is proposed to increase housing rents by 2.79% for 2018/19. The Business Plan indicates anticipated rent increases of 2.93% for 2019/20 and 3.65% for 2020/21.

Sheltered Housing Utility Charges

- 2.15 During the initial preparation of the Housing Revenue Account (HRA) 30 year business plan in 2010, an issue with the service charge income from sheltered housing units was highlighted. At that time there was a considerable gap between the income received from service charges and the actual cost of the energy supplied. Additionally, new HRA Guidance was issued by the Scottish Government in February 2014 which states that tenants must only pay for services which are used by them and expenditure must be fair and transparent. To address this historical shortfall, approval was given by Cabinet in February 2016 to increase service charges over a three year period, with a review being undertaken at the end of the period to ensure all relevant charges are sufficiently covered. 2018/19 is the final year of this approved implementation period and includes an increase in charge of 7%.

Value for Money

- 2.16 The Council's average weekly rent is below the Scottish average Local Authority rent for 2017/18 (Council average is £68.38 compared to Scottish average of £70.55). The proposed rent increase for 2018/19 is expected to maintain the Council's position compared with the Scottish average. The Council's average rent is also significantly lower than the average for Registered Social Landlords within North Ayrshire. Details of the weekly rent charges are shown in the table below.

	Average Rent 2017/18
Scottish Local Authority Average	£70.55
North Ayrshire Council	£68.38
East Ayrshire Council	£70.73
South Ayrshire Council	£72.52
ANCHO	£78.77
Irvine Housing Association	£81.04
Cunninghame Housing Association	£82.61

- 2.17 Following a tenant consultation exercise, Cabinet on 14 November 2017 approved the implementation of a new rent structure from April 2018. The new rent structure will be implemented over a two year period and will result in a decrease in rent charges for 60% of tenants (circa 7,800 households). Of the 40% of tenants who will experience an increase in rent charges, 78% will see a maximum increase of £1.00 per week. These movements are before the application of the proposed 2018/19 rent increase.

Future Challenges

Welfare Reform

- 2.18 The changes introduced by the Welfare Reform Act 2012 have placed pressure on the management of rent collection. Like most local authorities, an increase in rent arrears has been experienced during this period. This has partly stabilised, due to the mitigation of the under occupation charge through Discretionary Housing Payments (DHP), and the close management of Universal Credit Live Service claimants. The end of year position for 2016/17 was £0.912m, an increase of approximately £0.025m on the previous year.
- 2.19 £0.140m of these arrears are attributed to tenants claiming Universal Credit, an increase of approximately £0.028m from 2016/17 with an additional 141 tenants claiming Universal Credit from the previous year. 299 of the 382 tenants claiming Universal Credit at 2016/17 year end were in arrears, with an average debt of £468. This is a reduction in the average debt per Universal Credit claimant of £83 from 2016/17, however is still significantly higher than the £237 average overall debt per tenant.
- 2.20 Nonetheless, the Council performance in rent arrears management is very good. In 2016/17, gross rent arrears as a percentage of rent due was 3.39% (Scottish average was 5.3%). The estimated arrears within the 2018/19 budget assumes full DHP continuing to be available for under occupation.
- 2.21 The Welfare Reform Act 2012 poses significant risks to HRA income streams and therefore the HRA Business Plan. Universal Credit Full Service has been implemented in all three job centres in North Ayrshire from 22 November 2017. Welfare Reforms place a number of pressures on tenants - a high proportion of council tenants are on low income, and approximately 58% are in receipt of Housing Benefit. The overall impact is expected to be significant upon tenants, the local economy and the Housing Revenue Account.
- 2.22 The Scottish flexibilities to vary the frequency of Universal Credit payments and to make payment of rent direct to landlords was implemented on 4 October 2017. North Ayrshire Council has been given 'trusted partner' status by the DWP and has access to their landlord portal. This allows the Council to request direct payments for tenants, who are considered vulnerable according to DWP criteria, when they initially claim Universal Credit.
- 2.23 In order to continue to meet the priorities within the HRA Business Plan it is essential that the risks presented by Welfare Reform and uncertainties around future rental income are addressed. Therefore, £3m continues to be earmarked within the HRA as a contingency to manage the impact of Welfare Reform.

Climate Change and Fuel Poverty

- 2.24 Around 25% of greenhouse gas emissions derive from housing. Measures to improve domestic energy efficiency in both new and existing housing stock are crucial in meeting Scottish Government targets to reduce energy consumption. Through the North Ayrshire Environmental Sustainability & Climate Change Strategy 2017-2020, the Council continues to develop and implement a number of actions. These include building new homes which incorporate sustainable technologies and are well insulated and inexpensive to heat and light, undertaking improvement works to our existing stock to increase energy efficiency, providing tenants with access to energy advice and switching services, and delivery of new capital projects generating renewable and/or low carbon energy for the benefit of tenants.
- 2.25 A range of initiatives are currently underway. These include a pilot programme involving retrofit of solar panel systems on up to 500 Council homes to reduce electricity bills for tenants and provide other benefits including carbon reduction. Officers are currently undertaking a procurement exercise for the project with anticipated roll out during 2017-18. A further project involves two new district heating schemes comprising shared heating from renewable biomass between primary schools and Council housing. One scheme is currently at construction stage, with another at detailed technical design stage. Officers are also well advanced with proposals for procurement of a white label energy supply partner, with an intent to go to market prior to the end of financial year 2017/18. This initiative will provide lower fuel bills for tenants, helping to alleviate fuel poverty and boost the local economy.
- 2.26 The Scottish Government published the Energy Efficiency Standard for Social Housing (EESH) in March 2014. The publication provides clear guidance in relation to the level of energy efficiency each Council owned house requires to achieve by 31 December 2020. A full analysis of the cost associated with achieving the EESH has been carried out. The Council will be able to deliver the requirements of the standard through the allocation of specific funding, to implement new improvement projects and initiatives and the continuation of current initiatives such as the Council's replacement central heating and external wall insulation programmes and identification of further external funding sources, including Energy Company Obligation (ECO) and Home Energy Efficiency Programme for Scotland (HEEPS) funding.
- 2.27 Approximately 95% of the Council's housing stock already complies with EESH and energy improvement works such as cavity, wall or replacement central heating are planned for those properties which are not compliant.

Revenue and Capital Balances

2.28 The HRA revenue budgetary control report to 30 September 2017, submitted to the Cabinet meeting of 14 November 2017, advised Members of a projected HRA balance of £14.704m at 31 March 2018. Since the report was produced further expenditure on infrastructure improvements has been planned which will reduce the projected HRA balance to £14.468m at 31 March 2018. This includes an uncommitted balance of £1.000m which equates to around 2.1% of revenue expenditure. An analysis of the HRA balances is shown in the following table:

	Balance at 31 March 2017	Use of Earmarked Funds	Transfers and Adjustments	Projected Balance at 31 March 2018
	£m	£m	£m	£m
Council House Building Fund	8.082	-	0.156	8.238
Welfare Reform	3.000	-	-	3.000
Contingency Balance	1.000	-	-	1.000
Sheltered Housing Unit Works	0.156	-	(0.156)	-
Major Refurbishment Works	0.762	-	-	0.762
Infrastructure Improvements	0.613	(0.236)	-	0.377
Tarryholme	1.091	-	-	1.091
	14.704	(0.236)	-	14.468

3. Proposals

3.1 Council is invited to:

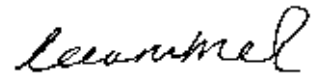
- a. approve the HRA capital investment programme for 2018/19, as detailed in the attached Appendix 1;
- b. approve the HRA revenue budget for 2018/19, as detailed in the attached Appendix 2;
- c. approve a rent increase of 2.79% in 2018/19 for council houses (including sheltered housing);
- d. approves an increase of 2.79% for garage sites and lock-ups;
- e. approve an increase of 7% in sheltered housing utility charges, as part of equalisation of the cost of service charges, for existing tenants; and
- f. notes the indicative rent increases of 2.93% for 2019/20 and 3.65% for 2020/21

4. Implications

Financial:	The proposed rent increase of 2.79% in 2018/19 will result in significant resources to invest in the Council's housing stock, with total planned revenue expenditure of £48.598m and a capital programme totalling £29.427m in 2018/19.
Human Resources:	None
Legal:	The Council has consulted with tenants on the proposed rent increases in line with the legal requirement to do so.
Equality:	The investment proposals outlined in the report will ensure the housing stock continues to support the needs of our tenants including those with accessibility issues due to age or disability.
Environmental & Sustainability:	These proposals support the Council's Environmental Sustainability and Climate Change strategy.
Key Priorities:	<p>Investment through the HRA capital programme and revenue budget supports and links to the following Council Plan 2015-2020 strategic priorities:</p> <ul style="list-style-type: none">● Supporting all of our people to stay safe, healthy and active; and● Protecting and enhancing the environment for future generations
Community Benefits:	None.

5. Consultation

- 5.1 Housing Services engaged in a programme of consultation with key stakeholders in order to gather their views of the current service provision and priorities for future service delivery. This engagement and consultation was facilitated in the main, through the Business Plan Implementation Group and the Tenants and Residents Network.
- 5.2 In addition a Consultation on the proposed rent increases (Appendix 3) was issued to 12,985 Council tenants via the Tenants Newsletter in October 2017. The consultation period ran between October and November and tenants were asked to provide their views on two options for rent increases.



LAURA FRIEL
Executive Director (Finance and Corporate Support)

Reference :

For further information please contact Laura Friel, Executive Director (Finance and Corporate Support) on 01294 324512.

Background Papers

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Appendix 1

North Ayrshire Council Draft HRA Capital Plan 2018/19			
Programme Description	2018/19 New programme for Approval	2018/19 Previously Approved	Total 18/19 Programme
	£000	£000	£000
Council House Building			
Dickson Drive - Phase 2		2,690	2,690
Tarryholme		1,531	1,531
Brathwic Terrace, Brodick	600		600
Flatt Road, Largs - Phase 1	1,800		1,800
Watt Court SHU		4,772	4,772
Canal Court SHU		2,152	2,152
Garrier Court SHU		1,613	1,613
Acquisition of Houses - Open Market	480		480
Improvements to Existing Stock			
Window Replacement	669		669
Bathroom Programme	627		627
Kitchen Programme	705		705
Other Capital Works	518		518
Central Heating	1,321		1,321
Insulated Re-rendering	528		528
Electrical re-wiring	186		186
Refurbishment - Dickson Court		995	995
Refurbishment - Connell Court		1,314	1,314
Roofing and Rendering	3,167		3,167
Regeneration - Garrier Court	1,613		1,613
Energy Efficient Standard	1,035		1,035
Professional Management Charges	1,111		1,111
TOTAL EXPENDITURE	14,360	15,067	29,427
Funded By:-			
CFCR	(12,767)		(12,767)
Use of Reserves		(1,091)	(1,091)
Government Grants - House Building	(1,475)	(6,880)	(8,355)
Affordable Housing Contribution	(118)	(240)	(358)
Prudential Borrowing		(6,856)	(6,856)
TOTAL INCOME	(14,360)	(15,067)	(29,427)

Appendix 2

Draft HRA Revenue Budget 2018/19		
	Cost Type	2018/19 (£'000s)
<u>Income</u>	Rents: Council houses Other rents Other Income: External recharges Internal recharges	 (47,395) (311) (767) (125)
Gross Income		(48,598)
<u>Expenditure</u>	Employee Costs Property Costs: Responsive repairs Void expenditure Planned & Cyclical maintenance Estate Based Projects Infrastructure Improvements Roads & Lighting Maintenance Aids & adaptations Other property costs Supplies and Services Transport Costs Administration Costs Central Support Costs Payments to Other Agencies, Bodies and Persons Internal Services Capital Financing: CFCR Contribution to New House Build Fund Principal repayments Loans Fund interest Loans Fund expenses Revenue interest	4,748 1,753 2,559 7,050 204 306 196 1,792 3,307 286 42 376 1,705 271 1,586 12,767 1,709 2,490 5,394 115 (58)
Gross Expenditure		48,598

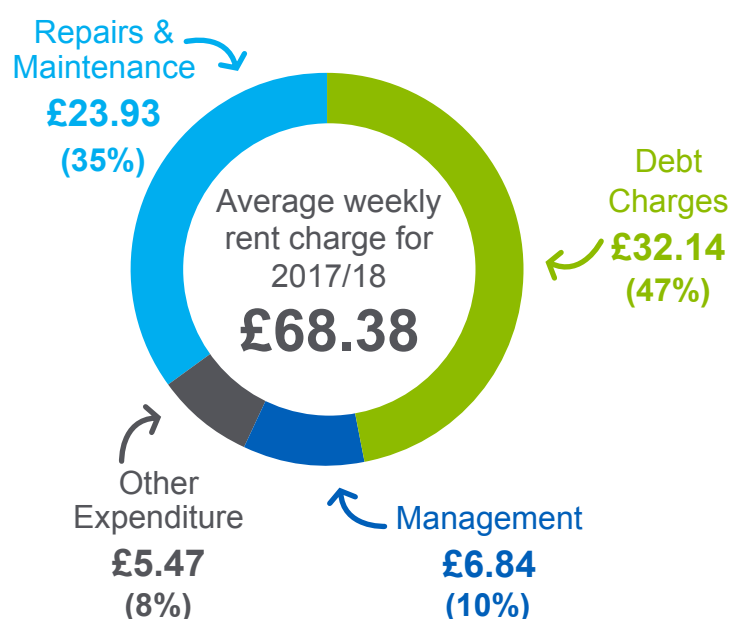
INFORMATION FOR NORTH AYRSHIRE COUNCIL TENANTS

October 2017

RENT MATTERS

Thank you to everyone who responded to our recent rent restructure consultation. We are currently collating the responses and we will update you with results in the near future.

How your rent is being spent in 2017/18:



Between April 2017 and March 2018 we plan to have completed:



1400
new bathroom
installations



270
new kitchen
installations



816
roof/render
replacements



200
properties
rewired



350
central heating
system upgrades



101
external
wall installations



46
properties with
new window
installations



£1m
of energy efficiency
improvements



North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

How do our rents compare for 2017/18?

North Ayrshire Council	£68.38
Scottish local authority average	£70.55
East Ayrshire Council	£70.73
South Ayrshire Council	£72.52
ANCHO	£78.77
Irvine Housing Association	£81.04
Cunninghame Housing Association	£82.61

We want to consult with you on the proposed annual rent increase for North Ayrshire Council's houses in 2018/19.

Your Views Matter

We have outlined two options for rent charges for 2018/19 below:

Option One

Increase rents by **2.79%**
average increase of **£1.91**

The planned improvements for 2018/19 would include:

- Install 220 bathrooms
- Install 230 kitchens
- Complete 93 new build council houses
- Invest £0.300 improving parking, pavements, roads & lighting
- Refurbish two sheltered housing complexes
- Refurbish 20 units for supported accommodation

Option Two

Increase rents by **3.00%**
average increase of **£2.05**

The planned improvements for 2018/19 would include:

- Install 220 bathrooms
- Install 230 kitchens
- Complete 93 new build council houses
- Invest £0.300 improving parking, pavements, roads & lighting
- Refurbish two sheltered housing complexes
- Refurbish 20 units for supported accommodation
- Increase the Estates Based Projects budget by circa £100,000

Everyone pays rent, even if you receive housing benefit, so it is important that we receive feedback from as many tenants as possible.

Struggling to pay your rent?

It is important that you pay your rent on time and in full. You should contact your Housing Officer immediately if you are in arrears and have not made an arrangement to clear them.

The Welfare Reform Team can help if you are experiencing financial difficulties, but you must get in touch quickly. Call them on **0300 999 4606**.



Pay your
rent **first**

Don't risk losing your home

Do your bit to improve our services

Would you like to get more involved with the Council's Housing Service?

Housing Services is looking for new members to join our existing Inspection Panel, Service Improvement Groups and take part in Mystery Shopping. Training will be provided and expenses will be reimbursed.

For more information, contact the Tenant Participation Team on **01294 324878**, or email tenantparticipation@north-ayrshire.gov.uk



Did you know?

You can view your rent account 24 hours a day, 7 days a week online at the HUB.



Register at www.north-ayrshire.gov.uk

The easiest way to pay your rent is by direct debit

Call today on
01294 324603



Have your say

Our plans and how we spend our budget will have an impact on your home and your community. We want to hear what you think.

Please let us know your views by completing and returning this feedback form to us.

A pre-paid envelope is enclosed and one lucky respondent will win £50 of shopping vouchers.

Your rent options for 2018/19

☐

Option One: Increase rents by 2.79%

Average weekly increase of £1.91*

☐

Option Two: Increase rents by 3.00%

Average weekly increase of £2.05*

*Based on the average weekly rent in 2017/18

Do you have any comments on the options?

Contact Details

Name

Address

Town

Postcode

Telephone

Email

Complete this form and put it into the pre-paid envelope provided. Return your completed questionnaire by **12th November** to make sure your views are counted and to be entered into our prize draw. Thank you and good luck!

Alternatively you can hand the form into your local housing office or complete the on-line survey at **www.surveymonkey.co.uk/r/87FQM5J**

WIN!
£50 Shopping
Vouchers

