DATA LABEL: PUBLIC

WEST LOTHIAN COUNCIL

HOUSING REVENUE ACCOUNT BUDGET AND RENT LEVEL 2018/19 to 2022/23

REPORT BY DEPUTE CHIEF EXECUTIVE

A. PURPOSE OF REPORT

The purpose of the report is to seek approval for the proposed Housing Revenue Account (HRA) rent strategy for the period 2018/19 to 2022/23, as well as the HRA Budget, rent and service charges for 2018/19.

B. RECOMMENDATION

It is recommended that Council:

1. Approves the 2018/19 to 2022/23 3% per annum rent strategy, encompassing HRA properties and garages, which will fund service needs and a five year Housing Capital investment programme;

2. Approves the 3% rent strategy for Sheltered Housing and Homelessness properties, as well as related service and support charges, for the period 2018/19 to 2022/23; and

3. Approves a rent increase of 3% in 2018/19 and associated HRA Revenue Budget as set out in the report.

C. SUMMARY OF IMPLICATIONS

I	**Council Values**	• Focusing on our customers' needs • Being honest, open and accountable • Making best use of our resources • Working in Partnership
II	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	This report complies with legal requirements under the Housing Act 1987. The HRA budget and associated rent increase is reported to the Council annually for approval. An Equality Relevance Assessment has been undertaken in compliance with the Equality Act 2010.
III	**Implications for Scheme of Delegations to Officers**	None
IV	**Impact on performance and performance Indicators**	None
V	**Relevance to New Single Outcome Agreement**	Outcome 10 – We live in well designed, sustainable places where we are able to access the services we

need.

VI	**Resources - (Financial, Staffing and Property)**	The 3% per annum rent strategy will deliver a balanced HRA Budget and a capital investment programme over the five year period 2018/19 to 2022/23.
VII	**Consideration at PDSP**	Services for the Community Policy Development and Scrutiny Panel on 6 February 2018.
VIII	**Other consultations**	A formal rent consultation has taken place with all tenants. Discussion with the Head of Finance and Property Services.

D. TERMS OF REPORT

D.1 GOVERNANCE

The Housing Revenue Account (HRA) budget setting process is subject to statutory, regulatory and governance requirements. Section 25 of the Housing (Scotland) Act 2001 requires landlords to give tenants at least four weeks' notice of any increased rent due to be paid, while section 53 of the Act requires a tenant participation strategy to be in place. The council's financial regulations state that the Depute Chief Executive – Corporate, Operational and Housing Services is responsible for presenting an HRA Revenue Budget to a meeting of the full council.

The HRA Revenue Budget, alongside the Housing Capital budget, both form part of the council's integrated approach to financial strategy, corporate planning, delivery of outcomes and performance monitoring. The activity budget, along with service management plans, links activities, resources and outputs / outcomes which enables the council to demonstrate Best Value in the use of resources. The activity budget is published on the council's intranet.

The council has continued to build a resilient culture of effective planning and governance, with strong evidence to demonstrate how the council meets the defined best value characteristics. The council's Best Value Framework, which was approved on 10 June 2014, ensures that the council complies with the provisions contained within the Local Government in Scotland Act 2003. The 2003 Act requires the council to:

- Secure best value in the performance of its functions;
- Balance the quality and cost of the performance of its functions and the cost of council services to service users;
- Have regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements in maintaining that balance;
- Fully discharge its duty to secure best value in a way which contributes to the achievements of sustainable development.

In line with statutory and regulatory requirements, this report seeks formal council approval for a five year rent strategy, encompassing a 3% rent increase each year, covering the period 2018/19 to 2022/23.

D.2 FIVE YEAR RENT STRATEGY

The council previously approved both a five year rent and capital investment strategy in January 2013, and as such 2017/18 is the final year of the approved programme. In developing financial plans, and in line with the Housing (Scotland) Act 2001, a formal tenant consultation was undertaken on future housing rent and capital investment strategy. The outcome was reported to the Services for the Community Policy Development and Scrutiny Panel on 12 December 2017 and indicated that tenants favoured a 3% rent increase per annum over the five year period to 2022/23. Tenants also indicated they would be willing to fund future council housing investment and supply.

In line with statutory and regulatory requirements, Council approval is sought for a rent rise of 3% per annum over the five year period 2018/19 to 2022/23. The 3% increase will apply to: all HRA properties, garage and garage site rents, as well as for Sheltered Housing and Homeless properties and associated service and support charges over the same period.

An Equality Relevance Assessment has been undertaken on the proposed five year rent strategy and related budget for 2018/19. The assessment gave consideration to the three key general duties and it is deemed unnecessary that a full Equality Impact Assessment (EQIA) be carried out. Any further budgetary proposals or amendments to the rent strategy or rent levels will be screened for EQIA relevance where required.

D.3 HRA PROPERTIES AND GARAGE AVERAGE RENT

A 3% per annum rent increase will enable delivery of a balanced HRA revenue budget over the period 2018/19 to 2022/23 and ensure continued investment in our housing infrastructure, improving existing homes and creating new affordable homes over the five year timeframe.

If the rent increase is approved, and based on the latest stock report as at 31 December 2017, the average weekly rental for homes will be £70.49 in 2018/19, increasing from £68.44 in 2017/18. The equivalent weekly figure for garages is £5.93 in 2018/19, increasing from £5.76 in 2017/18. The indicative rent level for HRA properties and garages across the five year period is detailed in the table below.

Table 1: Average Weekly Rent

Average Weekly Rent	2018/19 (£)	2019/20 (£)	2020/21 (£)	2021/22 (£)	2022/23 (£)
HRA Properties	70.49	72.60	74.78	77.02	79.33
Garages	5.93	6.11	6.29	6.48	6.67

An exercise has been undertaken using the Scottish Federation of Housing Associations (SFHA) rent affordability tool to assess the impact of the proposed rent strategy. The affordability tool presumes that landlords are not able to set affordable rents for every single tenant, but examines the impact of rent on moderate incomes. A low affordability ratio, represented by 25% of net income, being the measure for affordability of social rents. Based on the highest council rent, for one, two or three bedroom properties, all current rents are viewed as being affordable for all household types. Using this ratio, and assuming a rental increase of 3% per annum over five years, and a modest income increase of 1% per annum, all average rents are judged to fall within the affordable range over the period of the rent strategy.

D.4 HOUSING REVENUE ACCOUNT – FIVE YEAR STRATEGY

In formulating the five year strategy, it is assumed that there will be a 3% rent increase each year from 2018/19 through to 2022/23, in line with the outcome of the tenant consultation. This rental increase, along with an increase in housing stock numbers, rising from 13,169 at April 2017 to around 14,270 in 2022/23, will generate additional income to the Housing Revenue Account and enable a balanced budget to be delivered. It will also support capital investment over the medium term. Income assumptions also take into account estimates of mortgage to rent and open market acquisitions, demolitions, and final right to buy sales in 2017/18, as well as increases to the new housing supply. It is assumed that there will be no overall change in the number of void properties and temporary tenancies, with numbers being maintained at 2017/18 levels.

Table 2 below shows the estimated allocation of revenue resources, and the associated funding generated through a 3% rent increase, throughout the five year period covered by the HRA budget strategy.

Table 2: Summary Five Year HRA Budget

Expenditure	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Employee Costs	4,660	4,792	4,888	4,985	5,085
Premises Costs	15,646	16,294	16,966	17,671	18,411
Transport Costs	154	155	155	156	157
Supplies & Services	3,409	3,413	3,428	3,423	3,428
3rd Party Payments	62	67	72	77	83
Transfer Payments	978	986	995	1,004	1,013
Central Support	2,552	2,552	2,552	2,552	2,552
Capital Financing	14,845	16,573	18,171	19,571	20,517
CFCR	6,817	7,343	6,796	6,276	7,407
Total Expenditure	**49,123**	**52,175**	**54,023**	**55,715**	**58,653**
Funding					
Housing Rents	(48,196)	(51,220)	(53,038)	(54,699)	(57,606)
Garage Rents	(571)	(584)	(597)	(611)	(624)
Miscellaneous	(356)	(371)	(388)	(405)	(423)
Total Income	**(49,123)**	**(52,175)**	**(54,023)**	**(55,715)**	**(58,653)**
Gross Rent: CFC Ratio	**30.4%**	**32.0%**	**33.9%**	**35.4%**	**35.2%**

The key expenditure assumptions are as follows:

- A pay increase of up to 3% for employees in 2018/19; followed by a 2% pay award in 2019/20 and 1.5% for 2020/21 to 2022/23;
- An increase to employers' pension contributions of 2.4% per annum;
- Inflation of 5% per annum for Repairs, Gas Servicing, Utilities and Transport costs;
- A range of inflationary pressures of 2% to 3% per annum for insurance costs, council tax, bad debts, void property costs and other third party costs;
- Increase in bad debt provision of £200,000 per annum, to take account of the potential impact of Universal Credit;
- Capital financing charges will increase by £5.7 million from 2018/19 to 2022/23 due to additional prudential borrowing to support a core housing maintenance and refurbishment programme for existing stock, averaging £15 million per annum, and to support an increase in the housing supply.

It is noted that under the 3% rent strategy, the ratio of capital financing costs to housing rental income will increase from 30.4% in 2018/19 to 35.2% in 2022/23.

D.5 HRA REVENUE BUDGET 2018/19

The proposed HRA Revenue budget for 2018/19 is based on a 3% per annum rent strategy which will enable high quality and responsive housing services to be maintained for tenants and allow key priorities to be delivered. The 2018/19 budget will enable financial resources to be directed towards the efficient management of the council's housing stock and tenancies, with customer focused services delivered by local housing teams. Targeted resources will support tenant participation, including tenants' panels, networks and other groups, as well as tenant led inspections. The service will continue to maximise rental income through effective management of council houses, work to mitigate the impact of welfare reform, and in particular Universal Credit which is scheduled for West Lothian implementation during 2018. The service will be responsive to social housing regulation and inspection. West Lothian Council will continue to work to improve the quality of life for tenants; assisting individual households as well as playing an important role in promoting strong and sustainable communities.

West Lothian Council remains committed to providing high quality, value for money housing services. The council's Housing Service was a finalist at the UK Housing Awards 2017, under the Outstanding Strategic Local Authority category, and were also highly commended at the national Premier Guarantee Excellence Awards. Building Services continue to seek to modernise and deliver a more cost efficient service, while delivering well over 40,000 repairs per annum for our customers. The service continues to work towards meeting the 2020 standard for home energy efficiency in Scotland.

Planned service developments and improvements continue for Housing and Building Services. In 2017/18 there has been successful implementation of the new Tenant Participation Strategy and the approval and implementation of a new Local Housing Strategy. Successful development work for tenant participation was recognised at the Tenants Information Service (TIS) National Excellence Awards in June 2017. The innovative Homelessness and Housing Network Group were also runners-up at the TPAS Awards 2017. Where possible, further efficiencies and improvements will continue to be sought, enabling customer focused services to be maintained across a wider tenant base. It should also allow continuing support to be provided to tenants affected by changes brought about by Welfare Reform and Universal Credit.

The summary HRA Budget for 2018/19 of £49.1 million is shown in Table 3 below.

Table 3: 2018/19 HRA Budget

	2017/18 £'000	**2018/19 £'000**
Rents	45,873	48,767
Other Income	356	356
Total Funding	**46,229**	**49,123**
Employee Costs	4,531	4,660
Premises Costs	15,063	15,646
Transport Costs	153	154
Supplies & Services Costs	3,407	3,409
Third Party Payments	58	62
Transfer Payments	908	978
Support Services	2,552	2,552
Capital Financing Costs	19,557	21,662
Total Expenditure	**46,229**	**49,123**

As detailed in Section D.4, the proposed budget takes account of a number of cost pressures and assumptions including:

- 3% rental increase per annum for council houses and garages.
- A minimum pay increase of 3% for employees earning up to £36,500 in 2018/19, and inflationary increase for other employees.
- Indexation pressures, such as energy costs.
- Updated capital financing charges relating to the Housing Capital Programme.
- Ongoing impact of Welfare Reform and introduction of Universal Credit in May 2018.

While the Housing Scotland Act 1987 requires local authorities to maintain a ring fenced HRA, the HRA revenue budget also forms part of the council's integrated approach to corporate planning and performance management. In setting a balanced budget, the council is committed to delivering a well maintained housing stock and efficient management services to support tenants and their communities.

D.6 RISKS AND UNCERTAINTIES

In developing the 2018/19 HRA Budget, it is recognised that there are a number of risks and uncertainties that could impact on the level of financial resource required. This would include potential variances to pay and price indexation as well as capital borrowing requirements and associated interest rates. Resources for reactive repairs remain subject to demand for services and potential impact of winter weather.

The ongoing effect of Welfare Reform changes continue to present risk and uncertainty to all social landlords. While the council continues to actively pursue housing arrears, the balance of housing arrears as at 8 January 2018 was £1.654 million. It has been confirmed that the wider roll out of Universal Credit will commence in West Lothian in May 2018.

The Scottish Government have stated that they would wish to take advantage of provisions within the Scotland Act 2016 in relation to Welfare Benefits, making these changes can take time to come into regulatory effect. As of 4 October 2017, Universal Credit claimants in Scotland can now have payments made every two weeks, instead of once a month, with the housing part of their payment sent directly to their landlord. The Scottish Government could also utilise its new welfare flexibilities, to effect change which could positively impact on plans to withdraw housing support to single people aged 18-21.

Appropriate steps will be taken to mitigate against risks and contain expenditure within available resources during the financial year. Quarterly monitoring reports will be reported to Council Executive during 2018/19 to provide updates on the financial position and actions to ensure risks are appropriately managed.

D.7 HOUSING RESERVES

Local authority accounting standards require that, in setting budgets, the Council receives details of reserves, their proposed use and an opinion as to the adequacy of the reserves for the forthcoming year.

As reported to Council Executive on 14 November 2017, within the period 6 monitoring report, a breakeven position is forecast for the HRA revenue budget. It is therefore projected that the HRA reserve at 31 March 2018 will remain at £926,000 and there is no provision to augment this during 2018/19.

Given the inherent risk associated with the impact of Universal Credit, extreme weather conditions and other risks and uncertainties, it is recommended that this balance be maintained and the level is considered adequate to meet with unforeseen demands on resources. The proposed budget for 2018/19 does not assume any use of this reserve.

D.8 PRUDENTIAL CODE IMPLICATIONS

The Prudential Code provides the council with local discretion in investment levels for Housing, provided it ensures that capital spending and associated borrowing are at levels that are affordable, prudent and sustainable.

To demonstrate this, the Code sets prudential indicators that are designed to support and record local decision making. The Head of Finance and Property Services is responsible for reporting these indicators for both the General Fund and the HRA. For this reason, the

Prudential Indicators will be reported in detail by the Head of Finance and Property Services in the 2018/19 General Fund Revenue Budget, presented to the Council budget setting meeting.

A key Prudential Indicator is affordability, which assesses the incremental impact of capital spending on rent levels. Under the proposed budget, increases to loans charges arising from borrowing are fully funded within the HRA. This area will continue to be closely monitored; particularly in relation to affordability with housing arrears, remaining procurement costs for both the 1,000 Houses and any future new build project.

D.9 CONSULTATION

Under Section 25 of the Housing (Scotland) Act 2001, the council has a statutory duty to inform and consult tenants on its rent policy. Formal consultation took place from 9 October - 8 December 2017. During the consultation period, meetings were held with Tenants Panels and Tenant networks, as well as specifically arranged drop in sessions and through a special edition of Tenant News.

The Scottish Social Housing Charter sets the standards and outcomes that all social landlords should aim to achieve when performing their core housing activities. Indicator 29 requires all landlords to establish what percentage of tenants feel that the rent for their property represents good value for money. In a two yearly survey, last completed in autumn 2017, 78.5% of tenant responses indicated that rent levels represented good value for money. Just under 1,800 tenants completed the survey, the highest response level to the tenant satisfaction survey to date.

COSLA rent statistics indicate that West Lothian's average rent of £68.44 for 2017/18 was below the national average of £70.55.

E. CONCLUSION

The five year HRA Revenue budget strategy provides a balanced financial plan, incorporating a 3% per annum rent increase, which will allow the council to continue to provide value for money services to our tenants and to be responsive to customers' needs. It also enables continued investment in our existing housing stock and infrastructure, as well as to expand the supply of new housing.

The balanced budget for 2018/19 includes moving towards completion of the 1,000 houses new build programme to improve the amenity of communities to meet the needs of existing and future tenants, as well as enabling the delivery of key priorities and allow the people of West Lothian to continue to be supported to find a suitable place to live and have quality housing options available to them.

F. BACKGROUND REFERENCES

- 2017/18 Housing Revenue Account – Month 6 Monitoring, Report to Council Executive 14 November 2017.

- Rent Consultation – Report to Services for the Community PDSP, 12 December 2017.

- 2018/19-2022/23 Housing Revenue Account Budget and Rent Level – Report to Services for the Community PDSP, 6 February 2018.

- Housing Capital Investment Programme 2018/19 – Report to Services for the Community PDSP, 6 February 2018.

- Housing Capital Investment Programme 2018/19 – Report to West Lothian Council, 13

February 2018.

Appendices/Attachments: None

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