Health, Wellbeing and Housing Committee

10.00am, Tuesday, 10 September 2013

Investing in Edinburgh's Council Homes 2015-2020

Housing Revenue Account Business Plan

Item number	7.2
Report number	
Wards	All

Links

Coalition pledges	P8, P9, P10, P11, P13, P17, P33 and P50
Council outcomes	CO7, C13, C16 and C26
Single Outcome Agreement	SO4

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Executive summary

Investing in Edinburgh's Council Homes 2015-2020

Housing Revenue Account Business Plan

Summary

This report seeks approval to consult with Council tenants on investment priorities and rent options for the housing service from 2015/16 onwards.

In 2007 consultation with tenants informed the Council's decision to set rents at annual inflation plus 2.7% until 2015. This strategy has been successful in delivering high levels of tenant satisfaction, the modernisation of existing homes, including compliance with the Scottish Housing Quality Standard (SHQS), and building the first new Council homes in 20 years.

New risks and challenges to the housing service are emerging. Changes to housing benefit are likely to have an adverse impact on future rental income and the services ability to fund investment in tenants' homes. The increasing cost of domestic energy to tenants will mean that improvements to energy efficiency and new heating systems will continue to be required. The demand for affordable homes remains high with average private rents being between two and three times the average rent of a Council home.

The report assesses the impact of the current strategy, reviews the medium to long term risks and challenges facing the housing service and sets out the plan for consulting tenants on investment priorities and rent options.

The consultation will also inform an assessment of the impact of rent levels on tenants' household income. The consultation will take place between October 2013 and March 2014 and the results of that consultation will be reported back to Committee in June 2014 to inform the future strategy for the housing service.

Recommendations

It is recommended that Health, Wellbeing and Housing Committee:

1. Notes the success of the current Housing Revenue Account (HRA) Business Plan in delivering high quality services and investment.
2. Notes that where income exceeds revenue expenditure these funds are used for future capital investment.
3. Notes the risks and challenges facing the housing services in the medium to long term including the anticipated worsening financial position of £52 million over the next five years.

4. Agrees to consult with tenants on the future investment priorities and rent options between October 2013 and March 2014.
5. Agrees that a report on the consultation with tenants is considered by Committee in June 2014.
6. Notes that an assessment of the impact of rent levels on tenants' household income will be included in the consultation with tenants.

Measures of success

A robust HRA Business Plan that ensures that the Council provides high quality services to tenants and other customers, maintains high levels of tenant satisfaction, improves the quality of existing homes and builds new affordable homes to meet housing needs and demands. Effective management of the HRA contributes to the delivery of Pledge 8 to make sure the city's people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites.

Financial impact

The HRA had a revenue budget of £97 million and delivered capital investment of £50 million in 2013/14. This is a significant investment in the local economy, improving the quality of homes and delivering new affordable homes.

Over the next five years capital investment is projected to deliver £222 million of which £80 million is set to make existing homes more energy efficient and £50 million to build more new affordable homes.

However significant risks to income are emerging and the HRA Business Plan predicts the reduction of £52 million of income over 5 years creating subsequent pressures on capital investment.

Equalities impact

Investment through the HRA has a positive impact on equalities as it delivers improvements to existing Council homes including measures to make them more adaptable, cheaper to heat and builds more new affordable homes to meet a range of housing needs and demands.

Sustainability impact

Investment in existing homes will ensure that they meet new energy efficiency standards, reduce carbon emissions and help to address fuel poverty.

Building new affordable homes reduces heating costs for owners and tenants.

Consultation and engagement

The HRA Business Plan supports the objectives of the City Housing Strategy which was developed following extensive consultation during summer 2011/12. The City Housing Strategy Review in 2013 was informed by the work of a range of working groups, including the Edinburgh Affordable homes Partnership, the Edinburgh

Homelessness Forum, the Homelessness Planning Group, the Empty Homes Task Force and Edinburgh Tenants Federation (ETF) liaison meetings.

Each year tenants are consulted on the review of the HRA Business Plan and the development of the HRA budget. The risks outlined in this report have been discussed with ETF in advance of wider consultation with tenants.

This report is the starting point of extensive consultation with tenants in relation to housing investment priorities and future rent strategy.

Background reading / external references

Housing Revenue Account Budget 2013/14 – Finance and Budget Committee, 7 February 2013

City Housing Strategy 2012-17 Annual Review – Health, Wellbeing and Housing Committee, 18 June 2013

Investing in Edinburgh's Council Housing – Housing Revenue Account Capital Programme 2013/14 - Health, Wellbeing and Housing Committee, 18 June 2013

Report

Investing in Edinburgh's Council Homes 2015-2020

Housing Revenue Account Business Plan

1. Background

1.1 The Housing Revenue Account (HRA) sets out the income and expenditure for approximately 20,000 Council homes. It is a ring fenced revenue and capital account and is treated separately from the Council's General Fund accounts. All income to the HRA account is derived from rent and service charges paid by Council tenants or by the sale or lease of HRA land. Where income exceeds revenue expenditure these funds are used for future capital investment. This includes funding commitments to build new homes under the 21st Century Homes Programme.

1.2 The HRA Budget is set annually by Council and the budget report is informed by the annual review of the HRA Business Plan. In 2013 the budget report identified the loss of income arising from welfare reform and other changes to subsidy arrangements as a major risk to future rental income.

1.3 The HRA Business Plan is a 30 year financial plan which sets out to deliver the priorities of the housing service. These priorities are to:

a) Maintain high standards and tenant satisfaction with housing services.

b) Ensure all homes meet the Scottish Housing Quality Standard (SHQS) by 2015

c) Invest in new affordable homes to meet housing need.

1.5 In 2007 consultation with tenants informed the Council's decision to set rents annually at inflation plus 2.7% until 2015.

2. Main report

Impact of the current strategy

2.1 Since 2007 the strategy of annual inflation plus 2.7% rent increases has been successful in delivering tenants priorities including £220 million directly invested in improving homes and building new affordable homes.

2.2 There is widespread recognition of the high standard of housing service delivery. Following an inspection in 2010, the Scottish Housing Regulator awarded Edinburgh's housing service the highest grades of any local authority landlord in Scotland. Tenant satisfaction with housing services is 90% and compares well with other landlords the service is benchmarked against. Repair standards are high with the time taken to respond to a repair request better than that of most other landlords.

2.3 By 2012/13 the strategy had successfully delivered investment in 8,000 new kitchens and bathrooms, 13,000 new doors and 2,000 new windows. As of March 2013 compliance with SHQS stands at 82.5%. The percentage of Council homes deemed to be energy efficient has risen from 50% in 2007 to 93.7% at March 2013.

2.4 Capital investment has also delivered the first new Council homes for 20 years with over 1,000 homes either completed or under development in Gracemount, Craigmillar, West Pilton and Pennywell. Another 400 homes are planned at Fort House and North Sighthill.

Risks and challenges

2.5 The current rent strategy assumes that from 2015/16 onwards rents will rise by inflation each year. Prior to welfare reform this meant that the HRA Business Plan presented a sustainable financial strategy for continuing to invest in services, modernise homes and build new affordable homes to meet housing needs. This is no longer the case.

2.6 Changes to subsidy arrangements for temporary accommodation and the introduction of under occupation and direct payments of housing benefit have an adverse impact on planned income. Over the next five years this will mean £52 million less income for tenants' priorities and that the risk of the HRA moving into deficit is significantly greater. Table 1 summarises these financial risks.

Table 1 – Impact of subsidy changes and welfare reform

Impact of subsidy changes and welfare reform	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total**
Temporary accommodation subsidy change	£3.5m	£6.7m	£6.7m	£6.7m	£6.7m	**£30.5m**
Temporary accommodation rent arrears	£1.6m	£1.6m	£1.7m	£1.7m	£1.7m	**£8.3m**
Mainstream rent arrears	£1.4m	£1.5m	£2.0m	£2.6m	£3.1m	**£10.6m**
Projected former tenant arrears (write off & provision)	£0.1m	£0.3m	£0.5m	£0.7m	£0.9m	**£2.5m**
Total	**£6.6m**	**£10.1m**	**£10.9m**	**£11.7m**	**£12.5m**	**£51.8m**

2.7 Domestic energy costs have risen by 30% in real terms over the last five years and are set to continue to increase at this rate. These increases are a significant pressure for tenants already on low incomes. Unlike housing costs, where rent increases are generally covered by increases to housing benefit, the increasing cost of energy is not matched by increases in other benefits or wages.

2.8 The Tenant Survey found that 37% of tenants had experienced difficulty affording to heat their homes and 67% of those felt that it had become more difficult in the last year. Investment has already led to significant improvements to the energy efficiency of Council homes. However to mitigate the impact of increasing energy costs investment in this area is likely to continue to be prioritised.

2.9 Average private sector rents are around two to three times the average of Council house rents. Housing costs in the private housing market continue to place many homes out of the reach of households on low incomes. The Strategic Business Case for Housing Supply, agreed by Committee for consultation earlier this year, sets out the need to examine new ways of providing homes that people can afford. New homes also have much lower energy costs. The pressure for investment in more affordable homes is likely to continue in the medium to long term. Table 2 sets out a comparison of council and private rents.

Table 2 – Council and Private Rents Comparison

	Council 13/14	PRS Q2 2013 (indicative of rates for 2013/14)
	Per week (52)	Per Week (52)
1 Bed	£75.70	£130.62
2 Bed	£87.72	£171.23
3 Bed	£99.70	£245.08
4 Bed	£106.01	£345.46

Investment options and priorities

2.10 The current investment assumptions in the HRA Business Plan reflect the risks and challenges set out above. Over the next five years over £130 million is planned for energy efficiency improvements and new homes. Another £91 million is projected to be spent on modernising existing homes (e.g. new kitchens and bathrooms) and on environmental improvements.

2.11 In addition the HRA Business plan projects revenue expenditure over the next five years of around £140 million on housing repairs, concierge and estate services and rent collection.

2.12 However if rental and service charge income to the HRA reduces then planned investment in these priorities, in services and in homes will need to be cut back in future years. This would mean either cutting back expenditure on housing and estate management services, reducing repair standards, reducing investment in improving existing homes or building fewer new homes.

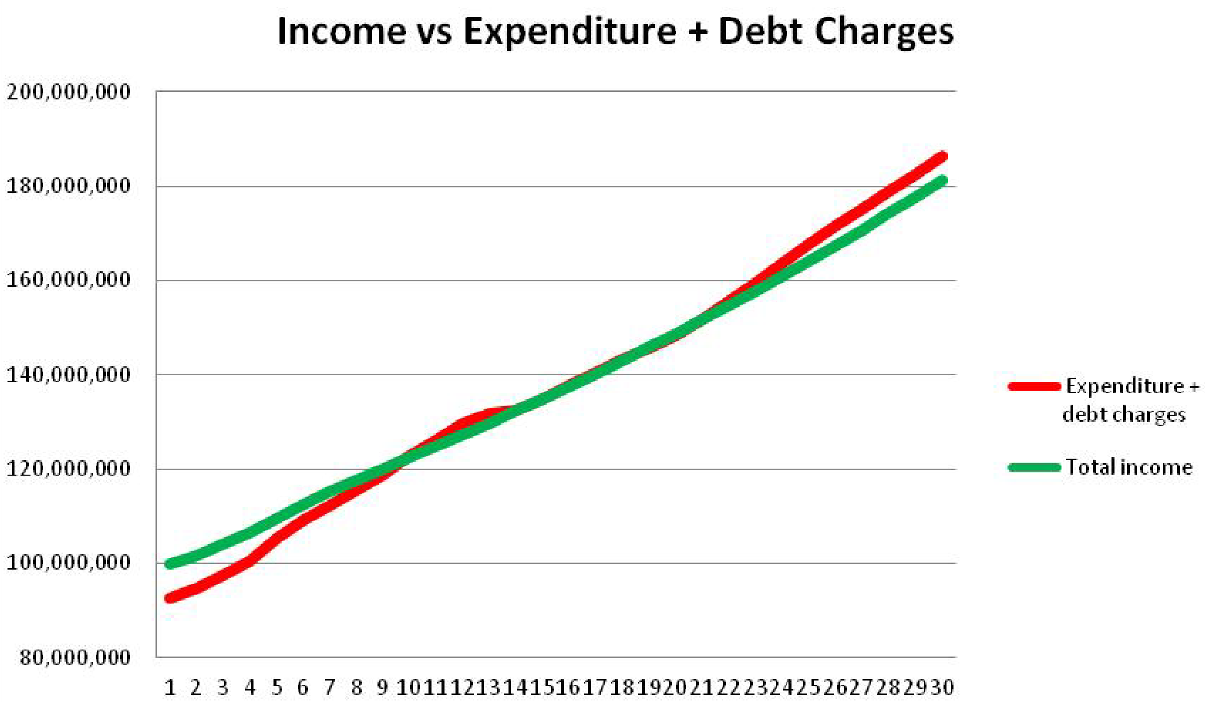
2.13 Tenants will be consulted on what the medium and long term priorities for investment and services should be.

Scenarios for Future Rent Strategy

2.14 The current rent strategy of annual increases in inflation after 2015 no longer supports a viable long term business going forward. Over the thirty years the HRA moves into deficit on a number of occasions despite any additional income being used as capital to off set borrowing costs in future years.

2.15 Graph 1 shows the impact of the current rent strategy after subsidy changes and welfare reform is taken into account. This is not considered a viable strategy for a sustainable business plan and would require service or investment reductions.

Graph 1: Rents at inflation after 2015



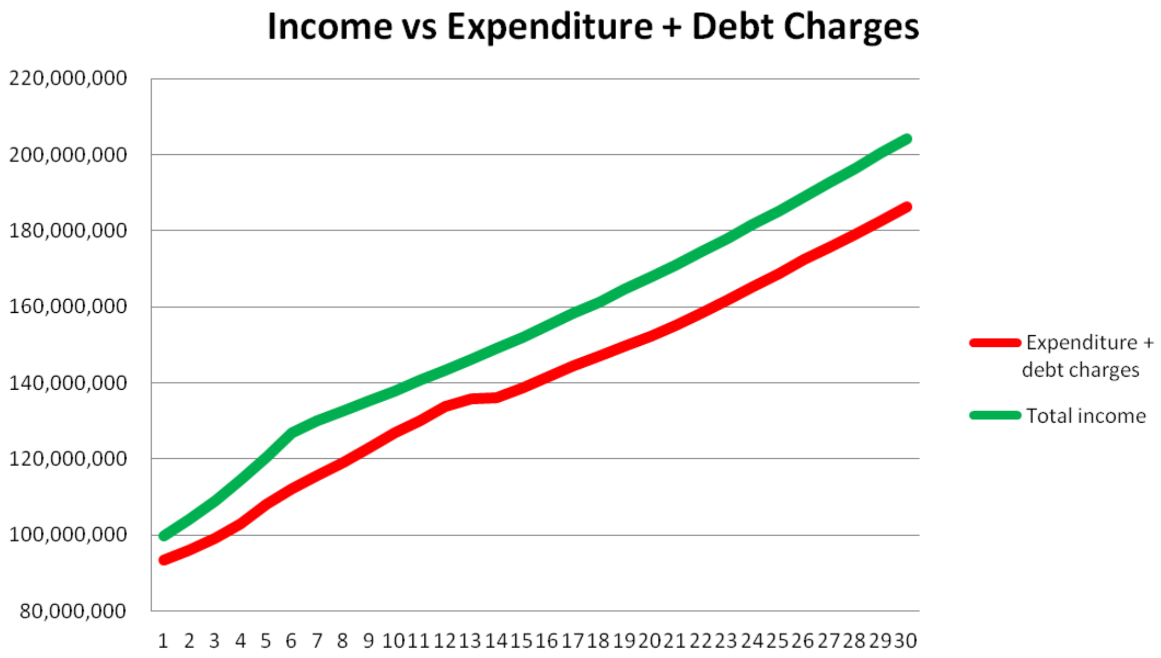
2.16 In contrast if rent increases of inflation plus 2.7% were continued until 2019/20 the HRA would be in a better position to manage the pressures of welfare reform, rising rent arrears and increasing energy costs.

2.17 This scenario also keeps Council rent levels well below private rented market rent levels and below the Local Housing Allowance used in the private rented sector. For example the weekly rent for a two bedroom flat would be £124 by 2019/20. Local Housing Allowance rate for a two bedroom home is projected to be £162.82.

2.18 Rent levels affect tenants differently. Housing benefit increases in line with the cost of rents so there is little or no impact on tenants in receipt of housing benefit. Nearly 80% of tenants claim housing benefit. Tenants who are under-occupying would see a weekly increase in their under occupation charge of £0.70 each year. An assessment of the impact of rent levels on tenants' household income will be included in the consultation with tenants.

2.19 Graph 2 shows the impact of continuing with inflation plus 2.7% rent increases until 2019/20. This would be considered a viable strategy for a sustainable business plan and would not require service or investment reductions.

Graph 2: Rents at Inflation plus 2.7% until 2019/20



Consultation with Tenants

2.20 The approach to consultation on future service and investment priorities and rent options has been discussed with Edinburgh Tenants Federation (ETF). This consultation will include the following:

- A joint working group with ETF on future priorities and rent strategy.
- Workshops at the Tenants Conference in October to establish investment priorities and rent strategy options.
- Focus group discussions with Registered Tenant Organisations to look at priorities and rent strategy between October and January 2014.
- Questionnaire sent to tenants following the Conference in October 2013.

3. Recommendations

3.1 It is recommended that Health, Wellbeing and Housing Committee:

1. Notes the success of the current HRA Business Plan in delivering high quality services and investment.

2. Notes that where income exceeds revenue expenditure these funds are used for future capital investment.

3. Notes the risks and challenges facing the housing services in the medium to long term including the anticipated loss of £52 million over the next five years.

4. Agrees to consult with tenants on the future investment priorities and rent options between October 2013 and March 2014.

5. Agrees that a report on the consultation with tenants is considered by Committee in June 2014.

6. Note that an assessment of the impact of rent levels on tenants' household income will be included in the consultation with tenants.

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Links

Coalition pledges	P8 – Make sure the city's people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites; P9 – Work in partnership with Scottish Government to release more funds for Council homes for rent; P11 – Encourage the development of co-operative housing arrangements; P13 – Enforce tenancy agreements (Council and private landlord) with a view to ensuring tenants and landlords fulfil their good conduct responsibilities; and P17 – Continue efforts to develop the city's gap sites and encourage regeneration. P33 – Strengthen Neighbourhood Partnerships and further involve local people in decisions on how Council resources are used. P50 – Meet greenhouse gas targets, including the national target of 42% by 2020.
Council outcomes	CO7 – Edinburgh draws new investment in development and regeneration. CO13 – People are supported to live at home. CO16 – Well-housed – People live in a good quality home that is affordable and meets their needs in a well managed Neighbourhood. CO26 – The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives.
Single Outcome Agreement	SO4 – Edinburgh's communities are safer and have improved physical and social fabric.
Appendices	None