

REPORT OF DIRECTOR OF CORPORATE SERVICES**EXECUTIVE BOARD****6th FEBRUARY 2017****Housing Revenue Account Budget 2017/18 to 2019/20 and
Housing Rent Setting for 2017/18**

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1. INTRODUCTION

1.1. This report explains the proposed 2017/18 Housing Revenue Account (HRA) budget for both revenue and capital. It has been prepared in conjunction with officers from the Communities Department and was presented to Community Scrutiny 20th January 2017 as part of the budget consultation process. The views expressed by Community Scrutiny are attached to this report (Appendix C) for Executive Board's consideration when setting the 2017/18 HRA budget and Housing Rents.

1.2. The HRA budget for 2017/18 is being set to reflect:

- Social Housing Rent Policy (set by WG)
- Proposals contained in the Carmarthenshire Homes Standard *Plus* (CHS+) Delivering What Matters, which will be presented by the Head of Housing & Public Protection at this meeting.

1.3. Exit from HRAS reform

Carmarthenshire County Council along with the other 10 local authorities (LAs) in Wales, exited the Housing Revenue Account Subsidy (HRAS) on 1/4/15.

For Carmarthenshire, this entailed borrowing £79million with annual repayments of approximately £4.8million. We would have paid approximately £6.2million to WG for HRAS, which would have been repaid annually to the UK treasury. Carmarthenshire currently has a limit of indebtedness (borrowing cap) of £228million.

At the same time, LAs with retained stock were required to adopt the new Social Housing Rents Policy set by the Welsh Government (WG) as a result of the Essex review 2008. It aimed to develop a coherent and consistent rent policy framework that would apply to all social landlords, reflect local variations in affordability and housing market values, providing for a more equitable distribution of rents for social sector tenants across Wales, while at the same time ensuring the viability of individual social landlords. County Council approved the implementation of the policy on 24/02/15.

1.4 Capital investment

A capital investment of £231m has been undertaken to deliver the CHS+ by 2015. This includes £117million of unsupported borrowing. This investment has been being funded by Major Repairs Allowance received from the WG, capital receipts from the sales of land and dwellings, HRA revenue funding, external grants and borrowing. This ensured the delivery of work programmes to all our tenants homes (with the exception of where the work was declined by tenants).

The (CHS+) Delivering What Matters 2017-20 report highlights the approach that will be taken over the next three years and will be presented by the Head of Housing in this meeting. It includes further investment over the next 5 years of £50million to maintain the CHS+ and £36million for our affordable homes programme. This is supported by an on-going cost certainty exercise to ensure our investment is targeted to maintain the CHS+ and deliver our Affordable Homes targets.

The timing and method of sale of HRA land is being kept under review to ensure that receipts are maximised, while retaining the current target of £620k to support the Business Plan. It is recognised that CHS+ supports the building of new council homes and utilising existing Council land for future housing opportunities.

The profile of capital expenditure required to maintain the CHS+ and invest in affordable homes is detailed in appendix A. The plan is extremely sensitive to change and is currently being fully reviewed every 6 months, with ongoing monthly monitoring to identify any potential issues.

2. BUSINESS PLAN ASSUMPTIONS

2.1. There are many assumptions within the Business Plan, including future rental levels, interest rates, inflation etc. Business Plan guidance from the WG is yet to be received for 2017/18 as the date for submission has been changed from February to March.

The main Business Plan assumptions are currently as follows:

- **Rents** continue with the Social Housing Rents Policy introduced by the Welsh Government (WG) for 2015/16. Every year the WG will increase the target rent by CPI plus 1.5%, and for those properties below the target rent with a maximum of £2 per week increase until the target rent is reached (this was the policy agreed by County Council for 2015/16). They will also review the locational indices which can vary the weighting between authorities in relation to the average increase of CPI plus 1.5%.
- **Major Repairs Allowance (MRA)** has not changed and is calculated by our stock levels. This has not been increased for future years, but has been varied for changing stock numbers. Our MRA is estimated to be £6million for 2017/18.
- **Capital Receipts from the sale of land** are 100% useable. The programme of sales has been re-profiled with fewer sales planned over the next 5 years. This is considered to be a prudent measure considering the current prevailing market conditions and our Affordable Homes ambitions.
- **Void Loss** incurred on dwellings currently set at 2.1% in line with current performance (previously 2.4%). This has been agreed with Officers from Housing and Building Services.
- **Central Support Costs** are based on services received by departments, these have been validated accordingly.
- **Stock Numbers** have been updated based on the latest forecast.
- **Interest on Balances** is estimated to be £46k based on an interest rate of 0.3% (average interest earned).

2.2. On 21/12/16 WG have confirmed that the all Wales rent increase for 2017/18 is 2.5% (CPI 1% plus 1.5%) plus progression which is maximum of £2.

Members should note that our capital expenditure is limited over the life of the financial model by the borrowing cap of £228million referenced previously.

As most of the schemes in delivering Housing projects have a significant lead in time, there will be an ongoing review of what is needed to maintain CHS+ and deliver our affordable housing commitment.

3. EXPENDITURE

The expenditure levels in the Business Plan have been set in anticipation of the Business Planning guidance

Maintenance and Stock Improvement

Revenue repairs and maintenance expenditure is forecast to be £9.16million in 2016/17. This is an increase on the 2016/17 budget

(£8.89million) which reflects local building costs, forecast outturn for 2016/17 and changes in stock numbers.

The capital programme provides resources to:-

- maintain our stock to the CHS+ (including carrying out improvements to previously declined properties)
- deliver our Affordable Homes commitment

For 2017/18 the capital programme is £9.18million. This gives an overall spend of £18.64million on stock improvement and maintenance (the total for 2016/17 was £15.99million)

Affordable Housing Commitment

WG have recently indicated the availability of Housing Finance Grant (HFG2) funding for new affordable housing. This will provide £6.9million extra funding for the county, which is planned as part of the 5 year programme. The funding will be provided as a revenue source, requiring the authority to borrow the money and WG repaying the capital charges.

We have set aside £36million over the next five years as part of the capital programme to increase the supply of affordable homes. An update to Scrutiny Committee was reported on the new build element of the Affordable Homes Programme on 29th September 2016. Within 2016/17 £4.7million has been identified for the Delivery Plan (including development costs).

The capital programme and funding sources for this programme up to 2021/22 are detailed in Appendix A.

Validation

The proposed Business Plan includes the following validations for 2017/18, which is in line with the proposed budget strategy:

- General payroll costs are +1%.
- General inflation has been accommodated at +2.4%
- Electricity, gas & oil at +5%.
- Increased pension costs from 17.5% to 17.7%

Capital Financing and Subsidy

The capital financing costs reflect the borrowing requirement inclusive of the exit from HRAS.

Details of the budget for Housing Revenue Account for the period up to 2019/20 is shown in Appendix B

4. INCOME

4.1. As referenced previously in this report, the rent increase proposal is in line with the WG Social Housing Rent Policy. Carmarthenshire's current average rent is £78.93 per week, which leaves us above the low-end WG target rent level of £78.08. Housing Association rents in Carmarthenshire range from £61 for 1 bedroom to £75 for 3 bedroom properties. In the private sector median rents for 1 bedroom are £90 and 3 bedroom are £115. At the present time there are about 440 homes above target rent, 4,598 homes below this level and 3,987 are at target rent. All these properties are required to meet the target rent set by WG within the next three year period.

When setting rents for 2017/18 the rent calculation will be fixed as follows:

For those properties at target rent the increase will be:-

Consumer Price Index (CPI for September 2016 @ +1%) + 1.5% = 2.5%

For those properties where rent is below target the increase can be:

Consumer Price Index (CPI for September 2016 @ +1%) + 1.5% = 2.5%

plus a maximum of £2 progression.

For those properties where rents are above target rent they will be frozen until such time that they meet the target. When a property becomes empty it is placed in the target rent band.

All the above principles were agreed at County Council 23/02/15.

The target rents provided by WG, due to changes in the locational indices, allowed for Carmarthenshire's rents to increase by an average of 3%.

Based on applying the policy for 2017/18 at 2.5% rent increase plus £2 progression this would produce an average rent of £81.77 (increase of 3.6% or £2.84).

Applying the policy, as per the WG tables, for 2017/18 at 3% rent increase plus £2 progression this would produce an average rent of £82.16 (increase of 4.1% or £3.23).

Details of the rent increases on individual householders are below:-

Receive an increase of :-	3.6% increase	4.1% increase
No increase	440	440
up to £2.00	1,093	89
£2.00 to £2.99	3,143	3,742
£3.00 to £3.99	517	454
£4.00 to £4.99	3,832	3,947
£5+	0	353
	9,025	9,025

Table 4: No .of Householders affected by average increases.

Currently 36% of tenants are on full Housing Benefit (HB), 28% are on partial HB and 36% in receipts of no HB.

Not implementing the full increase from 3.6% to 4.1% will result in a loss of rental income for 2017/18 of £183k.

The formula used for future annual rent increases has been set by the WG in the Social Housing Rents Policy which commenced in 2015/16 and is fixed for a 5 year period. However, WG have brought forward the review of this policy to early 2017. Nationally there has been a delay in the way Housing Benefit (housing costs for those on Universal Credit) is paid to tenants who live alone, claim benefit and are under the age of 35. From 1 April 2019, those affected will move to the Local Housing Allowance rate for shared accommodation. From December 2017 most tenants under 21 years age ,who are a new Universal Credit claimants will not be eligible for housing costs to cover their rent. Further details of the impact on Carmarthenshire tenants will be brought to members as the situation is clarified.

4.2 Transitional Protection (as per WG policy)

The additional £2 maximum increase gives protection to tenants particularly if they are not in receipt of Housing Benefits. The maximum £2 per week has been included to restrict rent increases should some homes be significantly below target rent at the present time. If we need to increase average weekly rent so that it falls within the target rent band, transitional protection for tenants will apply. So legally, the rent for an individual tenant cannot be increased by more than £2 per week, in addition to the agreed annual rate of rent increases.

4.3 Target Rents for Carmarthenshire

Current targets and those for 2017/18 are set out overleaf:-

	Houses and Bungalows (£)					Flats (£)				Bedsits (£)
	1Bed	2Bed	3Bed	4Bed	5+Bed	1Bed	2Bed	3Bed	4+Bed	
Target Rent 2016/17	73.45	81.61	89.77	97.93	106.09	66.45	73.84	81.22	88.61	59.07
Target Rent 2017/18 @ 2.5% increase	75.29	83.65	92.01	100.38	108.75	68.11	75.69	83.25	90.83	60.55
Target Rent 2017/18 as indicated by WG	75.67	84.08	92.49	100.90	109.31	68.47	76.07	83.68	91.29	60.86

WG policy rent band, 2017-18		
Low end	Mid point	High end
(£ per week)	(£ per week)	(£ per week)
80.44	84.67	88.91

Table 1: Comparison of Current Average Weekly Rents to Target Rents over 52 weeks and Rent Bands

For Carmarthenshire our average target rent for 2017/18 is £84.67 (mid point). The all Wales average is £88.70 with Carmarthenshire's being the lowest.

Continuing to progress towards target rents will eventually give scope to amend rents in areas of high and low demand while remaining within the rent envelope.

The second part of the policy requires us to harmonise our rents. Though we will achieve target rent we still have a number of properties that do not fall within the rent harmonisation banding on property type. The proportion of dwellings below target rents is 50% as a result of the £2 progression implemented last year and the target rent being charged as a result of properties becoming vacant. This was over 85% when we began the harmonisation process. Overleaf is a table outlining the numbers of properties reaching target rents over the next 3 years. As detailed there will be significant numbers of properties not on target rents post 2020.

Year	2.5% + £2 max increase cap. No of properties.
2017	1,021
2018	615
2019	1,011
Post 2020	1,951

Table 2: Properties achieving target rents per year - assuming 2.5% increase plus cap at £2

Rents not at target rents

By agreeing to a rent increase capped at £2 with no decrease for those properties above target rent, we will be compliant with the 2017/18 Business Plan assumptions.

4.5. Garage Rental Income

The HRA currently receives a net rental income of £120k per annum. This equates to a weekly charge of £8.75 per week. The average rental for garages in the private sector is about £8 per week, dependant on location. It is proposed that garage rents are increased by 2.5% in line with the rent increase to £9.00 per week. This will increase the net rental income to £123k for 2017/18. Garage bases will rise similarly from £2.20 per week to £2.25 per week.

4.6. Service and Heating charges

Service charges are now calculated in line with the policy adopted in 2011 and is based on actual expenditure for the previous financial year. In line with the policy and to reflect the additional work carried out, an administration fee of 10% is added. Implementing the Service Charge Policy will ensure those who receive additional services now pay for those services in a fair and transparent way. We have also separately identified charges relating to the cost of extra services that some tenants benefit from, over and above the services covered by basic rent. The Environment department currently carries out grounds maintenance and grass cutting for communal areas and all HRA owned land. It is proposed at present not to implement a service charge to recover the cost of grounds maintenance for HRA public open places on Council estates but to continue to pool these costs. This can be reviewed when guidance is issued by the Welsh Government.

However there is a case to charge and recover costs from tenants that benefit from grounds maintenance of areas directly around or outside specific properties where there is a common and exclusive boundary.

The impact on tenants is outlined in the table below:-

Service Charge Weekly Increase	Number of Householders Affected	
	2016/17	2017/18
Capped at £3.30	52	68
Rise of between £2 and £3.30	24	90
Rise of between £1 and £2	111	93
Rise of less than £1	186	289
Properties added 2017/18	0	13
No Change	0	157
Reduced by less than £1	275	401
Reduced by between £1 and £2	176	76
Reduced by greater than £2	473	130
No Charge in year	7	0
Total	1304	1317

Table 5: No. of Householders affected by service charge changes.

4.7 Sewerage Treatment Works

The cost of running and maintaining the Works falls on the HRA. It is proposed for 2017/18 that current charges are increased as per our rent increase. In the meantime Officers are reviewing the future use and running of the Works as part of the Asset Management Plan.

4.8 Commission on Collection of Water Rates

The budget assumes the continued agreement with Dwr Cymru/Welsh Water, which generates an income of £560k. Some local authorities are being challenged on the legality of acting as an agent in this business arrangement under the Water Resale Order 2006.

5. BALANCES

5.1. The final forecasted balances will obviously be subject to the decisions made on the income levels proposed within this report. If the rental increase is set at 3.6% the overall proposed budget will result in a surplus on the Housing Revenue Account of £2.3million for the year. It should also

be noted in Appendix B that balances are required to support the current strategy of funding our capital expenditure and continue to make our business plan affordable over a 30 year period.

6. That Executive Board consider the following and recommend to County Council.

- 1) To increase the rent in line with WG guidelines:-
 - Properties at target rents will increase by 2.5% (CPI + 1.5%) and
 - Properties where rent is below target rent, rent will increase by 2.5% (CPI + 1.5%) plus a maximum progression of £2 and
 - Those rents above target are frozen until such time that they meet the target.

This will produce an average housing rent increase of £2.84 and will produce a sustainable Business Plan, maintain CHS+ and resource the Affordable Homes programme.
- 2) To continue with maximum progression of £2, for rents below target, until target rents are achieved
- 3) To increase garage rents to £9.00 per week (from £8.75 in 2016/17) and garage bases to £2.25 per week (from £2.20 in 2016/17)
- 4) To apply the service charge policy to ensure tenants who receive the benefit from specific services pay for those services
- 5) To increase charges for using our sewerage treatment works in line with rent increase.
- 6) To approve the proposed Capital Programme and applicable funding for 2017/18 and the indicative spends for the future years 2017/18 to 2021/22 as set out in Appendix A.
- 7) To approve the Housing Revenue Account Budget for 2017/20 (with 2018/19 and 2019/20 being soft budgets) as set out in Appendix B