

**REPORT OF DIRECTOR OF
CORPORATE SERVICES**

EXECUTIVE BOARD

5th FEBRUARY 2018

**Housing Revenue Account Budget
2018/19 to 2020/21 and Housing Rent
Setting for 2018/19**

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1. INTRODUCTION

1.1. This report explains the proposed 2018/19 Housing Revenue Account (HRA) budget for both revenue and capital. It has been prepared in conjunction with officers from the Communities Department. The Community Scrutiny Committee considered the HRA budget on 30th January 2018 as part of the budget consultation process. A verbal update will be given to the Executive Board during the meeting.

1.2. The HRA budget for 2018/19 is being set to reflect:

- Social Housing Rent Policy (set by WG)
- Proposals contained in the Carmarthenshire Homes Standard *Plus* (CHS+)
- Affordable Homes Delivery Plan

1.3. The HRA budget is prepared to maintain the CHS(+) Business Plan, deliver our affordable homes aspirations and manage and maintain our homes on a daily basis. As a ring fenced account this expenditure is balanced by income primarily generated through rents charged to tenants. Supporting the CHS(+) Business Plan is a 30 years financial model which is submitted to and scrutinised/approved by WG (as part of the Major Repairs Allowance application).

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

Part of the agreement to exit included LAs with retained stock were required to adopt the new Social Housing Rents Policy set by the Welsh Government (WG). 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 is 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). Since achieving the CHS, a further £21M will have been spent on maintaining the standard and £13M on providing additional affordable homes in the HRA by the end of 2017/18.

The (CHS+) Business Plan 2018-21 highlights the approach that will be taken over the next three years and will be presented by the Head of Homes and Safer Communities in this meeting. It includes further investment over the next 3 years of £30million to maintain the CHS+ and £26million 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 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 (received 21/12/17 for 2018/19) requires submission of a viable plan by 30/03/2018.

Underpinning the CHS(+) Business Plan is the 30 year financial model which has many assumptions including:

- **Rents** The WG Social Housing rents policy aims to harmonise the rents within the social housing sector and therefore every year the WG notifies LAs of the targeted rent increase. The increase in target rent for 2018/19 has been notified as CPI (3%) plus 1.5% totalling 4.5%, and for those properties below the target rent 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%. **This equated to an average increase of 5.49% for our tenants.** However on 11/12/17 WG took the unusual step of informing Local Authorities that they may wish to consider lower increases than would normally result from full implementation of the Social Housing Rents Policy which was introduced by the Welsh Government (WG) for 2015/16.
- **Major Repairs Allowance (MRA)** is a grant from WG which is provided to support our works in maintaining the standard and is audited annually. This has not been increased for future years, but has been varied for changing stock numbers. Our MRA is estimated to be £6million for 2018/19.
- **Capital Receipts** We have suspended our Right to Buy for tenants so there are no planned receipts from sales of houses. We expect receipts from the sale of land in the current year to be £620k, which can be used to fund capital expenditure. The programme of land sales was re-profiled in 2016 with fewer sales planned and none from 2018/19 to 2020/21. This strategy allows us to consider what is required for our Affordable Homes ambitions.
- **Void Loss** incurred on dwellings currently set at 2.1% in line with current performance and is unchanged from 2017/18. In 2012/13 it was 3% but has been reducing over several years as a result of our investment in dealing with empty properties
- **Central Support Costs** are based on services received by departments, these have been validated accordingly.
- **Stock Numbers** have been updated based on affordable homes delivery plan.
- **Interest on Balances** is estimated to be £66k based on an interest rate of 0.6% (average interest earned).

2.2. Members will be aware that exiting the HRAS produced a borrowing cap for each LA. This was set at £228M for us and has not increased since its introduction. This is being managed within the financial model. Details of our proximity to the borrowing cap are detailed below:-

Year as at 31/3	Borrowing cap £'M	Capital Financing Requirement £'M
2018/19	228.3	217.3
2019/20	228.3	216.4
2020/21	228.3	218.9

Table 1: Proximity to Borrowing Cap

As most of the schemes 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 ambitions, which will utilise the borrowing available as we develop our plans.

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 £9.5million in 2017/18. This is an increase on the 2017/18 budget (£9.28million) which reflects local building costs, forecast outturn for 2017/18 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

Maintain our Stock

For 2018/19 the capital programme to maintain the CHS(+) is £10.5million. This gives an overall spend of £20million on stock improvement and maintenance (the total for 2017/18 was £18.64million)

Affordable Housing Commitment

WG have indicated the availability of Housing Finance Grant (HFG2) funding for new affordable housing. This will provide £6.9million extra funding in the capital programme which is 58% funded by WG and 42% funded by the HRA, which is planned as part of the 5 year programme. The anticipated funding will be provided as a revenue source, requiring the authority to borrow the money and WG repaying the capital charges. Further clarification on how the resources will be given to LA's is outstanding from WG. We have set aside £26million over the next three years as part of the capital programme to increase the supply of affordable homes. Within 2018/19 £9.2million has been identified for the Delivery Plan (including development costs).

The capital programme and funding sources for this programme up to 2020/21 are detailed in Appendix A.

Validation

The proposed Business Plan includes the following validations for 2018/19, which is in line with the proposed budget strategy:

- general payroll costs are +2% with a greater up lift on the lower pay bands (as per the current national employers pay offer).
- general inflation has been accommodated at +2.3%
- Electricity, gas & oil at +5%
- Increased pension costs from 17.7% to 17.8%

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 2020/21 is shown in Appendix B

4. INCOME

4.1. Previously we have applied the WG Social Housing Rent Policy to progress to the mid-point target rent (County Council approved on 24/02/15). Rent policy has not changed but WG have indicated that LA's may wish to consider using a lower option.

Applying the policy as in previous years for 2018/19 at 4.5% rent increase plus £2 progression would produce an average rent of £86.21 (increase of 5.49% or £4.49).

- Carmarthenshire's current average rent is £81.72 per week, which leaves us between the low-end WG target rent level of £80.44 and the mid-point target £84.67. Housing Association rents in Carmarthenshire average £85.96 for 2017/18. In the private sector median rents for 2 bedrooms are £107 and 3 bedrooms are £118 as

at December 2017. At the present time there are about 248 homes above target rent, 3,760 homes below this level with the remainder at target rent. All these properties were required to progress towards the target rent set by WG. Notification of rent increases for 2018/19 was received on 11/12/17. WG took the unusual step of informing Local Authorities that they may wish to consider lower increases than would normally result from full implementation. This letter emphasised:

- Reduced rents of 1% for England and that CPI is currently high
- LA's need to consider affordability for all tenants.
- flexibility and freedom within the policy to implement an increase lower than maximum rent increase without penalty or criticism
- Freedom is constrained by policy requirement to set rents within the target rent band, however exceptional circumstances would be looked at on a case by case basis.

The proposed rent increases within the HRA budget for 2018/19 seeks to recognise the squeeze on household budgets as wage increases have not kept pace with rising price inflation. Rent increases are therefore minimised as far as possible, utilising the flexibility outlined by WG whilst still complying with WG policy target rent band.

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

Consumer Price Index (CPI for September 2017 @ +3%) + 0.5% = 3.5%.

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

Consumer Price Index (CPI for September 2017 @ +3%) + 0.5% = 3.5%

plus a maximum of £1.62 progression in order to achieve an average rent at the low-end target set by WG of £85.27.

Those rents above target are **frozen** until such time that they meet the target. When a property becomes empty it is placed in the target rent band.

The above principles reduce the burden on all tenants from 4.5% to 3.5% average increase and limit the progression towards target to £1.62 compared with the maximum permissible of £2. **This is the lowest permissible average increase compliant with the current WG policy.**

Based on applying the above for 2018/19 at 3.5% rent increase plus £1.62 progression this would produce an average rent of £85.27 (increase of 4.34% or £3.55).

The target rents provided by WG, due to changes in the locational indices, allowed for Carmarthenshire's rents to increase by an average of 6%.

Details of the rent increases on individual households are:-

Receive an increase of :-	4.34% increase
No increase	248
up to £2.00	101
£2.00 to £2.99	1,785
£3.00 to £3.99	3,207
£4.00 to £4.99	2,786
£5+	931
	9,058

Table 2 : No .of Householders affected by average increases.

Currently 34% of tenants are on full Housing Benefit (HB), 31% are on partial HB and 35% in receipts of no HB.

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 late 2017 but no clarity has been received on when the review will be complete. From December 2017 most tenants under 21 years of age who are new Universal Credit claimants, they 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 £1.62 maximum progression increase gives protection to tenants particularly if they are not in receipt of Housing Benefits. The maximum £1.62 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. 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 2018/19 are set out overleaf:-

	Houses and Bungalows (£)					Flats (£)				Bedsits (£)
	1Bed	2Bed	3Bed	4Bed	5+Bed	1Bed	2Bed	3Bed	4+Bed	

Target Rent 2017/18	75.67	84.08	92.49	100.90	109.31	68.47	76.07	83.68	91.29	60.86
Target Rent 2018/19 as notified by WG	80.22	89.13	98.04	106.95	115.87	72.58	80.64	88.70	96.77	64.51

WG policy rent band, 2018-19		
Low end	Mid point	High end
(£ per week)	(£ per week)	(£ per week)
85.27	89.76	94.25

Table 3 : Comparison of Current Average Weekly Rents to Target Rents over 52 weeks and Rent Bands

For Carmarthenshire our average target rent for 2018/19 is £89.76 (mid point) with the all Wales average being £93.61 .Carmarthenshire’s 2017/18 actual rent is the 3rd lowest of eleven stock retaining authorities.

The policy does 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 41% 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.

4.5. Garage Rental Income

The HRA currently receives a net rental income of £125k per annum. This equates to a weekly charge of £9.00 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 unchanged for 2018/19. Garage bases will be also unchanged at £2.25 per week.

4.6. Service and Heating charges

Service charges are calculated in line with the policy adopted in 2011. These charges are made to cover the additional services we provide as a

landlord that are not covered within the rent and to ensure that all communal areas are kept in a good condition.

These charges will vary annually as they are based on actual expenditure from the previous financial year. By implementing the Service Charge Policy we are ensuring that tenants who receive additional services pay for them in a fair and transparent way.

As part of the calculations for 2018/19 over half our tenants (58%), who pay a service charge, will see an overall reduction in their service charges. This compares with around 46% last year.

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

Service Charge Weekly Increase	Number of Householders Affected	
	2017/18	2018/19
Capped at £3.30	68	5
Rise of between £2 and £3.30	92	98
Rise of between £1 and £2	93	73
Rise of less than £1	289	377
Properties added in year	13	5
No Change	157	5
Reduced by less than £1	401	306
Reduced by between £1 and £2	76	119
Reduced by greater than £2	130	336
Total	1,319	1,324

Table 4 : No .of Householders affected by service charge changes.

4.7 Sewerage Treatment Works

We have 15 pumping stations serving approx. 154 properties, the cost of running and maintaining the stations falls on the HRA. We also have 8 cesspits. It is proposed for 2018/19 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

In addition to the rent collection process we act as an agent on behalf of Dwr Cymru/Welsh Water, which generates an income of £583k in the form of commission.

4.9 Universal Credit

The roll out of universal credit will impact on tenants and residents of Carmarthenshire. From a business plan point of view, evidence from the pilots has shown that rent arrears will increase in the short to medium term and we have allowed for this within this plan in terms of our bad debt provision. Currently there is a working group of officers from communities department, corporate resources as well as department of works & pensions and job centre plus mapping the potential impact and how to best support our tenants. Also officers are investigating the information technology solutions on the market to aid welfare reform impact analysis, poverty tracking and aiding front line staff to give best advice.

The CHS+ Business Plan presents more detail on this, including the actions that are being undertaken to mitigate the impact for Council tenants.

5. BALANCES

5.1. Based on an overall rental increase of 4.34%, the overall proposed budget will result in a deficit on the Housing Revenue Account of £5.8million for the year, in line with the 30 year HRA business plan. 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. PROPOSED RECOMMENDATIONS TO EXECUTIVE BOARD

1. To increase average housing rent as per WG Social Housing Rents Policy (low end target).
 - Properties at target rents will increase by 3.5% (CPI + 0.5%) and
 - Properties where rent is below target rent, rent will increase by 3.5% (CPI + 0.5%) plus a maximum progression of £1.62
 - Those rents above target are frozen until such time that they meet the target.

This will produce an increase on the average housing rent of 4.34% or £3.55

This will produce a sustainable Business Plan, maintain CHS+, resource our Affordable Homes programme and is supported by DCHS Steering Group.

2. To implement maximum progression of £1.62, for rents below target, until target rents are achieved.
3. That garage rents are not increased for 2018/19 and held at the same level as current year, with the rents being set for garages at £9.00 per week and garage bases to £2.25 per week.
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 2018/19 and the indicative spends for the future years 2018/19 to 2020/21 as set out in Appendix A.
7. To approve the Housing Revenue Account Budget for 2018/19 (with 2019/20 and 2020/21 being soft budgets) as set out in Appendix B.