REPORT OF THE DIRECTOR OF CORPORATE SERVICES

COMMUNITY SCRUTINY COMMITTEE

23rd JANUARY 2019

HOUSING REVENUE ACCOUNT AND HOUSING RENT SETTING 2019/20

- REVENUE AND CAPITAL

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1. INTRODUCTION

1.1. This report explains the proposed 2019/20 Housing Revenue Account (HRA) budget for both revenue and capital. It has been prepared in conjunction with officers from the Communities Department. This report is presented to this Community Scrutiny Committee as part of the budget consultation process. The views expressed by this Committee will be fed back to Executive Board for their consideration when they set the 2019/20 HRA budget and Housing Rents.

1.2. The HRA budget for 2019/20 is being set to reflect:

- Interim Social Housing Rent Policy issued by Welsh Government (WG) 12/12/2018
- Proposals contained in the Carmarthenshire Homes Standard *Plus* (CHS+)
- Affordable Homes Delivery Plan
- Removal of HRA Borrowing Cap which has recently been agreed by WG.

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 annually (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 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.This policy provided consistency for 5 years but ended in 2018/19. WG have provided an interim policy for 2019/20 while they await the results of the Affordable Housing Supply Review .This should result in the development of a new policy due for implementation in 2020/21.

1.4 Capital investment

A capital investment of £231m has been undertaken to deliver the CHS+ by 2015. This included £117million of unsupported borrowing. This investment was 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 £33M will have been spent on maintaining the standard and £20M on providing additional affordable homes in the HRA by the end of 2018/19.

The (CHS+) Business Plan 2019-22 highlights the approach that will be taken over the next three years and will be presented by the interim Head of Homes and Safer Communities in this meeting. It includes further investment over the next 3 years of £45million to maintain the CHS+ and £44million for our Affordable Homes programme. This will be 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 is a key

influence in whether the land is sold or retained, depending on housing demand for housing within that area.

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, pay awards etc. Business Plan guidance from the WG (received 21/12/18 for 2019/20) requires submission of a viable plan by 29/03/2019.

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

- **Rents** The WG Interim Social Housing rents policy allows local authorities within their target rent band to increase rent by CPI only (the County Council is currently marginally within the target rent band). The increase in target rent for 2019/20 has been notified as 2.4%.The ability to progress rents for those properties below the target rent, a maximum of £2 per week increase until the target rent is reached has been removed, unless current average rent is below the target rent band.
- **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 2019/20.
- **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 £75k, which can be used to fund capital expenditure. The programme of land sales was re-profiled in 2016 with fewer sales planned and none for the next two years. This strategy allows us to consider what is required for our Affordable Homes ambitions.
- **Void Loss** incurred on dwellings currently set at 2.9% in line with current performance. This has changed from 2018/19 due to the decision not to let specific properties while strategic plans are developed.
- **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 £102k based on an interest rate of 0.6% (average interest earned).

2.2.

Members will be aware as part of the HRAS exit agreement in 2015, Local Authorities were required to agree a Borrowing Cap, which was a requirement put in place by the UK Government. This restricted what a Local Authority could borrow in respect of the HRA, for this Authority the limit was set at £228M. The minister for Housing and Regeneration wrote to LA's 29/10/2018 detailing that the Chancellor of the Exchequer had confirmed that the removal of HRA borrowing caps applied to Wales as well as England. This is a significant change in policy designed to encourage LA's to build at pace and scale and to deliver their affordable homes ambitions. This places a responsibility on LA's to develop Business Plans which are financially sustainable as well as ambitious. This has led to a review of how we fund our capital investment programme to release additional resources in a prudent manner.

However, although the borrowing cap has been released, it should be noted that there is a significant responsibility on the County Council to ensure any borrowing for the HRA is sustainable, prudent and affordable within the HRA financial business plan.

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 £10.3million in 2019/20. This is an increase on the 2018/19 budget (£9.5million) which reflects local building costs, forecast outturn for 2018/19 changes in stock numbers and additional revenue costs relating to void properties.

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 2019/20 the capital programme to maintain the CHS(+) is £15.4million. This gives an overall spend of £25.7million on stock improvement and maintenance (the total for 2018/19 was £20million). This includes increasing capital resources available for works relating to major voids (£0.8million), structural works on estates (£0.7million), roofing works (£0.3million), investment in sheltered schemes (£1.7million), risk reduction measures (£0.25million) and sewerage treatment works (£0.19million).

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 for the county, 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 £44million over the next three years as part of the capital programme to increase the supply of affordable homes. Within 2019/20 £15.5million 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 2018/19, which is in line with the proposed budget strategy:

- general payroll costs are +3.5% (average) with a greater uplift on the lower pay bands (as per the current national employers pay offer).
- general inflation has been accommodated at +2.4%
- Electricity, gas & oil at +5%.
- Increased pension costs from 17.8% to 18%

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 2021/22 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). This policy ended in 2018/19.

A one year policy of maximum of CPI only has been issued by WG for 2019/20, with no discretion to apply 'progression' for those tenants below target rents if an LA's current average rent is within the target rent band. Rent increases could be set at lower than 2.4% but as there is no certainty over future rent levels applying the interim policy seems the most prudent approach for 2019/20. Setting at a lower level than 2.4% rent increase will also impact of the current proposed Business Plan.

> Carmarthenshire's current average rent is £85.52 per week, which leaves us between the low-end WG target rent level of £85.27 and the mid-point target £89.76. Housing Association rents in Carmarthenshire average £91.29 for 2018/19. In the private sector median rents for 2 bedrooms are £106 and 3 bedrooms are £121 as at June 2018. At the present time there are 12 homes above target rent, 3186 homes below this level with the remainder at target rent.

When setting rents for 2019/20 the WG interim policy will need to be applied.

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

Consumer Price Index (CPI for September 2018) = 2.4%.

Those rents above target are frozen until such time that they meet the target, there are only 12 of these properties remaining. When a property becomes empty it is placed in the target rent band.

Based on applying the above for 2019/20 at 2.4% rent increase this would produce an average rent of £87.57 (increase of £2.05).

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

Receive an increase of :-	2.4% increase
No increase	12
up to £1.00	17
£1.00 to £1.99	1,368
£2.00 to £2.99	7,692
	9,089

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

Currently 38% of tenants are on full Housing Benefit (HB), 27% are on partial HB and 35% in receipts of no HB.

4.2. Target Rents for Carmarthenshire

Target rents and forecast rents for 2019/20 are set out below:-

	Houses and Bungalows (£)					**Flats(£)**				**Bedsits (£)**
	1Bed	2Bed	3Bed	4Bed	5+Bed	1Bed	2Bed	3Bed	4+Bed	
Target Rent (mid-point) 2019/20 as notified by WG	81.51	90.57	99.63	108.68	117.74	73.75	81.94	90.14	98.33	65.55
Actual Rent 2019/20 with 2.4% increase	79.80	88.66	97.52	106.38	115.26	72.18	80.22	88.23	96.27	64.17

WG policy rent band, 2019-20		
Low end (£ per week)	**Mid point** (£ per week)	**High end** (£ per week)
86.67	91.23	95.79

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

For Carmarthenshire our average target rent for 2019/20 is £91.23 (mid point) with the all Wales average being £96.00 .Carmarthenshire's 2018/19 actual rent is the 2nd lowest of eleven stock retaining authorities.

WG have advised LA's that a 2.4% increase should be the maximum applied in 2019/20, however for Carmarthenshire our target rents have only increased by 1.6% due to changes in indicies. This restricts authorities at the high end of their target rents but does not affect Carmarthenshire.

The proportion of dwellings below target rents is 35% as a result of the £1.62 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.

4.3. 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. It is proposed that garage rents are maintained at £9.00 per week. Garage bases will similarly remain at £2.25 per week.

4.4. 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.

4.5. 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 2019/20 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.

4.6. 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 £400k in the form of commission. The implementation of the HelpU scheme for tenants has reduced this commission receivable by approximately £100k.The HelpU tariff assists tenants with low household income (less than £15k per annum) by reducing their water bills by nearly £200 per annum.

4.7. 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 services 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. A rental increase is set at 2.4% the overall proposed budget will result in a surplus on the Housing Revenue Account of £6.1million 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. PROPOSED RECOMMENDATIONS TO EXECUTIVE BOARD

- **To increase the average housing rent as per the WG Interim Social Housing Rents Policy.**

  Properties at target rents will increase by 2.4%

  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 2.4% or £2.05

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

- **To maintain garage rents at £9.00 per week and garage bases at £2.25 per week.**
- **To apply the service charge policy to ensure tenants who receive the benefit from specific services pay for those services.**
- **To increase charges for using our sewerage treatment works in line with rent increases.**

7. RECOMMENDATION

That as part of the budget consultation process, Community Scrutiny Committee consider and comment on the Revenue and Capital Budget of the Housing Revenue Account and rent setting proposals 2019/20.This will be considered by Executive Board on 4th February 2019 and subsequently County Council on 20th February 2019.