

REPORT OF THE DIRECTOR OF CORPORATE SERVICES

EXECUTIVE BOARD

1st FEBRUARY 2016

HOUSING REVENUE ACCOUNT AND HOUSING RENT SETTING 2016/17

- REVENUE AND CAPITAL

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1. INTRODUCTION

1.1. This report explains the proposed 2016/17 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 on 15th January 2016 as part of the budget consultation process. The views expressed by Community Scrutiny are attached to this report for Executive Board's consideration when setting the 2016/17 HRA budget and Housing Rents.

1.2. The HRA budget for 2016/17 is being set to reflect:

- Social Housing Rent Policy (set by WG)
- Proposals contained in the Carmarthenshire Homes Standard *Plus* (CHS+) Business Plan (which will be presented by the Head of Housing & Public Protection to the Community scrutiny committee 12/02/16 and county council on the 10/03/16); and
- Exiting the Housing Revenue Account Subsidy (HRAS) system ,which occurred on 1/4/15

1.3. IMPACT OF HRAS REFORM

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

The financial impact of exiting the Housing Revenue Account Subsidy (HRAS), as part of the agreement between the U.K. and Welsh Governments, is that the 11 housing stock authorities paid a settlement figure to the Treasury of £919million. To achieve this LAs were required to raise long term borrowing to fund the settlement. The loan repayment costs for the 11 authorities is £38.3million per annum. For Carmarthenshire, this entailed borrowing £79million with annual repayments of approximately £4.9million comprising estimated interest payments of £3.3million and £1.6million principal debt repayment (Minimum Revenue Provision – MRP). However, those payments would be offset against the £6.2million negative subsidy repayments that the authority previously repaid annually to the UK treasury.

As part of the agreement between WG and the Treasury, a borrowing cap of £1.87 billion has been set for all the stock retaining authorities. This borrowing will include:

- The debt incurred to buy ourselves out of exiting system (£919million).
- Existing borrowing to meet the Welsh Housing Quality Standard (£462million).
- New borrowing to meet the Welsh Housing Quality Standard (£358million).

This left £114million of borrowing which was distributed between the stock retaining authorities for projects such as new build council homes and housing development programmes. For Carmarthenshire the borrowing headroom allocation was £5.3million. This gave Carmarthenshire a final limit of indebtedness (Borrowing Cap) of £228million.

After the initial agreement between WG and the treasury, the treasury issued a further £17million addition to the borrowing cap. This is yet to be allocated by WG.

WG have now set up a steering group to identify strategic priorities, improve collaborative working and review the broader aspects of moving to the new financing system. Initial meetings have taken place to identify terms of reference and a forward work programme for the steering group.

As part of the HRAS reforms, LAs with retained stock were required to adopt the new Social Housing Rents Policy set by the Welsh Government (WG). County Council approved the implementation of the policy on 24/02/15.

1.4 Capital investment

A capital investment of £231m was undertaken to deliver the CHS+ by 2015. This includes £117million of unsupported borrowing. This investment was 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.

The (CHS+) 2016-19 highlights the approach that will be taken over the next three years and will be presented to the next scrutiny meeting on 12/02/16. An overview of the Business Plan is attached on appendix A. It includes further investment over the next 5 years of £45million to maintain the CHS+ and £31million for our affordable homes programme

In order to support the future viability of the Business Plan, nearly £3million of capital receipts will be required by 2021/22. The timing and method of sale is being kept under review to ensure that receipts are maximised, while retaining the current target 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 will be £13.8million in 2016/17. Further investment will continue with £15.7million in 2017/18 and £13.8million being invested in 2018/19. 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 2016/17 as the date for submission has been changed from December to February.

The main Business Plan assumptions are currently as follows:

- **Rents** continue with the new Social Housing Rents Policy introduced by the Welsh Government (WG) for 2015/16. Every year the WG will increase the target rent by September 2015 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 last year).
- **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 2016/17.
- **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.

- **Void Loss** incurred on dwellings currently set at 2.7% however it is expected during the year that the loss will reduce as part of the continued work on reducing voids. Any reduction will be accommodated as part of budget monitoring in 2016/17.
- **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 £48k based on an interest rate of 0.5%

2.2. As outlined in 1.3. of this report exiting the HRAS has provided additional resources to the HRA. The business plan assumptions for 2016/17 are yet to be confirmed by WG but we know that the rent increase for 2016/17 is September 2015 CPI (-0.1%) plus 1.5%=1.4% (plus progression which is a 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.

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

3.1. The expenditure levels in the Business Plan have been set in anticipation of the Business Planning guidance from the WG which has not been received to date (target rents were notified to local authorities 16/12/15)

3.2. Maintenance and Stock Improvement

Revenue repairs and maintenance expenditure is forecast to be £8.69million in 2016/17. This is an increase on the 2015/16 budget (£8.58million) which reflects local building costs, forecast outturn for 2015/16 and changes in stock numbers.

The capital programme for achieving and maintaining the CHS+ for 2016/17 is £7.3million. This gives an overall spend of £15.99million on stock improvement and maintenance (the total for 2015/16 was £24.78million).

The capital programme and funding sources for this programme up to 2018/19 are detailed in Appendix C.

3.3 Affordable Housing Commitment

We have set aside £31 million over the next five years as part of the capital programme to increase the supply of affordable homes. The Delivery Plan detailing how this funding will be spent is due to be approved by Council on the 10th March. Within 2016/17 £6.5million has been identified for the Delivery Plan (including development costs).

Validation

The proposed Business Plan includes the following validations for 2015/16, which is in line with the proposed budget strategy:

- general payroll costs are set as per the current employer's pay offer.
- Increased National Insurance employer's contribution approximately £89k
- general inflation has been accommodated at +0.6% .
- Electricity, gas & oil at +3%.
- Fuel at -13%
- Increased employer's pension costs from 17.2% to 17.5%

3.4.Capital Financing and Subsidy

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

3.5. Details of the budget for Housing Revenue Account for the period up to 2018/19 is shown in Appendix B

4. INCOME

4.1. Carmarthenshire's current average rent is £76.46 per week, which leaves us just below the low-end WG target rent level of £76.73. Housing Association rents in Carmarthenshire's area currently average £81.46 and private sector rents are approximately £100. At the present time there are about 1,004 homes above this target rent (1,136 last year) 5,608 homes below this level (7,828 last year) and 2,332 are at target rent . All these properties are required to meet the target rent set by WG within the next four year period.

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.

When setting rents for 2016/17 the rent calculation will be fixed as follows:

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

Consumer Price Index (CPI for September 2015 @ -0.1%) + 1.5% = 1.4%.

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

Consumer Price Index (CPI for September 2015 @ -0.1%) + 1.5%=1.4%

plus a maximum of £2 progression

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. All the above principles were agreed at county council 23/02/15.

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 2016/17 are set out below :-

	Houses and Bungalows (£)					Flats(£)				Bedsits (£)
	1Bed	2Bed	3Bed	4Bed	5+Bed	1Bed	2Bed	3Bed	4+Bed	
Target Rent 2015/16	72.17	80.19	88.21	96.23	104.24	65.30	72.55	79.81	87.06	58.04
Target Rent 2016/17	73.45	81.61	89.77	97.93	106.09	66.45	73.84	81.22	88.61	59.07

Post-SAP policy rent band, 2016-17		
Low end (£ per week)	Mid point (£ per week)	High end (£ per week)
78.08	82.19	86.30

Table1: Current Average Weekly Rents , Target Rents and WG Policy Rent Bands 2016/17

For Carmarthenshire our average target rent for 2016/17 is £78.08 (low end).The all Wales average is £85.69 with Carmarthenshire’s being the 2nd lowest.

Based on applying the policy for 2016/17 rent plus £2 progression we would be above the low end by 65p at £78.73. 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. Below is a table outlining the numbers of properties reaching target rents over the next 4 years. The options given below will help us achieve rent harmonisation over a period of time.

Note the significant increase in properties which do not meet the rent target post 2020/21 if the maximum progression is not implemented in table below :-

Year	1.4%+ £2 max increase cap	1.4%+ £1.50 max increase cap	1.4%+ £1 max increase cap
2016	2848	2799	2394
2017	1115	515	455
2018	657	650	466
2019	1088	631	596
Post 2020	2292	3405	4089

Table 2: Properties achieving target rents per year - assuming 1.4% increase plus cap at £2/£1.50 & £1

4.4. Impact on the HRA Business Plan

Our Business plan makes certain assumptions about rent levels which then determine capital projects and revenue projections for the delivery of services and maintaining the CHS.

The risk of not implementing the maximum progression during this transitional period (up to 2019/20) could be loss of rental income that may

not be recovered in future years. It should be noted a number of properties will take some years to reach the new target rent subject to these arrangements. Within the policy there are powers available to Welsh Ministers to ensure local authorities comply with the policy. The WG intend to review the Policy in 3 to 5 years time post implementation.

	Target 52 wk, Capped Increases, No Decreases
Cap applied to increase.	
Total rent envelope based on current proposals at £1 progression	36461k
16/17 rent envelope from 15/16 business plan	36709k
deficit (-) /surplus compared to 15/16 business plan	- 248k
forecast average rent	78.13
increase in average rent from 15/16	2.18%
% age deficit (-)/ surplus compared to 15/16 business plan	-0.68%
Total rent envelope based on current proposals at £1.50 progression	36604k
16/17 rent envelope from 15/16 business plan	36709k
deficit (-) /surplus compared to 15/16 business plan	- 105k
forecast average rent	78.44
increase in average rent from 15/16	2.59%
% age deficit (-)/ surplus compared to 15/16 business plan	-0.41%
Total rent envelope based on current proposals at £2 progression	36738k
16/17 rent envelope from 15/16 business plan	36709k
deficit (-) /surplus compared to 15/16 business plan	29k
forecast average rent	78.73
increase in average rent from 15/16	2.97%
% age deficit (-)/ surplus compared to 15/16 business plan	0.07%

Table3 : financial impact of a £1 cap, £1.5 cap and £2 cap

4.4.1.Options for Consideration

1. Increase rents as per the WG policy of CPI+1.5% plus a maximum of £2 progression. This increases the average rent from £76.46 to £78.73 (2.97%). This is within the target rent band set by WG and leaves Carmarthenshire £3.46 below the target rent (mid-point).

By agreeing to a rent increase capped at £2 with no decrease for those properties above target rent, we will generate income similar to the 2015/16 Business Plan assumptions as agreed by members.

2. Increase rents as per the WG policy of CPI plus 1.5% plus a maximum of £1.50 progression. This increases the average rent from £76.46 to

£78.44 (2.59%). This is within the target rent band set by WG and leaves Carmarthenshire £3.75 below the target rent (mid-point).

It produces a rent envelope approximately £75k below the assumptions made in the 2015/16 Business Plan.

3. Increase rents as per the WG policy of CPI plus 1.5% plus a maximum of £1 progression. This increases the average rent from £76.46 to £78.13 (2.19%). This is within the target rent band set by WG and leaves Carmarthenshire £4.06 below the target rent (mid-point).

It produces a rent envelope approximately £220k below the assumptions made in the 2015/16 Business Plan.

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 2016/17 Business Plan assumptions.

Currently we have 36% tenants receiving no support through Housing Benefit (HB) ,28% receiving partial HB and 36% receiving full HB.

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

Receive an increase of :-	No. of householders affected by:-		
	2.97% increase	2.59% increase	2.18% increase
No increase	574	574	574
up to £2.00	2768	2768	2844
£2.00 to £2.99	466	5588	5526
£3.00 to £3.99	5136	14	0
£4.00 to £4.99	0	0	0
	8944	8944	8944

Table 4 : No .of Householders affected by average increases (not decreases)

4.5. Garage Rental Income

The HRA currently receives a net rental income of £109k per annum. This equates to a weekly charge of £8.50 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 2.8% in line with the rent

increase to £8.75 per week. This will increase the net rental income to £119k for 2015/16. Garage bases will rise similarly from £2.15 per week to £2.20 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. It is proposed that Officers investigate further the introduction of such charges for future years.

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

Service Charge Weekly Increase	Number of Householders Affected	
	2015/16	2016/17
Capped at £3.30	127	52
Rise of between £2 and £3.30	90	24
Rise of between £1 and £2	276	111
Rise of less than £1	415	186
No Change	6	0
Reduced by less than £1	213	275
Reduced by between £1 and £2	98	176
Reduced by greater than £2	79	473
No Charge in year	0	7
Total	1304	1304

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. The treatment works were originally built to serve 140 rural council owned properties built at around the same time. Since the initial commissioning of treatment works, 75 of the original council properties have been subject to Right to Buy and are no longer in council ownership. Income generated from charges for use of these facilities comes to approximately £45k. It is proposed for 2016/17 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.

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 2.97% the overall proposed budget will result in a surplus on the Housing Revenue Account of £4.89 million 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. RECOMMENDATIONS

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

- **To increase the average housing rent by 2.97% (£2.27) per dwelling per week as per WG Social Housing Rents Policy. This will produce a sustainable Business Plan and continue to achieve & maintain CHS+ and is supported by DCHS Steering Group**
- **To continue with maximum progression permissible for rents below target, until target rents are achieved.**
- **To increase garage rents to £8.75 per week (from £8.50 in 2015/16) and garage bases to £2.20 per week (from £2.15 in 2015/16)**
- **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 by 2.97%**