WARWICK DISTRICT COUNCIL	**Executive – 8 February 2017** **Council**	**Agenda Item No.** **5**

Title	Housing Revenue Account (HRA) Budget 2017/18 and Housing Rents
For further information about this report please contact	Bill Hunt bill.hunt@warwickdc.gov.uk 01926 456403 Andrew Rollins andrew.rollins@warwickdc.gov.uk 01926 456803
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	Reports to Executive November 2016: • Housing Revenue Account base budgets latest 2016/17 and original 2017/18.
Background Papers	None

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes (Ref 808)
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	20/01/2017	Bill Hunt
Heads of Service	20/01/2017	Bill Hunt (Housing and Property Services) & Mike Snow (Finance)
CMT	20/01/2017	
Section 151 Officer	20/01/2017	Mike Snow
Monitoring Officer	20/01/2017	Andrew Jones
Finance	20/01/2017	Andrew Rollins
Portfolio Holder	20/01/2017	Councillor Phillips
Consultation & Community Engagement		
None		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. Summary

1.1 This report presents to Members the latest Housing Revenue Account (HRA) budgets in respect of 2016/17 and 2017/18.

1.2 The information contained within this report supports the recommendations to Council in respect of setting next year's budgets, the proposed changes to council tenant housing rents, garage rents and other charges for 2017/18.

2. Recommendations

The Executive is asked to recommend to Council:

2.1 That housing dwelling rents for 2017/18 be reduced by 1% for existing HRA dwelling tenants.

2.2 That the rents for Designated, Sheltered and Very Sheltered dwellings for 2017/18 is reduced by 1%.

2.3 That HRA dwelling rents for 2017/18 onwards for new tenancies are set at Target Social Rent, except for Sayer Court, which are to be set at Warwick Affordable Rent levels.

2.4 That shared ownership properties rents will increase by RPI + 0.5% in accordance with the terms of the lease.

2.5 That garage rents for 2017/18 be increased by an average of £4 per month (excluding VAT where applicable).

2.6 That the latest 2016/17 and 2017/18 Housing Revenue Account (HRA) budgets be agreed (Appendix 3).

2.7 The 2017/18 Budget to incorporate an additional £545,900 to fund Housing Related Support Services in 2017/18, pending a review of service (as outlined in the HRS Committee Report – February 2017).

3. Reasons for the Recommendations

3.1 National Housing Rent Policy – 2017/18 Annual decrease

3.1.1 In July 2015 the Government announced that with effect from April 2016, the rents charged for existing tenants by local authority housing landlords should be reduced by 1% per year, for four years.

3.1.2 In March 2016, a one year deferral was introduced for supported housing from the reduction of social rents in England of 1%, allowing the Council to continue to apply a CPI (at September) + 1% rent increase in 2016/17.

3.2 As planned, the rent reduction will now apply to supporting housing, with rents in these properties decreasing by 1% a year for 3 years, up to and including 2019/20.

3.2.1 The existing exemption for specialised supporting housing will remain in place and be extended over the remaining 3 years of the policy for mutual / cooperatives, alms houses and Community Land Trusts and refuges. However this Council does not currently have any housing which would meet these criteria.

3.2.2 For void properties, the Council is able to set the base rent as the Target Social Rent (also known as Formula Rent). This represents a small increase over the social rent charged by the Council to tenanted properties and will increase projected rental income by around £5,000 in 2017/18. However, this rent has to be subsequently reduced by 1% at the next annual rent review when the property is re-let to comply with the July 2015 policy announcement included in Welfare Reform and Work Bill 2015/16.

3.2.3 Details of the current rents and those proposed as a result of this recommendation are set out at Appendix 1. A comparison of the Council's social rents with affordable and market rents is set out at Appendix 2.

3.2.4 The only exception would be in respect of properties at Sayer Court, Leamington where the Council has previously decided that tenancies within the new development will be let at Warwick Affordable Rent Levels. Whilst the 1% rent decrease will apply to existing tenants, new tenancies established during 2017/18 would be charged at the current full level of rent.

3.2.5 The report recommends compliance with national policy and guidance on the setting of rents for General Needs and Supported Housing properties.

3.2.6 The shared ownership properties rent increases are not governed by the national Policy. Schedule 4 of the lease agreement allows the council to increase rents for shared ownership properties by RPI + 0.5% in April 2017.

3.3 Garage Rents

3.3.1 Garage rent increases are not governed by national guidance. Any increase that reflects costs of the service, demand, market conditions and the potential for income generation can be considered. The HRA Business Plan base assumption is that garage rents will increase in line with inflation. However, the Council does not have in place a formal policy for the setting of rents for garages.

3.3.2 There are waiting lists for a number of garage sites, whilst other sites have far lower demand; where appropriate these sites are being considered for future redevelopment as part of the overall garage strategy for the future. To date 88 garages have been demolished or disposed of to provide land for new affordable housing.

3.3.3 Market Research shows that in the private sector, garages are being marketed for around £80 per month (as at January 2016). The average monthly rent for a Council garage rent is currently £26.

3.3.4 With regard to these factors an average increase of £4 per month has been recommended as the most appropriate increase. The additional income generated for the service will help to alleviate the loss of rental income from dwellings and ensure funding is available for responsive repairs and modernisation of the whole HRA stock.

3.3.5 This increases projected income for 2017/18 by £100,000 compared to 2016/17.

3.3.6 For tenants, most garage rents will increase by 77p per week, from £6.11 to £6.88. Non-tenants also pay VAT on the charge, so it will increase by £1.14 per week, from £7.33 to £8.47.

3.4 Shared Ownership

3.4.1 During 2015, the council took ownership of 15 shared ownership dwellings at Great Field Drive in Southwest Warwick.

3.4.2 Shared owners are required to pay rent on the proportion of their home which they do not own.

3.4.3 The Council adopted the Homes and Communities Agency (HCA) template lease agreement which includes a schedule on rent review. The lease determines that the rent will be reviewed in April 2017 and will be increased by RPI + 0.5%.

3.5 Housing Revenue Account (HRA) budgets

3.5.1 The Council is required to set a budget for the HRA each year, approving the level of rents and other charges that are levied. The Executive makes recommendations to Council that take into account the base budgets for the HRA and current Government guidance on national rent policy.

3.5.2 In addition to the changes identified in the report, the HRA will be budgeting to provide an additional £545,900 to fund Housing Related Support Services in 2017/18, pending a review of service (as outlined in the HRS Committee Report – February 2017). Any surplus would be returned to the Capital Investment Reserve following the review, due in July.

3.5.3 The dwelling rents have been adjusted to take account of the loss of rent resulting from actual and anticipated changes in property numbers for 2016/17 and 2017/18. This includes additional rental income from the 81 new build properties at Sayer Court which were completed Q3 2016 and are in the process of being let to tenants.

3.5.4 The garages rental income has been increased to take into account the £4 per month average increase in charges for 2017/18.

3.5.5 The bad debt provision has been reduced by £56,800 to 1.5% of gross rents (down from 1.71%) for 2017/18. This is to reflect a reduction in the value of rent arrears over the past 2 years. The introduction of Universal credit was expected to result in an increase in the levels of rent arrears. However, this is now not expected to be fully implemented until summer 2018.

3.5.6 Full details of the Budget will be included within the Budget Book which will be available to members ahead of Budget/Rents Setting by Council (a summary is provided in appendix 3).

3.5.7 The Housing Investment Programme is presented as part of the separate February 2017 report 'General Fund Budget'.

3.5.8 The recommendations will enable the proposed latest Housing Investment Programme to be carried out and contribute available resources to the HRA Capital Investment Reserve for future development whilst maintaining a minimum working balance on the HRA of at least £1.4m in line with Council policy.

4. Policy Framework

4.1 The Housing Revenue Account (HRA) budget is a financial expression of the Council's housing policies, having regard to the available resources and rent setting consequences. This report is in accordance with the Council's Financial Strategy.

4.2 Rents Policy

4.2.1 This report recommends following the latest Central Government rent guidance. This is also the rent policy assumed in the current HRA Business Plan.

4.2.2 As agreed in June 2014, void homes are re-let at Target Social Rent, in line with the latest Central Government rent guidance.

4.3 Fit for the Future

4.3.1 A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. The HRA is subject to the same regime to ensure efficiency within the service.

5. Budgetary Framework

5.1 The HRA is a key component of the Council's budget framework and the budgets proposed are in accordance with the long term HRA Business Plan.

5.2 The HRA Business Plan approved in March 2016 had assumed social rents would continue to decrease by 1% annually for another 3 years, and that supported housing would also decrease by 1% following a one year deferral. The assumptions underpinning the HRA Business Plan are currently being reviewed and a revised Plan will be reported to the March 2017 Executive as part of the Council's Housing Futures project. .

5.3 The recommended budgets maintain the minimum working balance on the HRA expected under current Council policy, increasing by inflation each year.

5.4 The HRA Business Plan will, as part of Housing Futures, continue to be reviewed throughout 2017/18 to take account of:

- An assessment of the implications of the outcomes of the stock condition survey, completed in October 2016, which is currently underway.
- Further review of the delivery of the repairs and maintenance services, following last year's cessation of the 'Open Book' system and re-introduction of a 'Schedule of rates' system, with the aim of increasing cost control and reducing the resources needed to manage the administration of contracts.

6. Risks

6.1 The risks, and appropriate control mechanisms, for the 2017/18 HRA Budget and the rent increase process are considered below.

6.2 When setting the HRA budget for 2017/18, a sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:-

- Loss of Supporting People Grant income = £463,700. It was agreed in the 2015 HRA BP that Housing Related Support would be funded for one year, up to 31 July 2018.

- 0.5% change in void rent loss = £129,000 increase or decrease to rental income.

- Currently only the element of anticipated capital receipts from Right to Buy (RTB) sales specifically reserved for provision of affordable housing has been included for HRA usage in future years. It is assumed that the remainder of receipts will continue to be used to fund General Fund housing. Each sale currently generates an average 'usable capital receipt' for the Council of around £35,500, the remainder being paid to the Treasury under capital receipt 'pooling' regulations.

- On average the loss of rental income due to RTB sales is £4,700 per property for a full year; so in the year of sale the initial losses will be approximately half of this, £2,350, for each home sold, assuming RTB sales are spread fairly evenly throughout the year.

6.3 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2017/18 and overall HRA Business Plan.

6.4 The Housing Revenue Account faces a number of financial pressures arising from changes to national policy and legislation, including the Housing and Planning Bill.

§ The 1% reduction in income will reduce the income to the HRA from £25.8m in 2015-2016 to circa £24.7m after 4 years.

§ The implication of the cessation of funding for the housing related support services for older persons from Warwickshire County Council in July 2016. Proposals to reduce the level of draw down from the contingency provision, as set out in paragraph 3.5.2 are contained with the Housing Related Support Services report elsewhere on this agenda.

§ The introduction of Universal Credit and of Local Housing Allowance caps for Housing Benefit paid to low income tenants below the age 35 may lead to additional challenges in recovering rent due as residents adjust to the new systems.

§ A levy is expected to be imposed on the Council to provide the Government with the funds needed to compensate housing associations for the extension of Right–to-Buy to their tenants. It is not yet clear how much this levy will be. However, it may be possible that some of the levy may be able to be funded from the sale of higher value properties as they become void. An expanded regional pilot of the 'right to buy' for housing association tenants will continue during 2017/18. The Government have confirmed they will fund this, and therefore will not be requiring Higher Value Asset payments in 2017/18.

§ The introduction of the mandatory use fixed term tenancies for future lettings, following the decision to not proceed with 'Pay to Stay'. This will in time add additional management costs to the HRA and may increase the number of void properties.

6.5 Officers will closely monitor the changes discussed in Section 6.4 above. As more details become available, Budgets and the Business Plan will be updated to reflect this, with Members being notified accordingly.

7 Alternative Options

7.1 Garage Rents

7.1.1 The Council has discretion over the setting of Garage rents.

7.1.2 Each 1% change in garage rents results in an increase or decrease of potential income of around £5,200 per year.

7.1.3 It would be possible to set Garage rents higher than those proposed to maximise income; however significantly higher rents may make Garages harder to let and so reduce income. Similarly, rents could also be reduced but this would reduce income to the HRA Budget when it is needed.

7.1.4 The review of the HRA Business Plan during 2017/18 will consider options for increasing the financial viability of providing garages.

7.2 Dwellings

7.2.1 The Council does have the discretion to decrease rents for existing tenants by more than the 1% prescribed.

8 Background

8.1 The Executive received a report on the background to setting the HRA budget and 2017/18 at its meeting in November 2016.

8.2 However, garage rents, heating lighting and water charges, and supporting people charges for 2017/18 need to be considered and agreed before the final budgets can be set. The background to each of these items is summarised below.

8.3 These rents and charges, along with any other changes that have arisen since the previous report, impact on the setting of the final HRA budget.

8.4 Housing Rents and Government Policy

8.4.1 In July 2015 the Government announced that with effect from April 2016, the rent charged by local authorities should be reduced by 1% per year for four years. The Government does however expect void properties to be re-let at Target Social Rent so in time bringing all social housing rents into line with the original aims of the 2002 convergence policy.

8.4.2 A summary of average target rents compared to the 2017/18 rents for current tenants recommended in this report are included in Appendix 1.

8.4.3 A comparison with market rents currently charged for properties with 1 to 4 bedrooms in the WDC area has been included at Appendix 2. For example, the current average weekly market rent for a 3 bedroom home in the area is £245, whilst the proposed average 2017/18 rent for current WDC tenants living in a 3 bedroom home is £98.01. On average proposed 2017/18 rents are approximately half of current market rents. This means that the Council's housing service reduces the cost of living for tenants, allowing more money to be spent in the wider economy and reducing the social security costs of helping lower income tenants afford their rent.

8.5 Housing Revenue Account (HRA)

8.5.1 Councils with housing stock are required to maintain a separate 'ring-fenced' Housing Revenue Account (HRA) for all expenditure and income related to council housing. By law councils cannot approve a budget that would lead to a deficit HRA balance.

8.5.2 2016/17 and 2017/18 budgets were last considered in the November 2016 report 'Housing Revenue Account base budgets latest 2016/17 and original 2017/18', which detailed the latest 2016/17 revised budget and base 2017/18 budget and identified the changes from the initial 2016/17 budget.

8.5.3 A summary of the latest 2016/17 and 2017/18 budgets can be found in Appendix 3.

8.5.4 The Capital works in the Housing Investment Programme are presented as part of the separate February 2016 report 'General Fund Budget'.