

 s Executive & Council, 10th February and 24th February 2016 respectively		Agenda Item No. 5
Title	Housing Revenue Account (HRA) Budget 2016/17 and Housing Rents	
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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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	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 13th January 2016: <ul style="list-style-type: none"> • Housing Revenue Account base budgets latest 2015/16 and original 2016/17. • Housing Related Support Services. 	
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 664)
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	25-Jan-2016	Bill Hunt
Heads of Service	25-Jan-2016	Andy Thompson (Housing and Property Services) & Mike Snow (Finance)
CMT	25-Jan-2016	
Section 151 Officer	25-Jan-2016	Mike Snow
Monitoring Officer	25-Jan-2016	Andrew Jones
Finance	25-Jan-2016	Finance/Housing & Property Report
Portfolio Holder	25-Jan-2016	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 2015/16 and 2016/17.
- 1.2 The information contained within this report supports the recommendations to Council in respect of setting next year's budgets, the proposed increases to council tenant housing rents, garage rents and other charges for 2016/17 and the rents to be set for the new homes being developed at Sayer Court in Leamington Spa. It does not include the impact any potential Housing Association "Right-to-buy" levy.

2. Recommendations

The Executive is asked to recommend to Council:

- 2.1 That housing dwelling rents for 2016/17 be reduced by 1% for existing HRA dwelling tenants, except as in 2.2 below.
- 2.2 That the rents for Designated, Sheltered and Very Sheltered dwellings be increased by CPI + 1%, subject to receipt of formal government guidance advising that such an option is permissible. Full Council will be notified accordingly of any updates and changes to national policy on rent setting for 2016/17. (Paragraph 3.1.2 and 3.1.3)
- 2.3 That HRA dwelling rents for 2016/17 for new tenancies are set at Target Social Rent.
- 2.4 That garage rents for 2016/17 be increased by 5%.
- 2.5 That 2016/17 Supporting People charges for housing tenants receiving housing related support should remain the same as 2015/16.
- 2.6 That the latest 2015/16 and 2016/17 Housing Revenue Account (HRA) budgets, as set out in Appendix 3, be agreed.
- 2.7 That the rents for Sayer Court be set at Warwick Affordable Rents.
- 2.8 That shared ownership properties rents remain the same as 2015/16 in accordance with the terms of the lease.

3. Reasons for the Recommendations

3.1 National Housing Rent Policy – 2016/17 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 the House of Lord s' debate on January 27th, 2016 on the report stage of the Welfare Reform and Work Bill, Lord Freud (Minister of State for Welfare Reform) confirmed the intention to exempt: "all supporting housing" from the 1% rent reduction. Further details, detailing precisely which properties and tenancies will be included within the exemption, are expected in place by the start of the new

financial year. However, it is expected that properties of a type provided in the Council's supported housing schemes are likely to be included. It is possible that the exemption may also include designated dwellings.

- 3.1.3 The exemption would allow the Council to continue to apply CPI plus 1% rent increase to any properties and tenancies defined by the Government in the relevant regulations and guidance. The proposed variation translates into a rent increase of 0.9% in 2016/17 for the Council's sheltered housing and will increase projected income from these properties by £34,000. If the regulations allow for the increase to apply to designated dwellings, a rent increase of 0.9% could be applied to these properties, increasing projected income from these properties.
- 3.1.4 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 2016/17. However, this rent has to be subsequently reduced by 1% at the next annual rent review after the property is re-let to comply with July 2015's policy announcement included in the Welfare Reform and Work Bill 2015/16 (currently progressing through Parliament).
- 3.1.5 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.
- 3.1.6 The report recommends compliance with national policy and guidance on the setting of rents for General Needs and Supported Housing properties.
- 3.1.7 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.

3.2 Garage Rents

- 3.2.1 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.
- 3.2.2 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. A full review of the Council's role in the provision of garages is included in the Housing Futures project (see paragraph 6.5).
- 3.2.3 Market Research shows that in the private sector, garages are being marketed for around £80 per month.
- 3.2.4 With regard to these factors an increase of 5% 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 the continuous viability of the Housing Revenue Account Business plan.

3.2.5 This increases projected income for 2016/17 by £24,700 compared to 2015/16.

3.2.6 For tenants, most garage rents will increase by 29p per week, from £5.82 to £6.11. Non-tenants also pay VAT on the charge, so it will increase by 35p per week, from £6.98 to £7.33.

3.3 Supporting People charges

3.3.1 As reported to Executive in January 2016 the funding the Council receives from WCC to provide housing related support services (formerly referred to as Supporting People services) will end on 31st July 2016.

3.3.2 Executive agreed that the Council will continue to provide the same level of housing related support and therefore will continue to keep the charges for this service at the current level. The level of service provided and the charges for providing this service will be reviewed during 2016/17.

3.4 Housing Revenue Account (HRA) budgets

3.4.1 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.

3.4.2 The latest budgets presented in Appendix 3 are based on the budgets approved in January 2016 updated for any changes since that report and the recommendations in this report.

3.4.3 The dwelling rents have been adjusted to take account of the loss of rent resulting from actual and anticipated changes in property numbers for 2015/16 and 2016/17. However, additional rental income is expected from October 2016 onwards when the new 81 build properties at Sayer Court are completed and let to tenants.

3.4.4 The garages rental income has been increased to take into account the 5% increase in charges for 2016/17.

3.4.5 The projected income for Sayer Court has increased by £46,000 to reflect the additional rental income from charging Warwick Affordable Rents.

3.4.6 The overall impact of the proposed changes on the Housing Revenue Account is favourable. The HRA working balance will increase by £103,400 to £1.5m.

3.4.7 Appendix 3 shows the recommended Housing Revenue Account budgets for 2015/16 and 2016/17, updated to show the latest position including the effect of the recommendations in this report.

3.4.8 The Housing Investment Programme is presented as part of the separate February 2016 report 'Budget 2016/17 and Council Tax – Revenue and Capital' a summary is included within Appendix 3.

3.4.9 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.

3.5 Sayer Court Rents

- 3.5.1 In October 2016, the Council's new development of flats and bungalows at Sayer Court will be completed and ready for letting. The first show flat will be ready for marketing in March 2016. To make the marketing exercise a success, it will be necessary for prospective tenants to be advised on the rents charged for the various dwelling types within the scheme.
- 3.5.2 Because Sayer Court is a 100% affordable housing scheme, the council has a degree of flexibility in rent setting for the tenure of these homes.
- 3.5.3 The Council's current policy for its own housing stock is for all existing properties to be let at current Rent and new tenancies at Target Social rent.
- 3.5.4 In the case of new build schemes such as Sayer Court, the Council has the option to either apply its current policy of Target Social Rent or to adopt another approach to rent setting (paragraph 7.2).
- 3.5.5 Warwick Affordable Rent is the midway point between Target Social Rent and Affordable Rent. The Affordable rent is set nationally as 80% of the local market rent for similar properties. However, setting rents at this level will mean that the Council will not have consistent rent setting policy for all its properties and the scheme may not be as attractive to new and transferring tenants.
- 3.5.6 The new build properties at Sayer Court will have high energy efficiency ratings compared to existing homes and thus the opportunity for residents to have lower energy bills.
- 3.5.7 Warwick Affordable Rents are expected to fall within the limits currently set for housing benefit and total projected rental income for 2016-17 will be £251,000 (Appendix 4).
- 3.5.8 In addition, the council can maintain the attractiveness of the existing stock by charging higher rents for the Sayer Court properties
- 3.5.9 Appendix 4 to this report sets out the Warwick Affordable Rents for Sayer Court.
- 3.5.10 To set a precedent for rent setting for new build schemes and to generate additional rental income which can be used to fund capital investment in future years, setting rents at Warwick Affordable Rents is recommended for Sayer Court. As part of the Housing Futures project, there will be an opportunity to consider the Council's rent policy for its landlord service.

3.6 Shared Ownership

- 3.6.1 During 2015, the council took ownership of 15 shared ownership dwellings at Great Field Drive in South West Warwick.
- 3.6.2 Shared owners are required to pay rent on the proportion of their home which they do not own.
- 3.6.3 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%.

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 For reference, the HRA Business Plan approved in March 2015 had assumed social rents will increase on an annual basis by CPI+1%. The HRA Business plan will be reviewed and revised during 2016 as part of the Council's Housing Futures project to develop a new housing strategy that will ensure that the Council's landlord service remains viable. The outcomes of the Housing Futures Project will take effect from 2017.
- 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 Earlier reports to Executive have considered the cost of the Sayer Court scheme and the potential payback. The November 2014 report stated:-

5.8 Based on the whole life cost of the project (circa £33m) affordable rents offer a payback period of 115 years and social rents offer a payback period of over 200 years. The eventual scheme rent levels will be set based on relevant Council policies following consultation with the Housing and Property

Services Portfolio Holder taking into account the social and financial objectives of the Council.

5.9 With the paybacks periods being so long, the scheme will present a cost to the HRA Business Plan. Whilst the HRA can afford to meet these costs, plans need to be put in place for any other schemes to come forward that will be self-financing and so help the HRA to be able to eventually repay its long term debt.

- 5.5 An updated HRA Business Plan, incorporating all known changes, including the proposals in the Housing and Planning Bill (as considered within the January HRA Base Budget report, and within Section 6 of this report) and updated projections, will be reported to Executive in March 2016.
- 5.6 During 2016/17 the HRA Business Plan will, as part of Housing Futures, be reviewed and revised to take account of:
- A stock condition survey to be completed in August 2016, which may impact upon the resources needed to maintain the Council's housing stock in good condition.
 - A review of the way repairs and maintenance services are delivered with the aim of increasing cost control and reducing the resources needed to manage the administration of contracts.
 - Work to reduce the cost of providing new homes, for example by maximising the use of the Council owned land resources for the direct provision of new homes by the Council and introducing robust viability assessments for new housing schemes.
- 5.7 Given all the uncertainties facing the HRA Business Plan, it is important that the council adopts a prudent approach in setting rents, Setting Sayer Court rents as the "Warwick Affordable" will protect the financial stability of the HRA and will help to recover of the full cost of the scheme.

6. Risks

- 6.1 The risks, and appropriate control mechanisms, for the 2016/17 HRA Budget and the rent increase process are considered below.
- 6.2 When setting the HRA budget for 2016/17, 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.
 - 0.5% change in void rent loss = £129,600 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 2016/17 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 which is expected to get Royal Assent in April 2016.
- § 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.
 - § Funding the housing related support services for older persons after grant from Warwickshire County Council terminates in July 2016.
 - § 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 to the Council as a result of the introduction of Pay-to-Stay, the additional rent that will be charged to tenants whose household income exceeds £30,000 per year from 2017/18. It is as yet not clear how much this levy will be nor how much of it will be recoverable from tenants whose income is in excess of the £30,000 threshold.
 - § A further 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.
 - § The introduction of the mandatory use of insecure, short term tenancies for future lettings will in time add additional management costs to the HRA and may increase the number of void properties.
- 6.5 To mitigate the financial risks arising from these changes, the Council will be launching the Housing Futures project in February of 2016. Housing Futures will develop a new housing strategy for the Councils and review and revise the HRA Business Plan so that the Council's landlord role is able to remain viable. The Housing Futures project is scheduled for completion in December 2016.
- 6.6 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.
- 6.7 A significant contribution to the Bad Debt Provision is already included in the budgets to reflect the possible impact of Welfare changes. Close monitoring of

the rent arrears situation is being undertaken with every effort being made to contain any increase in current arrears they arise.

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 £4,800 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.
- 7.1.4 The review of the HRA Business Plan during 2016/17 will consider options for increasing the financial viability of providing garages.

7.2 Sayer Court

- 7.2.1 Adopting Target Social Rent will provide consistency of rents across all homes owned by the Council and make sure that rents charged remain within the limits that have been set for eligibility for housing benefit support for those with low incomes. The rents will be competitive against other housing options and will support the marketing of these properties to new and transferring tenants. The projected rental income for 2016/17 at Target Social Rent will be in the region of £206.000(Appendix 4).

8 Background

- 8.1 The Executive received a report on the background to setting the HRA budget and housing rents and charges for 2016/17 at its meeting on 13th January 2016.
- 8.2 However, dwelling rents, garage rents, and supporting people charges for 2016/17 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 2016/17 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 2016/17 rent for current WDC tenants living in a 3 bedroom home is £99.03. On average proposed 2016/17 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 2015/16 and 2016/17 budgets were last considered in the January 2016 report 'Housing Revenue Account base budgets latest 2015/16 and original 2016/17', which detailed the latest 2015/16 revised budget and base 2016/17 budget and identified the changes from the initial 2015/16 budget.
- 8.5.3 The Capital works in the Housing Investment Programme are presented as part of the separate February 2016 report 'Budget 2016/17 and Council Tax – Revenue and Capital'. A summary is included within Appendix 3 for reference.