WARWICK DISTRICT COUNCIL	**Executive & Council, 7 February 2018**	**Agenda Item No.** **5**

Title	Housing Revenue Account (HRA) Budget 2018/19 and Housing Rents
For further information about this report please contact	Lisa Barker Tel: 01926 456403 Lisa.barker@warwickdc.gov.uk Andrew Rollins Tel: 01926 456803 Andrew.rollins@warwickdc.gov.uk
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No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	Executive 29 November 2017 Item 4: Housing Revenue Account budgets latest 2017/18 and base 2018/19.
Background Papers	As above

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 886)
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	22/01/2018	Bill Hunt
Heads of Service	22/01/2018	Lisa Barker (Head of Housing) & Mike Snow (Finance)
CMT	22/01/2018	
Section 151 Officer	22/01/2018	Mike Snow
Monitoring Officer	22/01/2018	Andrew Jones
Finance	22/01/2018	Andrew Rollins
Portfolio Holder	22/01/2018	Councillor Phillips
Consultation & Community Engagement		
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 2017/18 and 2018/19.

1.2 The information contained within this report makes 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 2018/19.

2. Recommendations

The Executive is asked to recommend to Council:

2.1 That rents for all tenanted dwellings (excluding shared ownership) be reduced by 1% for 2018/19.

2.2 That HRA dwelling rents for all new tenancies created in 2018/19 are set at Target Social (Formula) Rent, or at Warwick Affordable rent for Sayer Court properties.

2.3 That garage rents for 2018/19 are increased by an average £4 per month.

2.4 That the latest 2017/18 and 2018/19 Housing Revenue Account (HRA) budgets are agreed (Appendix 3).

3. Reasons for the Recommendations

3.1 National Housing Rent Policy – 2018/19 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. 2018/19 will be the third year of this reduction.

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.

3.1.3 In 2017/18, the 1% rent reduction was applied to supported housing, with rents in these properties decreasing by 1% a year up to and including 2019/20.

3.1.4 Specialised supporting housing will remain exempt from this policy for mutual / co-operatives, alms houses and Community Land Trusts and refuges. However this Council does not currently have any housing which would meet these criteria.

3.1.5 For new tenancies, landlords are permitted to set the base rent as the Target Social Rent (also known as Formula Rent). In our case this represents a small increase over the social rent charged for tenanted properties and is projected to increase rental income by around £5,800 in 2018/19. However, these rent levels would then be subsequently reduced by 1% at the next annual rent review if the tenancy is still running, to comply with the Welfare Reform and Work Bill 2016.

3.1.6 The only exception would be in respect of properties at Sayer Court, Leamington, where the Council has previously approved 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 2018/19 would be charged at the full Warwick Affordable Rent Value.

3.1.7 Details of all current rents and those proposed as a result of these recommendations are set out in Appendix 1. A comparison of the Council's social rents with affordable and market rents is set out in Appendix 2.

3.1.8 The recommendations ensure that the Council is operating in compliance with national policy and guidance on the setting of rents for General Needs and Supported Housing properties.

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.

3.2.3 Market Research shows that in the private sector, garages are being marketed in the district for on average £80 per month (valuations last reviewed January 2016). The average monthly rent for a Council garage is currently £29.50.

3.2.4 Taking this into consideration 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 the continuous viability of the Housing Revenue Account Business Plan.

3.2.5 Projected income for 2018/19 will therefore increase by a net £84,000 compared to 2017/18.

3.2.6 Alongside the rent increase, a review of garage voids has indicated that on average 15% of the total garage stock is void throughout the year, worth £125,000 in potential income.

3.2.7 Taking into consideration the rent increase, and review of void levels alongside existing garage income budgets, for 2018/19 income budget is to increase by £42,000 compared to the 2017/18 income budget.

3.2.8 For tenants, most garage rents will increase by 92p per week (£48 per month), from £7.07 to £7.99. Non-tenants also pay VAT on the charge, so it will increase by £1.11 per week, from £8.48 to £9.59.

3.3 **Shared Ownership**

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

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

3.3.3 The shared ownership properties' rent increases are not governed by the national Policy.

3.3.4 The Council adopted the Homes and Communities Agency (HCA) template lease agreement which includes a schedule on rent review. Schedule 4 of the lease agreement determines that the rent will be increased by RPI + 0.5% from April 2018.

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 dwelling rents have been adjusted to take account of the loss of rent resulting from actual and anticipated changes in property numbers for 2017/18 and 2018/19. This includes additional rental income from the 5 new build properties purchased at Cloister Way which are due to be purchased by and subsequently let to tenants, and changes based on the number of Right-To-Buy sales in 2017/18, and those forecast for 2018/19.

3.4.3 Shared ownership property rents will increase by RPI + 0.5% in accordance with the terms of the lease. As at November 2017, RPI is 3.7%, therefore the income budget has been increased by £3,000.

3.4.4 The garages rental income budget has been increased by £12,000 to take into account the £4 per month average increase in charges for 2018/19 and current level of voids. This is in addition to the £30,000 budget already included as part of budget setting for a 5% increase (as per the November '17 Executive Report, in turn based on the assumptions underpinning the 2017/18 HRA Business Plan).

3.4.5 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).

3.4.6 The Housing Investment Programme is presented as part of the separate February 2018 report 'General Fund 2018/19 Budget and Council Tax' (Ref 885).

3.4.7 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 **Fit for the Future**

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	**Services**	**Money**
External		
Health, Homes, Communities	**Green, Clean, Safe**	**Infrastructure, Enterprise, Employment**
Intended outcomes: Improved health for all Housing needs for all met Impressive cultural and sports activities. Cohesive and active communities	Intended outcomes: Area has well looked after public spaces. All communities have access to decent open space. Improved air quality. Low levels of crime and ASB	Intended outcomes: Dynamic and diverse local economy. Increased employment and income levels. Vibrant town centres. Improved performance / productivity of local economy.
Impacts of Proposal		
Ensure housing standards and services are suitable for tenants, leaseholders and shared owners, meeting their needs and contributing to their health and well-being.	Ensure HRA budgets are sufficient to maintain HRA owned open spaces and the neighbourhoods around Council owned homes.	Ensure rents are set in accordance with national policy at lower than market rents rates to enable the cost of living for tenants to be reduced, allowing more money to be spent in the wider economy.
Internal		
Effective Staff	**Maintain or Improve Services**	**Firm Financial Footing over the Longer Term**
Intended outcomes: All staff are properly trained All staff have the appropriate tools. All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours.	Intended outcomes: Focusing on our customers' needs Continuously improve our processes. Increase the digital provision of services.	Intended outcomes: Better return/use of our assets. Full Cost accounting Continued cost management. Maximise income earning opportunities. Seek best value for money.
Impacts of Proposal		
The HRA budgets provide the necessary resources to achieve these outcomes	Enable tenants' needs to be met, and support improvement of services relating to Council Housing Stock.	Rent charges proposed ensure that debt can be serviced alongside the strategy outlined in the HRA Business Plan.

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.

4.3 **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. Improving housing standards in residents' homes directly and positively contributes to the Housing and Health-and-Wellbeing desired outcomes. It also contributes to the Housing and Homelessness Strategy objective of improving the management and maintenance of existing housing.

4.4 **Changes to Existing Policies**

The budgets proposed are in accordance with existing policies. The report does not propose any changes to the policies regarding rent setting.

4.5 **Rents Policy**

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

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

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 1% rent decrease for tenanted properties is budgeted for within the HRA Business Plan approved in March 2017. The assumptions underpinning the HRA Business Plan 2017 are currently being reviewed and a revised Plan will be reported to the March 2018 Executive.

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 continue to be reviewed throughout 2018/19 to take account of any subsequent changes to national policy or adjustments needed to reflect changes to existing spending priorities.

6. Risks

6.1 The risks, and appropriate control mechanisms, for the 2018/19 HRA Budget and the rent increase process are considered below.

6.2 When setting the HRA budget for 2018/19, a sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:-

- 0.5% change in void housing 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 use in future years. It is assumed that the remainder of receipts, known as RTB Any Purpose receipts, will continue to be used to fund other capital projects. Each sale currently generates an average 'usable capital receipt' for the Council of around £82,900 (of which £32,300 is RTB Any Purpose, and £46,600 RTB 1-4-1 receipts). This is calculated after a share is paid to the Treasury under capital receipt 'pooling' regulations, and transaction costs are deducted.

- 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 2018/19 and HRA Business Plan.

6.4 The Housing Revenue Account faces a number of financial pressures arising from changes to national policy and legislation:

§ The continuation of the 1% reduction in income will see HRA rental income reduce from £25.8m in 2015-2016 when the policy was implemented to circa £24.7m after 4 years. It was confirmed in October 2017 that from 2020 HRA rental income will increase by CPI + 1% each year.

§ The introduction of Universal Credit, currently scheduled for roll out locally in October 2018, may lead to additional challenges in recovering rent as residents adjust to the new systems.

§ There is continuing uncertainty as to whether the Government intends to implement the provision within the Housing and Planning Bill to impose a levy on local authorities to fund the extension of Right–to-Buy legislation to all Registered Providers. However, the Government have confirmed that no such requirement will be imposed before 2019/20.

§ The proposed introduction of mandatory use fixed term tenancies for lettings, following the decision to not proceed with 'Pay to Stay'. Administration of this would increase management costs to the HRA and may also increase the number of instances properties are void.

6.5 Officers will closely monitor the changes discussed in paragraph 6.4 above. As and when 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 £6,900 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.

7.2 Dwellings

7.2.1 The Council does have the discretion to decrease rents for existing tenants by more than the 1% prescribed. However, this would reduce the level of income for the HRA, which in turn could impact upon the viability of future projects.

7.2.2 The council does not have the discretion to change the rent schedule for existing shared ownership dwellings, which is determined by the existing terms of the lease.

8 Background

8.1 The Executive received a report on HRA budget setting at its meeting in November 2017, detailing Government and Council Policy that has driven the budget process.

8.2 However, garage rents, heating lighting and water charges, and supporting people charges for 2018/19 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 2018/19 rents for current tenants recommended in this report is 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 in Appendix 2. For example, the current average weekly market rent for a 3 bedroom home in the area is £252, whilst the proposed average 2018/19 rent for current WDC tenants living in a 3 bedroom home is £97.03. On average proposed 2018/19 rents are less than 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 2017/18 and 2018/19 budgets were last considered and approved in the November 2017 report 'Housing Revenue Account (HRA) budgets latest 2017/18 and base 2018/19', which detailed the latest 2017/18 revised budget and base 2018/19 budget and identified variances from the initial 2017/18 budget.

8.5.3 A summary of the latest 2017/18 and 2018/19 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 2018 report 'General Fund 2018/19 Budgets and Council Tax' (Ref 885). This will include £2.5m agreed by members in July 2017 in the 'Fire safety in high-rise buildings' report, to be funded from unallocated Major Repairs Reserve balances.