

 Executive 11th February 2015 Council 26th February 2015		Agenda Item No. <div style="font-size: 2em; text-align: center;">6</div>
Title	Housing Revenue Account (HRA) Budget 2015/16 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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	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		
Background Papers	Report to Executive 3 rd December 2014: Housing Revenue Account base budgets latest 2014/15 and original 2015/16	

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	21-Jan-2015	Bill Hunt
Head of Service	n/a	Finance/Housing & Property Report
CMT	22-Jan-2015	
Section 151 Officer	21-Jan-2015	Mike Snow
Monitoring Officer	20-Jan-2015	Andrew Jones
Finance	n/a	Finance/Housing & Property Report
Portfolio Holder	20-Jan-2015	Councillor Vincett
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 2014/15 and 2015/16.
- 1.2 The information contained within this report supports the recommendations to Council in respect of setting next year's budgets and the proposed increases to council tenant housing rents, garage rents and other charges for 2015/16.
- 1.3 Appendix 1 compares current rents, proposed rents, and rent restructuring rents.
- 1.4 Appendix 2 compares current rents and proposed rents to market rents and affordable rents.
- 1.5 Appendix 3 shows the latest 2014/15 and 2015/16 budgets, including forecast reserves.

2. Recommendations

To recommend to Council:

- 2.1 That housing dwelling rents for 2015/16 be increased by 2.2%.
- 2.2 That garage rents for 2015/16 be increased by 2.2%.
- 2.3 That 2015/16 Supporting People charges for housing tenants receiving housing related support be increased by 1%.
- 2.4 That the latest 2014/15 and 2015/16 Housing Revenue Account (HRA) budgets, as set out in Appendix 3, be agreed.

3. Reasons for the Recommendations

- 3.1 The Council is required to set a budget for the Housing Revenue Account (HRA) each year, requiring agreement on the level of rents and other charges that are levied. The Executive is therefore required to make recommendations to Council that take into account the base budgets for the HRA, strategic aspirations for the Housing Service and current Government guidance on rent restructuring.

3.2 Housing Rents – 2015/16 Annual Increase

- 3.2.1 In May 2014 the Department for Communities and Local Government issued updated guidance on Rents for Social Housing. More detail of the previous and current guidance is given in section 8.4.
- 3.2.2 In summary, Central Government social rent policy remains focused on 'target (formula) social rents' calculated according to a standard national formula. Increases in this target social rent are now linked to Consumer Price Index (CPI) inflation plus 1% rather than Retail Price Index (RPI) inflation plus 0.5%; which will typically mean lower increases (0.6% lower in 2015/16).

- 3.2.3 However Central Government no longer supports 'Rent Restructuring', the former rent policy where tenant's rents gradually moved towards target social rents through a series of annual rent increases. Instead Government expect an annual rent increase equal to Consumer Price Index (CPI) inflation plus 1%.
- 3.2.4 CPI in September 2014 was 1.2%, therefore a Rent Increase of 2.2% is expected under Central Government guidance. This report recommends following the national guidance.
- 3.2.5 This increases projected income for 2015/16 by £552,000.
- 3.2.6 For reference, the March 2012 HRA Business Plan (when Self Financing was introduced) assumed rent restructuring would be followed and largely complete by 2015/16. To reach target social rents would mean an average increase in rents of 9.56%, increasing HRA rental income by approximately £2.4m per year (compared to 2014/15 rents).
- 3.2.7 It should be noted that national rent policy is guidance, so social landlords are free to set rents on any other reasonable basis. Central Government have indicated they expect landlords to follow national policy.
- 3.2.8 The recommendation for rent increases will be reviewed each year to ensure they remain affordable for tenants and do not compromise the viability of the HRA Business Plan. An updated HRA Business Plan will be presented to Executive in March 2015.

3.3 Garage Rents

- 3.3.1 Garage rent increases are not governed by any national guidance. Any increase can be considered. The HRA Business Plan base assumption is that garage rents will increase in line with inflation, however there has been no consistent policy followed in recent years.
- 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. To date 88 garages have been demolished or disposed of during 2014/15 to provide land for new affordable housing for rent.
- 3.3.3 With regard to these factors an increase of 2.2% has been recommended as the most appropriate increase, the same as that proposed for housing rents.
- 3.3.4 This increases projected income for 2015/16 by £10,700.
- 3.3.5 For tenants, most garage rents will increase by 13p per week, from £5.69 to £5.82. Non-tenants also pay VAT on the charge, so it will increase by 15p per week, from £6.83 to £6.98.

3.4 Supporting People charges

- 3.4.1 Warwickshire County Council pays a 'block' grant towards the cost of tenants eligible for access to this support without charge. The County Council is currently reviewing its approach to funding of Supporting Peoples services across the county, with proposed changes scheduled for publication in July 2015. A report will be presented to Executive when the details of these

proposals are known and we have modelled the impact on the HRA Business Plan.

- 3.4.2 Those requiring housing related support services are elderly or vulnerable. Any tenant who is not eligible for free support is also not in receipt of housing benefit, so will have to pay the increase in housing rent from their own income in addition to any increase in Supporting People charge.
- 3.4.3 To freeze charges will mean more of the cost of the service will have to be funded from 'rent pooling' - that is from the rents paid by all tenants, irrespective of whether they receive the benefit of this service.
- 3.4.4 Therefore an increase of 1% is proposed; this makes a contribution towards inflationary costs in the services received, without the increase being unaffordable.
- 3.4.5 Compared to 2014/15 charges, this increases budgeted income by £1,400; if charges were instead increased by RPI (Retail Prices Index) inflation (2.3%) income would instead increase by £3,300.
- 3.4.6 The current and proposed charges for each category of support are:

Supporting People Charges:	Weekly Charge 2014/15	Proposed Weekly Charge 2015/16
Very Sheltered Housing properties	£28.83	£29.12
Sheltered Housing properties	£11.39	£11.50
Older Person Designated Dwellings	£6.46	£6.52

3.5 Housing Revenue Account (HRA) budgets

- 3.5.1 The Council is required to set a budget for the HRA each year, requiring agreement on the level of rents and other charges that are levied. The Executive is therefore required to make recommendations to Council that take into account the base budgets for the HRA and current Government guidance on rent restructuring.
- 3.5.2 The Latest Budgets presented in Appendix 3 are based on the Budgets approved in December 2014 updated for any changes since that report and the recommendations in this report.
- 3.5.3 The projected costs of the Asset Management service redesign were built into base 2015/16 budgets in December. Including temporary posts, the HRA cost of the final proposal presented to Employment Committee in January 2015 has slightly increased, from £14,300 to £17,500. It is expected that this additional £3,200 can be absorbed within the 2015/16 staffing budgets already agreed.
- 3.5.4 The Asset Management service redesign has taken into account the need to increase the capacity and capability of the Council to better control and manage the cost and quality of the repair and maintenance of the Council's housing stock. This will result in a small increase in long term HRA costs, approximately £19,000 per year from 2017/18. However, this additional capability will allow for longer term efficiencies to be made, for example by more accurate

specifying of works at an early stage and closer monitoring of contractor outcomes. The impact of this change will be incorporated in the updated HRA Business Plan to be presented to Executive in March 2015.

- 3.5.5 The Housing Investment Programme is presented as part of the separate February 2015 report 'Budget 2015/16 and Council Tax – Revenue and Capital'; a summary is included within Appendix 3.
- 3.5.6 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 Policy Framework

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 It should be noted that 2014/15 and 2015/16 rents were set at a lower value than recommended by the Central Government rent guidance then in force, and therefore rents for current tenants and available HRA resources remain lower than projected in the HRA Business Plan agreed in March 2012 on the introduction of 'Self Financing'.
- 4.2.3 As agreed in June 2014, void homes are re-let at capped target (formula) 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.
- 4.3.2 The completion of the Housing & Property Services Redesign in the final quarter of 2014/15 will allow for closer management of contracts and services in the future, by refocusing and where necessary increasing the capacity and capability of the service. This will add to the overall efficiency of the Council's landlord service, including a stock condition survey of the municipal housing stock in 2015/16, the first since 2010, and a review of how repairs and maintenance are delivered to make sure the Council is getting best value for its expenditure in this area of activity.

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 Housing Revenue Account (HRA) Business Plan.
- 5.2 The recommended budgets maintain the minimum working balance on the HRA expected under current Council policy, increasing by inflation each year.
- 5.3 No longer following 'rent restructuring' does not threaten the financial viability of the HRA; there are sufficient resources to meet all projected future expenditure on managing and maintaining homes, as demonstrated in the HRA Business Plan reported to Executive in December 2013 which incorporated the new national social rents policy. However following the new national social rent guidance will reduce future funding available to develop new homes and improve the housing service. Annual rental income is approximately £1.8m lower than if Rent Restructuring had been completed in 2015/16.
- 5.4 An updated HRA Business Plan, incorporating all known changes and updated projections, will be reported to Executive in March 2015.
- 5.5 During 2015/16 the HRA Business Plan will be further reviewed to take account of:
- A stock condition survey to be completed in 2015, 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's land resources and introducing robust viability assessments for new housing schemes.

6. Risks

- 6.1.1 The risks, and appropriate control mechanisms, for the 2015/16 HRA and the rent increase process are considered to be:

Self Financing Debt

- The 'Self Financing' payment of £136.2m was calculated by Central Government assuming that Rent Restructuring will be followed, rent increases linked to RPI, and the debt would be paid off within 30 years.
- Central Government support for rent restructuring though annual rent increases was abolished one year early, and new rent guidance based on lower annual rent increases based on CPI was introduced. This highlights that there is significant uncertainty surrounding Government rent policy over the Business Plan period.
- This Council has borrowed over a longer term, taking loans with durations from 41 to 50 years. This provides more resources in the early years of the Business Plan, which can be used to fund the Council's housing priorities; but also gives more flexibility to accommodate significant changes.

Revenue

- The County Council continues to review Supporting People contracts. It is uncertain how long current contracts will continue and what – if any – funding may be available once this review is complete, although it is unlikely there will be any significant reduction in funding for 2015/16. Currently a block grant of £463,700 per year is received. Any future changes to Supporting People funding will be the subject of a report in the summer of 2015.
- Changes to void levels or lengthening re-let times, for either dwellings or garages, would affect income received. Effective management of void rent loss is critical to efficient service delivery, and is scrutinised regularly by the service area's management team.
- 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 that may occur.

Capital

- The maximum discounts available for 'Right to Buy' (RTB) sales of Council homes increased significantly on 1st April 2012; This has increased the number of sales, but reduced the amount received per sale. There were 17 sales in 2012/13 and 39 in 2013/14. The current HRA Business Plan assumes 22 sales in 2014/15 and each year thereafter; it is extremely unlikely that sales will increase to a magnitude that significantly affects Business Plan viability.
- The maximum percentage discount for a house sold under 'Right to Buy' has increased from 60% to 70%, and the maximum discount ('cap') will increase each year in line with CPI inflation.
- Previously Central Government kept 75% of each capital receipt, but there is now a 'tiered' approach based on various thresholds which means the proportion paid to Government will vary and certain portions of the retained receipts may be reserved for specific purposes if sales pass certain thresholds. These include providing for HRA debt, and providing new affordable housing.
- At WDC the capital receipts from RTB sales have traditionally been used to support General Fund housing initiatives, particularly grant provision for private sector housing. There remains an element of retained receipts that can still be used for these purposes.
- Members may wish to consider these changes when considering the policy concerning funding of private sector housing in the future.

6.1.2 These key risks have been considered when setting the HRA budget for 2014/15. A sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:-

- 20% reduction in Supporting People Grant income = £92,700
- 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 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 Right to Buy (RTB) sales = £4,700 per property for a full year; so in the year of sale the initial loss will be approximately half of this, £2,350, for each home sold if RTB sales are spread fairly evenly throughout the year.

6.1.3 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2015/16 and overall HRA Business Plan.

7. Alternative Options Considered

7.1 Housing Rents – 2015/16 Annual Increase

- 7.1.1 National social rent policy is guidance, any level of average rent can be considered.
- 7.1.2 As long as rents remain below the Rent Rebate Subsidy Limit Rent (which is currently broadly equal to target social rent) each 1% increase or decrease in rent would change projected 2015/16 rental income by £251,000. The longer term effect upon the Business Plan would depend upon the rents set in future years.
- 7.1.3 It would be possible to implement a lower rent increase; this would reduce the resources available to fund HRA housing priorities, such as increasing the availability of Council housing in the district.
- 7.1.4 It would be possible to continue with a form of rent restructuring, rather than applying a consistent percentage increase for all tenants. This would mean that, as in previous years, the lower current rents are compared to the target (formula) social rent, the higher the rent increase would be.
- 7.1.5 The Council could choose to continue to link rents to RPI + 0.5% as in the previous rent guidance, even if not implementing the former 'rent restructuring' element. September 2014 RPI was 2.3%, so under the former guidance the base rent increase (before any rent restructuring) would be 2.8%, rather than 2.2%.
- 7.1.6 The Council could choose to 'catch-up' for reduced rent increases in prior years by increasing tenant rents further in 2015/16 on whatever basis is felt to be most fair and reasonable.
- 7.1.7 If rents were increased by more than CPI + 1%, this will reduce the gap between rents for current tenants and the target social rents that would be charged to new tenants.

- 7.1.8 It would be possible to set rents higher than target social rent; however Central Government discourages this through Rent Rebate Subsidy Limitation. Each year Central Government specify a 'Limit Rent' for each Council; with the new rent policy, this has been set at target social rent. If average rents are set above the limit rents then Central Government limit funding for Council tenant Housing Benefits proportionally, so in effect the Council has to fund the additional cost of Housing Benefits from the HRA. Therefore if rents were set above the limit rent, each 1% increase in rents would only increase income by approximately £100,000.
- 7.1.9 It would be possible to entirely ignore Central Government rent guidance and set rents on any other basis the Council believed more appropriate, as long as rents were set consistently and fairly. There would need to be compelling justification for a significant divergence from national policy.

7.2 Garage Rents

- 7.2.1 The Council has total discretion over the setting of garage rents.
- 7.2.2 Each 1% change in garage rents results in an increase or decrease of potential income of around £4,800 per year.
- 7.2.3 Keeping garage rents artificially low would mean they are effectively subsidised from tenants' rents. Since most tenants do not also rent a garage, and most garages are rented to people who are not Council tenants, this is hard to justify.
- 7.2.4 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.
- 7.2.5 The review of the HRA Business Plan during 2015/16 will consider options for increasing the financial viability of providing garages.

7.3 Supporting People Charges

- 7.3.1 Supporting People (SP) charges could be set at any level. Significant increases may mean the service becomes unaffordable for vulnerable tenants not eligible for free support. Reductions or long term freezes in charges would mean that the costs of providing the service are not fully recovered, and so additional costs must be met from the rents of all tenants, including those not receiving the service.
- 7.3.2 Increasing or decreasing Supporting People charges by 1% will change the projected income in 2015/16 by £1,400.

8. Background

- 8.1 The Executive received a report on the background to setting the HRA budget and housing rents and charges for 2015/16 at its meeting on 3rd December 2014.

- 8.2 However, dwelling rents, garage rents, and supporting people charges for 2015/16 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 Rent Restructuring**
- 8.4.1 Target (formula) social rent was introduced by Central Government in 2002, with the intention of bringing all social housing rents into line with each other by application of a national rent formula – so that the same rent would be charged on a socially rented property no matter who the landlord was.
- 8.4.2 In many cases these new target rents were significantly different to existing rents. Therefore social landlords were expected to 'converge' with target (formula) social rents through a series of annual rent increases over 10 years. Due to caps and limits not all rents would reach this level by the target year, 2012/13. The convergence target was later updated to 2015/16, but the abolition of the policy in 2014/15 means no council that followed Central Government guidance will have reached target social rent through annual increases.
- 8.4.3 In May 2014 Central Government introduced new social rent guidance, removing support for rent restructuring for current tenants one year before rents were expected to reach target social rent, and instead recommending that annual rent increases for tenants are limited to CPI inflation plus 1%.
- 8.4.4 Central Government instead expect Void homes to be re-let at capped target rent; therefore rents will still eventually reach the levels expected under rent restructuring through this different mechanism, though it may take several decades.
- 8.4.5 It is not compulsory to follow the national rents policy. Currently Rent Rebate Subsidy 'Limit Rent' has been set to target rent, leaving councils free to continue rent restructuring without incurring any financial disadvantage. However it would be possible for Central Government to amend this, and if there was an increase above whatever limit they set the Council would effectively have to repay the element of income above that level that is funded by Housing Benefits.
- 8.4.6 A summary of average target rents compared to the 2015/16 rents for current tenants recommended in this report are included in Appendix 1.
- 8.4.7 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 market rent for a 3 bedroom home in the area is £219, whilst the proposed average 2015/16 rent for current WDC tenants living in a 3 bedroom home is £99.85. On average proposed 2015/16 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 Supporting People Charges for Housing Related Support

- 8.5.1 Supporting People charges were introduced in April 2003 for older or vulnerable tenants living in properties that receive housing related support in addition to normal tenancy management arrangements. Whilst normal tenancy management is financed from the rents that all tenants pay, the introduction of the Government's Supporting People initiative meant that the costs of the additional housing support provided to particular groups of tenants was to be separately funded, to eliminate "rent pooling".
- 8.5.2 Warwickshire County Council is the Supporting People Administrative Authority for this area, and negotiates contracts for the provision of appropriate support throughout the county. If a tenant is in receipt of Housing Benefit or is eligible under the 'Fairer Access to Care' criteria then they receive this support at no cost to them. Most tenants are entitled to receive this support without charge; therefore the majority of income comes from the Supporting People Grant paid from Warwickshire County Council to fund those tenants, and is therefore unaffected by the level of charges to tenants.
- 8.5.3 Warwick District Council currently has four Supporting People contracts covering the support services offered to council tenants living in sheltered housing, designated older persons dwellings or any other property with a community (Lifeline) alarm. The support is delivered by Housing and Property Services' Supporting People Services, which includes the 24 hour Warwick Response team.

8.6 Housing Revenue Account (HRA)

- 8.6.1 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.
- 8.6.2 2014/15 and 2015/16 budgets were last considered in the December 2014 report 'Housing Revenue Account base budgets latest 2014/15 and original 2015/16', which detailed the latest 2014/15 budget and base 2015/16 budget and identified the changes from the initial 2014/15 budget.
- 8.6.3 2015/16 budgets include the projected effect of the Asset Management service redesign.
- 8.6.4 Appendix 3 shows the recommended Housing Revenue Account budgets for 2014/15 and 2015/16, updated to show the latest position including the effect of the recommendations in this report.
- 8.6.5 The Capital works in the Housing Investment Programme are presented as part of the separate February 2015 report 'Budget 2016/17 and Council Tax – Revenue and Capital'. A summary is included within Appendix 3 for reference.