



POLICY AND RESOURCES SCRUTINY COMMITTEE – 17TH JANUARY 2017

SUBJECT: HOUSING REVENUE ACCOUNT CHARGES – 2017/2018

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151
OFFICER**

1. PURPOSE OF REPORT

- 1.1 For Members to consider and take a view on the increased Housing charges proposed in this report, prior to consideration by Cabinet on the 1st February 2017. The charges predominantly focus on council house rents and are intended to be effective for the Housing Revenue Account (HRA) for the 2017/18 financial year.

2. SUMMARY

- 2.1 Members will be aware that the preparation of the Housing Revenue Account (HRA) budget is quite separate to the work involved in setting the General Fund Budget and Council Tax. The HRA is funded by rental income received from council tenants rather than the Council Tax Payer. Whilst there is a clear separation of these funds, the majority of council tenants rent is funded from housing benefits which is derived from the tax payers purse, therefore value for money must always be sought. We charge our council tenants rent over a 48 week basis but The Welsh Government (WG) base their rents on a 52 week basis so this report shows the 52 week equivalent.
- In previous years WG determined the annual guideline rent increases. The standard uplift policy for Local Authorities used to be based on the previous September Retail Price Index (RPI) plus a 2% real increase in support of rent convergence. The Minister for Housing and Regeneration has recently changed this uplift policy as part of the new Policy for Social Housing Rents. The new rent policy came into effect from April 2015 and was accepted by Members in the 2015/16 HRA charges report. The policy sets a target rent band for each Authority and if the average weekly rent is below the target rent, the Authority will have to increase average rents, and if the average is above the target rent, average rents will increase at a lower rate, to bring the rent back within the target envelope.
 - The uplift on the new rent policy is fixed for five years and uses the previous September Consumer Price Index (CPI) inflation figure (as opposed to the RPI inflation figure) and also applies a 1.5% real increase to the average local authority rent. The previous September CPI inflation figure was 1%. WG announced the minimum rent uplift for 2017/18 to be 2.5% which is CPI at 1% plus 1.5%. This increase applied to our current average rent means we are just within the low end of the target rent
- 2.2 The responsibility for setting the rents for individual dwellings remains with the individual landlords, however the new policy sets a target rent band for each landlord who will be required to operate with average weekly rent levels that fall within the scope of those bands. The new policy is intended to provide landlords with a continuing measure of discretion over

their overall rent levels and there is no proposal to alter Caerphilly CBC's current rent structure for the 2017/18 rent charges, only to apply an increase that is within the new policy and also supports the Housing Business Plan.

- 2.3 The target rent bands provide a low end figure, a mid-point and a high end figure for each landlord. The average weekly rent level for each landlord is compared to the target rent band and the difference dictates what level the rent needs to be adjusted to fall within the target rent band.
- 2.4 In order to meet the deadlines for advising tenants of increases in rents and other charges, the increases have to be determined and fully agreed by 17th February 2017. All charges must be formally agreed (including call in period) by this date or it will not allow sufficient time for notice of increase to tenants, which is a legal requirement. This would result in a weekly loss in rent of about £30k (based on a 3% increase).
- 2.5 All relevant charges are highlighted within this report detailing the amount of additional income that would be generated (excluding voids) if the proposed increases were implemented, along with the percentage of service users receiving housing benefit.
- 2.6 The report also includes proposals for garage rent increases.

3. LINKS TO STRATEGY

- 3.1 The recommendations within this report provide the council with additional income that will be used to supplement existing funding arrangements to provide management, repair and improvement of the housing stock. This funding is used to maximize the resources available to assist in meeting and maintaining the WHQS. The rent increase is applied equally to all tenants. The report therefore links to the following strategic objectives:
 - Improving Lives and Communities: Homes in Wales (Welsh Government, 2010) which sets out the national context on meeting housing need, homelessness and housing related support services.
 - Caerphilly Delivers (Single Integrated Plan 2013): P2 "improve standards of housing and communities, giving appropriate access to services across the county borough".
 - IO5: Investment in Council homes to transform homes, lives and communities (WHQS)
 - People, Property & Places: A Local Housing Strategy for Caerphilly County Borough (2008/2013) Strategic Aim 6 – *Our aim is to provide good quality, well managed homes in communities where people want to live, and offer people housing choices which meet their needs and aspirations.*
- 3.2 Effective financial planning and financial control contribute to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
 - A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.
 - A more equal Wales.
 - A Wales of cohesive communities.
 - A Wales of vibrant culture and thriving Welsh Language.
 - A globally responsible Wales.

4. THE REPORT

4.1 Rent Increase

4.1.1 For a number of years the WG have effectively determined the level of annual rent increases, and these increases have been linked with the Housing Revenue Account Subsidy (HRAS) calculations, thus restricting an Authority from completely controlling its rental income. Members will be aware of the buyout of the HRAS system which introduced self-financing from April 2015

4.1.2 Under the new rent policy a target rent band for each Authority is set by WG so there is still some degree of control retained by WG however, all of the rental income will be retained by the Authority and used to fund expenditure, service debt and create borrowing headroom to support the delivery of WHQS and future investment.

4.1.3 As a result of the housing benefit limitation scheme, rent increases above DWP rent limits do not produce extra income from tenants in receipt of housing benefit. At this stage however, as in previous years, details regarding the DWP limit under the new rent policy are yet to be confirmed. Approximately 70% of tenants are in receipt of housing benefit.

4.1.4 The WG draft proposal for 2017/2018 of its policy rent band for CCBC is

- Low end £81.62 per week
- Mid-point £85.91 per week
- High end £90.21 per week

4.1.5 CCBC's current average rent for 2016/2017 is £80.03 (52 week basis). A 2.5% uplift on this average rent equates to £82.03 which is just within the low end of our rent band. However, the WHQS business plan has assumed a 3% increase in rent to ensure the plan remains viable so 3% would be recommended as a minimum increase which would create an average rent of £82.43 per week (52 week basis). This is equivalent to CPI plus £1.60. The total weekly increase is £2.40 (52 week basis).

4.1.6 WG have stated in their policy that “ *The rent policy allows you to apply the inflation plus £2 (per week) if you are aiming to move to a higher point within the Target Rent Band to meet your business plan commitments...*”

4.1.7 There is a transitional protection arrangement in place which ensures that rents cannot be increased by more than CPI plus 1.5% plus £2 for any individual tenant. This means that the maximum CCBC can increase its rent is 4.39% before the protection arrangement is compromised, which would create an average rent of £83.54 per week (52 week basis).

4.1.8 The current average rent for CCBC is £80.03 based on 52 weeks. The latest business plan submitted to WG (in Feb 2016) includes a rent increase of 3% for 2017/18 and this has resulted in a £57m borrowing requirement in order to meet the WHQS by 2019/20. A rent increase of less than 3% will mean less income for the WHQS programme which will obviously result in increased borrowing. As part of the HRAS buy out there is an imposed borrowing cap of approx. £60m (after previous borrowing has been taken into account) so there is limited flexibility to increase borrowing. If the borrowing levels go beyond the cap then the WHQS will be unaffordable.

- An increase of 2.5% would result in a £2.00 weekly increase to £82.03 on a 52 week basis. This is an additional rental stream of £1.12m that would be some £300k short of what is assumed in the current business plan resulting in a further borrowing requirement of £400k. The £300k shortfall will be passed on to future years and over a 30 year period (akin to the business plan) this would be a loss of rental income of £9m.

- An increase of 3% would result in a £2.40 weekly increase to £82.43 on a 52 week basis. This is an additional rental stream of £1.35m, and meets the income requirement needed in the current business plan. Rent charges within Caerphilly would also still remain within the low end of the target rent band.
- Members have the discretion within the rent policy to increase rent up to a maximum of 4.39% which is a £3.51 per week increase to £83.54 on a 52 week basis. This is an additional rental stream of £2m which would make a saving on the current borrowing requirement of some £600k thus freeing up some flexibility within the borrowing scope.
- All of these increases are within the rent envelope for CCBC and even the highest increase at 4.39% does not reach the mid-point of our rent envelope. However, a minimum increase of 3% is needed to meet the current business plan requirements.

4.1.9 The Stock Condition Survey carried out in 2008 reported that high levels of investment are required to maintain the properties and meet the Welsh Housing Quality Standard. Experience has shown that significant variances will arise once the properties are surveyed and contract packages are specified and indications of cost escalation have emerged based on trends from tender prices and valuations. The small level of uncommitted borrowing that remains up to the borrowing cap will therefore be crucial in meeting these costs, and would be compromised if additional borrowing is committed to supplement a rent increase less favourable to the business plan. A rent increase less than 3% would inevitably reduce the Council's ability to manage and maintain the housing stock to the necessary standards, and as noted above failure to implement these increased charges would increase the shortfall in resources identified in the Housing Business Plan required to meet the WHQS by 2019/20 and maintain it thereafter. An increase above 3% would create more flexibility within the business plan and have a positive impact on the level of borrowing required to meet the WHQS but the maximum allowable under WG policy for 2017/18 is 4.39%.

4.2 **Service Charges at Older Persons Housing (excluding utility charges)**

4.2.1 These are applied to Sheltered Housing Officer assisted accommodation, of which there are three types: -

- Sheltered Housing with Sheltered Housing Officer assistance and communal facilities (962 units)
- Declassified Sheltered Housing schemes with no communal facilities (133 units)
- Tredegar Court extra care scheme (25 units)

4.2.2 Charges

Members may be aware that Welsh Government have included in their new rent policy that social landlords who currently pool rent and service charges must disaggregate service charges from rent.

The guidance calls for service charges to be de-pooled from the main rent to ensure transparency of the services charged. This only deals with the management costs associated with the service charges which are currently eligible for housing benefits. The supporting cost element of the service charge will remain the same which is funded from supporting people grant.

Officers have set up a working group to deal with de-pooling costs and the implications surrounding it, and significant progress has already been made with the disaggregation of service charges currently charged to tenants in sheltered housing schemes. This will allow for a more accurate charge based on the services actually provided rather than continue to spread the costs equally across the tenants in all our schemes. Service charges will also be considered for general needs dwellings as part of this review.

A report on the de-pooling of service charges is due to be presented to P&R Scrutiny Committee in June. Therefore there is no intention to increase service charges as part of this report as this will be dealt with as part of the service charge review.

4.2.3 Financial Impact

The financial impact on the de-pooling exercise is as yet unknown until the review has been finalised. Supporting People is assumed to be the same as 2016/17 as generally this is not inflated therefore this element will remain the same.

4.3 **Meal Charges (Tredegar Court only)**

4.3.1 The meal service will also be included as part of the service charge review mentioned above and therefore will not attract an increase as part of this report

4.4 **Guest Room**

4.4.1 Charges

A number of sheltered housing schemes have guest rooms and the standard charge to visitors is £18.00 per night plus VAT. The charge has not increased for the past few years as it is similar to other providers. There is an ongoing review of these rooms due to their current low levels of use and an active pilot project has reduced the guest room charges to £12.50 per night plus VAT with a view to them being utilised more frequently. We are also currently in consultation with the tenants of a number of schemes regarding possible alternative uses of guest rooms and have recently converted five guest bedrooms into offices to improve facilities for staff and increase privacy and support for tenants and their families. This follows the conversion of two guest rooms in 15/16.

4.4.2 Tenants in receipt of benefit

Guest room charges do not apply to tenants, and are not eligible for housing benefit.

4.4.3 Financial impact

No additional income will be generated.

4.5 **Garage Charges**

4.5.1 The Council has 985 garages in stock, of which 622 are currently let (72% are let to non-council tenants, 28% are let to council tenants). The current weekly rent is £7.96 and it is proposed to increase the charges by 2% in line with the Council's current business plan to £8.11 per week. A report has been approved by the Caerphilly Homes Task Group which recommended proposals to improve and rationalise our garage stock. The approved programme has led to a reduction in our garage stock and will result in improvements to our remaining stock. This work, which is ongoing has an impact on void levels as the garages must be vacated prior to commencement of works. To date approx. 50% of our garage stock has been improved.

4.5.2 Tenants in receipt of benefit

Garage rents are not eligible for housing benefit and the majority (72%) of garage tenants are not council house tenants.

4.5.3 Financial impact

The increase will generate additional income of £7k.

5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 Effective financial management is a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

- 6.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified; therefore a full EIA has not been carried out.

7. FINANCIAL IMPLICATIONS

- 7.1 This report deals with the financial implications of the proposed rent increases which affects the HRA.
- 7.2 The impact of the Welfare Reform Act is not taken into consideration.

8. PERSONNEL IMPLICATIONS

- 8.1 The proposals contained in this report will not alter the current arrangements for the collection of housing revenue account monies.

9. CONSULTATIONS

- 9.1 All consultation responses have been reflected in this report. The report will be presented to Cabinet on the 1st February 2017. An information report will also be presented to CHTG on the 18th February 2016.

10. RECOMMENDATIONS

- 10.1 Members are asked to consider and give a view on the following recommendations which will be presented to Cabinet on the 1st February 2017;
- (a) Members agree as a minimum to apply a 3% increase per property from April 2017 to ensure compliance with the new rent policy and to maintain the viability of the current business plan.
 - (b) The variable service charge at sheltered complexes is not increased pending completion of the service charge review.
 - (c) The meal cost at Tredegar Court not be increased pending completion of the service charge review.
 - (d) The guest room charge for sheltered housing complexes are not increased from April 2017.
 - (e) The garage charges for Council and non-Council tenants increase to £8.11 based on a 48 week basis from April 2017.
 - (f) This report be submitted to Cabinet for consideration.

11. REASONS FOR THE RECOMMENDATIONS

- 11.1 Inflationary increases on providing all aspects of the housing service are experienced annually, however as the HRA cannot legitimately set a deficit budget, the loss of additional income will result in reduced resources being available to effectively manage and maintain the stock.
- 11.2 Housing benefit will cover the increased costs for the rent charge in this report for 70% of our tenants up to the Housing Benefit limitation rate (yet to be confirmed).
- 11.3 If charges are not increased annually it has a detrimental effect on subsequent years as higher increases are then needed to recover the shortfalls from previous years.
- 11.4 The Council's Business Plan relies on inflationary increases to remain viable.

12. STATUTORY POWER

- 12.1 Local Government Act 1972. This is a Cabinet function.

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Cllr Sean Morgan, Chair Policy & Resources Scrutiny Committee
Cllr Gez Kirby, Vice Chair Policy & Resources Scrutiny Committee
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Background Papers: Available on request
Housing Revenue Account Charges – 2017/18
Welsh Government Rent Policy Guidelines