



## **CABINET – 31ST JANUARY 2018**

**SUBJECT: HOUSING REVENUE ACCOUNT CHARGES – 2018/2019**

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

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- 1.1 The attached report, which provided details of the proposed increased charges which are intended to be effective for the Housing Revenue Account (HRA) for the 2018/19 financial year, was considered by the Policy and Resources Scrutiny Committee on 16th January 2018. The report sought the views of Members on the proposed increases contained therein, prior to its presentation to Cabinet.
- 1.2 Officers summarised the process involved in preparing the Housing Revenue Account (HRA) budget. Members were reminded that Welsh Government's (WG) Policy for Social Housing Rents sets a target rent band for each Authority whereby councils have to adjust average rents for their properties in line with this banding. 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 3%. WG announced the minimum rent uplift for 2018/19 to be 4.5% which is CPI at 3% plus 1.5%. This increase applied to the current average rent means that Caerphilly Council are within the low end of the target rent.
- 1.3 In order to comply with the rent policy, the minimum increase that can be applied in order to remain within the rent envelope is 3.6%, and due to a transitional protection arrangement in place, the maximum rent increase that can be applied by the Authority is 6.5%. However, a minimum increase of 4.5% has been recommended to minimise the additional financial risks within the Council's business plan from 2019/20 onwards. Members were therefore asked to recommend to Cabinet the level of increase per property from April 2018 based on the options in the report (3.6%, 4.5% or 6.5%). All relevant charges were highlighted within the report and detailed the amount of additional income that would be generated (excluding voids) for each of the proposed levels of increase, together with the percentage of service users receiving housing benefit. The increased income is required to offset other inflationary increases within the service area and support the delivery of all housing-related services, including the delivery of the WHQS programme.
- 1.4 The report also provided an update in respect of garage charges and it was noted that it is not proposed to increase the rent on Council-owned garages this year. This is due to the ongoing garage rationalisation and refurbishment programme, which is having a significant impact on void levels as the block of garages must be fully vacated prior to commencement of works on each site.
- 1.5 Discussion took place regarding the proposed levels of rent increase outlined in the report and Members raised concerns that the higher level could have a significant impact on some tenants when taking into account potential increases across other areas (such as council tax). Officers confirmed that those tenants in receipt of housing benefits will have the increase incorporated into their allowance, and that the Council's Housing Team can offer support to those tenants not in receipt of housing benefits who may be experiencing financial difficulties.

- 1.6 Members discussed the potential loss of income arising from the garage rationalisation and refurbishment programme. Officers outlined the specifics of the programme and explained that a new procurement process and demolition programme is currently underway. It was confirmed that former garage tenants and leaseholders will have priority when the tenancies for the newly built and refurbished garages are offered.
- 1.7 Following consideration of the report, the Policy and Resources Scrutiny Committee unanimously recommended to Cabinet that for the reasons contained therein, the minimum increase of 3.6% to set rents at the absolute bottom of the rent envelope but not future proofing expected rent levels from 2019/20 onwards, be applied from April 2018.
- 1.8 Members are asked to consider the recommendation.

Author: R. Barrett, Committee Services Officer, Ext. 4245

Appendices:

Appendix 1 Report to Policy and Resources Scrutiny Committee on 16th January 2018 - Agenda Item 9



## **POLICY AND RESOURCES SCRUTINY COMMITTEE – 16TH JANUARY 2018**

**SUBJECT: HOUSING REVENUE ACCOUNT CHARGES – 2018/2019**

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

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### **1. PURPOSE OF REPORT**

- 1.1 For Members to consider and take a view on the increased Housing rent charges proposed in this report, prior to consideration by Cabinet on the 31<sup>st</sup> January 2018. The charges predominantly focus on council house rents and are intended to be effective for the Housing Revenue Account (HRA) for the 2018/19 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 weekly rent 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 3%. WG announced the rent uplift for 2018/19 to be 4.5% which is CPI at 3% plus 1.5%. This increase applied to our current average rent means we are within the low end of the target rent
  - 2018/19 will be the final year of the existing five year agreement and no commitment has been made on future rents for 2019/20 onwards, but it is likely that rent increases will see a reduction due to the pressure. The Minister for Housing and Regeneration has when comparing Welsh rents to those in England where rents are required to be reduced by 1% a year for 4 years from their 2015/16 baseline.

- 2.2 The responsibility for setting the rents for individual dwellings remains with the individual landlords, however the current policy sets a target rent band, or envelope, for each landlord who will be required to operate with average weekly rent levels that fall within the scope of those bands. The 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 2018/19 rent charges, only to apply an increase that is within the current 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. The minimum increase we can apply in order to remain within the rent envelope is 3.6%.
- 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 21st February 2018. 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. Any delay in notifying tenants would result in a rental loss of about £32k per week (based on a 3.6% 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 rental income.
- 2.7 Service Charges for sheltered schemes no longer form part of this report as they were recently reviewed under the Housing (Wales) Act 2014 requirement and are now charged on an actual basis per scheme.

### **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) (Corporate plan 2016-2017)
- 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 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 current 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 current rent policy are yet to be confirmed. Approximately 69% of tenants are in receipt of housing benefit.
- 4.1.4 The WG draft proposal for 2018/2019 of its policy rent band for CCBC is
- Low end           £85.57     per week
  - Mid-point       £90.08     per week
  - High end         £94.58     per week
- 4.1.5 CCBC's current average rent for 2017/18 is £82.61 (52 week basis) which is below the rent envelope. To ensure we are within our rent envelope a minimum increase of 3.6% is necessary which would take our rent at the absolute low end point of £85.57. In previous years we have been above the low end and just under the mid-point level. The Housing Business Plan assumed 3.5% rent increase for 2018/19 but that was on the assumption that CPI would be 2%. As the CPI level is higher this has increased the rent envelope which means the 3.5% is slightly under the minimum required level to meet the rent policy.
- 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 6.5% before the protection arrangement is compromised, which would create an average rent of £87.98 per week (52 week basis), which is still within the low end level of our rent envelope.
- 4.1.8 The current average rent for CCBC is £82.61 based on 52 weeks. The latest business plan submitted to WG in March 2017 included a rent increase of 3.5% for 2018/19 (assuming CPI would be 2%) and this resulted in a £45.5m borrowing requirement in order to meet the WHQS by 2019/20. A rent increase of less than 3.5% 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. £70m (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. Meeting the WHQS standard by 2020 is a statutory requirement.
- 4.1.9 In order to comply with the rent policy, the minimum increase we can apply is 3.6%. However, members must be made aware of the reduction in future rents not only due to the uplift from CPI + 1.5% changing to CPI + 1%, but also the likely requirement to reduce or restrict future increases to coincide with the English rents restrictions. This could place additional financial risk on our business plan from 2019/20 onwards so an increase of 4.5% for 2018/19 should be considered

- ⊖ An increase of 3.6% would result in a £2.97 weekly increase to £85.58 on a 52 week basis. This is an additional rental stream of £1.7m that would result in a saving on our borrowing requirement of £600k
- An increase of 4.5% would result in a £3.72 weekly increase to £86.33 on a 52 week basis. This is an additional rental stream of £2.1m, and would result in a saving on our borrowing requirement of £1.1m Rent charges within Caerphilly would also still remain within the low end of the target rent band, and this is the increase that has been incorporated within the rent policy as set by WG.
- Members have the discretion within the rent policy to increase rent up to a maximum of 6.5% which is a £5.37 per week increase to £87.98 on a 52 week basis. This is an additional rental stream of £3m which would make a saving on the current borrowing requirement of £5.8m thus freeing up significant flexibility within the borrowing scope.
- All of these increases are within the rent envelope for CCBC and even the highest increase at 6.5% does not reach the mid-point of our rent envelope. However, a minimum increase of 3.6% is needed to meet the minimum rent envelope target, but members should be mindful of the likely impact of this level in the Business Plan going forward. Members should consider an increase of 4.5% to future proof likely reductions in coming years.

4.1.10 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 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 3.6% would contravene the rent policy and would inevitably reduce the Council's ability to manage and maintain the housing stock to the necessary standards. 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 3.6% 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 2018/19 is 6.5%.

## **4.2 Garage Charges**

4.2.1 The garage rationalisation and refurbishment programme, linked to the WHQS programme has led to a reduction in our garage stock and will result in improvements to our remaining stock. This work, which is ongoing, is currently having a significant impact on void levels as the blocks of garages must be fully vacated prior to commencement of works on each site. On completions of works to each block, former garage tenants and former leaseholders of garage plots will be offered new tenancies of the newly built and refurbished garages, prior to new tenants being sought for the remainder from existing waiting lists or through marketing. Therefore it is not proposed to increase the rent on Council owned garages this year.

### **4.2.2 Tenants in receipt of benefit**

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

### **4.2.3 Financial impact**

The Business Plan has included a 2% increase on garage rental income. Not increasing the income will mean a loss of approximately £5k in the Business Plan in 2018/19. This will not have an immediate impact on the borrowing requirement if this is only for one year, and will be completely offset if the rental income is higher than 3.5%.

## **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 31<sup>st</sup> January 2018.

## **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 31<sup>st</sup> January 2018;
- (a) Members recommend to Cabinet the level of increase per property from April 2018 based on the options in the report which is either
    - (i) 3.6% - The minimum increase to set our rents at the absolute bottom of the rent envelope but not future proofing expected rent levels from 2019/20 onwards.
    - (ii) 4.5% - The increase imposed by WG to ensure the final year of compliance with the rent policy criteria of CPI plus 1.5% and to future proof expected rent levels from 2019/20.
    - (iii) 6.5% - The maximum increase before the rent policy is contravened.
  - (b) This report is 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 69% 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.

Author: Lesley Allen, Group Accountant (Housing)  
(E.mail: [allenl@caerphilly.gov.uk](mailto:allenl@caerphilly.gov.uk) – Tel: 01443 864470)  
Sandra Isaacs, Rents Manager  
(E.mail: [Isaacs@caerphilly.gov.uk](mailto:Isaacs@caerphilly.gov.uk) – Tel: 01495 235086)

Consultees: Nicole Scammell, Acting Director of Corporate Services & Section 151 Officer  
Christina HARRY, Interim Chief Executive  
Shaun Couzens, Chief Housing Officer  
Marcus Lloyd, WHQS and Infrastructure Strategy Manager  
Fiona Wilkins Public Sector Housing Manager  
Angela Hiscox, Housing Manager – Older Persons Services  
Amanda Main, Acting Benefits Manager  
Stephen Harris, Interim Head Of Corporate Finance  
Cllr Sean Morgan, Chair Policy & Resources Scrutiny Committee  
Cllr Gez Kirby, Vice Chair Policy & Resources Scrutiny Committee  
Cllr D Poole, Deputy Leader & Cabinet Member for Housing  
Anwen Rees, Senior Policy Officer (Equalities and Welsh Language)  
Gail Williams, Interim Head of Legal Services/Monitoring Officer

Background Papers: Available on request  
Housing Revenue Account Charges – 2018/19  
Welsh Government Rent Policy Guidelines