



POLICY AND RESOURCES SCRUTINY COMMITTEE – 15TH JANUARY 2019

SUBJECT: HOUSING REVENUE ACCOUNT CHARGES - 2019/2020

REPORT BY: CORPORATE DIRECTOR - SOCIAL SERVICES AND HOUSING

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 30th January 2019. The charges predominantly focus on council house rents and are intended to be effective for the Housing Revenue Account (HRA) for the 2019/20 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 changed this uplift policy as part of the new Policy for Social Housing Rents in 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 was fixed for five years up to 2018/19 and uses the previous September Consumer Price Index (CPI) inflation figure (as opposed to the RPI inflation figure) and also applied a 1.5% real increase to the average local authority rent. There was also an option to add up to £2 per week if social landlords needed to increase their rent to keep in line with their rent envelope, or if rents were being restructured and if their local rent policy was being revised.
 - 2018/19 was the final year of the existing five year agreement and it has been expected 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. The Minister has considered the position for 2019/20 and has agreed that the increase should be CPI

only. The discretion to apply “up to £2 per week” has been removed for those social landlords whose average weekly rent is within or above their Target Rent Band. This decision will apply for one year only (2019/20) while Welsh Government are awaiting the outcome of the Affordable Housing Supply Review.

- The previous Septembers CPI inflation figure was 2.4%.
- The Business Plan assumed a rent increase of 3%
- By applying 2.4% to our average rent means we are just below the lowest Target Rent Band, therefore this can be increased up to a maximum of £2 to ensure we are within the envelope range.
- In order to be at the minimum of the Target Rent Band a minimum increase of 2.7% is necessary.
- In order to meet the requirement of the Housing Business plan an increase of 3% is necessary
- The maximum increase allowed under the current rent policy is 4.74%.

- 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 2019/20 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.
- 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 27th February 2019. 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 minimum rental loss of about £26k per week (based on a 2.7% 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 a retrospective 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:

- The Caerphilly We Want (CCBC, 2018-2023) – Well-Being Plan Objective 4: Positive Places – Enabling our communities to be resilient and sustainable
- Corporate Plan (CCBC, 2018-2023) Well-being Objective 3: the availability, condition and sustainability of homes throughout the county borough and provide advice, assistance or support to help improve peoples well-being.
- Caerphilly Homes Service Plan.

3.2 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.

3.3 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

3.4 Whilst Housing services contribute towards the Act, this is a financial report for information only and therefore does not directly contribute towards the above wellbeing goals.

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 71% of tenants are in receipt of housing benefit.

4.1.4 The WG draft proposal for 2019/2020 of its policy rent band for CCBC is:

- Low end £87.84 per week
- Mid point £92.46 per week
- High end £97.08 per week

- 4.1.5 CCBC's current average rent debit for 2018/19 is £85.57 (52 week basis) which met the minimum rent band for 2018/19. By applying a 2.4% increase means our average rent will be £87.62, which is slightly below the rent envelope. To ensure we are within our rent envelope a minimum increase of 2.7% is necessary which would take our rent at the absolute low end point of £87.84. In previous years we have been above the low end and just under the mid point level. The 2018/19 Housing Business Plan however assumed a 3% rent increase for 2019/20 which was on the assumption that the rent policy would reduce to CPI plus 1%. Although the CPI level is higher, the "plus 1%" has been removed for 2019/20 meaning that the rent increase is lower than anticipated for the business plan.
- 4.1.6 Initially, 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...*" This has been removed for 2019/20 and the "plus £2" can now only be implemented if Social Housing Landlords are below the rent envelope. Therefore the lowest increase we can apply in order to move within the rent envelope is 2.7%, which is equivalent to 2.4% plus 24p. However, as we are one of those authorities currently below the target we can apply up to the "plus £2" on top of the CPI of 2.4%
- 4.1.7 The current average rent for CCBC is £85.57 based on 52 weeks. The latest business plan submitted to WG in March 2018 included a rent increase of 3% for 2019/20 (assuming CPI would be 2%) and this resulted in a £43.6m borrowing requirement in order to meet the WHQS by 2020. A rent increase of less than 3% will mean less income for the WHQS programme which will obviously result in increased borrowing. Factoring this reduction into the current business plan results in additional borrowing of £200k, but still remains viable. However this is on the assumption that the following years rent increase remain at 3% and all other assumptions remain the same. As part of the HRAS buy out there was an imposed borrowing cap which limited our flexibility to increase borrowing, should we need it. A recent announcement by the Chancellor of the Exchequer in his budget statement, confirmed the removal of the borrowing cap for Local Housing Authorities so this will no longer be a restriction. Additional borrowing however must be affordable under the Prudential Code. Meeting the WHQS standard by 2020 is a statutory requirement.
- 4.1.8 A rent increase to meet the business plan proposals is 3% which is equivalent to 2.4% plus 51p.
- 4.1.9 However, members must be made aware of the uncertainty on future rents which could place additional financial risk on our business plan from 2019/20 onwards. Members were advised of this risk on the 2018/19 rent increase report where one of the options was to consider a 4.5% increase to future proof likely reductions coming ahead.
- 4.1.10 An increase of 2.7% would result in a £2.27 weekly increase to £87.84 on a 52 week basis. This is an additional rental stream of £1.3m on the gross rent and would be the minimum increase in compliance with the rent policy.
- 4.1.11 An increase of 3% would result in a £2.55 weekly increase to £88.12 on a 52 week basis. This is an additional rental stream of £1.4m on the gross rent and would comply with the rent policy and the assumptions made within our business plan.
- 4.1.12 The maximum rent increase we can apply in accordance with the 2019 rent policy is 4.74% which would result in a £4.03 weekly increase to £89.60 on a 52 week basis. This is equivalent to the maximum increase of 2.4% plus £2 and would create an additional rental stream of £2.3m on the gross rent.
- 4.1.13 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. A rent increase less favourable to the business plan

will mean additional borrowing, and, although the cap is in the process of being removed, the additional borrowing has to be affordable. Additional borrowing means an increase in debt charges which takes resources away from the HRA to manage and maintain our housing stock and support our tenants. Failure to implement these increased charges would increase the shortfall in resources identified in the Housing Business Plan required to meet the WHQS by 2020 and maintain it thereafter.

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. In addition a number of garages have been demolished due to unsuitability and lack of demand. Therefore at this time, 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 (75%) 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 2019/20. This will not have an immediate impact on the borrowing requirement in the short term.

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 30th January 2019.

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 30th January 2019;
- (a) Members recommend to Cabinet the level of increase per property from April 2019 based on the options as explained in this report, which is:-
 - (i) 2.7% - The minimum increase to set our rents at the absolute bottom of the rent envelope
 - (ii) 3% - The increase to comply with the Housing Business Plan
 - (iii) 4.74% - The maximum increase before the rent policy is contravened and
 - (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 71% 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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Consultees: Cllr L Phipps, Cabinet Member for Homes & Places
Cllr James Pritchard, Chair Policy & Resources Scrutiny Committee
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Rob Tranter, Head of Legal Services/Monitoring Officer
Shaun Couzens, Chief Housing Officer
Fiona Wilkins, Housing Services Manager
Sandra Isaacs, Rents Manager
Amanda Main, Acting Benefits Manager
Anwen Rees, Senior Policy Officer (Equalities and Welsh Language)

Background Papers:
Available on request:-
Housing Revenue Account Charges – 2019/20
Welsh Government Rent Policy Guidelines