

Report of the Section 151 Officer and the Corporate Director Place

Special Cabinet – 10 February 2015

HOUSING REVENUE ACCOUNT (HRA) REVENUE BUDGET 2015/16

Purpose:	This report proposes a Revenue Budget for 2015/16 and a rent increase for properties within the HRA.
Policy Framework:	None.
Reason for Decision:	To agree a revenue budget as indicated and a rent increase for 2015/16.
Consultation:	Cabinet Members, Finance, & Legal
Recommendations:	<p>The following budget proposals be recommended to Council for approval:</p> <p>a) Rents be increased in line with the Welsh Government new rent setting policy as detailed in section 4.</p> <p>b) Fees, charges and allowances are approved as outlined in section 4.</p> <p>c) The revenue budget proposals as detailed in section 4.</p>
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1. Introduction

1.1 The setting of the revenue budget has to take account of the following issues and factors:-

- the requirement to achieve the Welsh Housing Quality Standard (WHQS);
- the elimination of the Housing Subsidy system by Welsh Government;
- future income and expenditure trends;
- increases in rent as a result of the new Welsh Government (WG) rent setting policy;
- the effect on tenants of rent increases;

- 1.2 The proposals in this report are based on the objective of maximising the resources available for investment in the housing stock to make progress in achieving the WHQS.

2. Projected Revenue Outturn 2014/15

- 2.1 An updated assessment of forecast spending in 2014/15 is subject to a separate report on this agenda. This forecasts an underspend of £7.8m comprising a reduction in level of revenue funding for capital schemes (£7.4m) due to slippage on the capital programme of £12m (largely within the High Rise refurbishment programme), plus a reduction in the level of bad debt provision required (£0.4m) due to a less than expected increase in rent arrears. These issues have been taken into account in the proposals for future years budgets.

3. Housing Revenue Account Subsidy (HRAS) and HRAS settlement

- 3.1 As reported to Council at its meeting on the 2nd December 2014, the Housing Revenue Account Subsidy (HRAS) system is due to be dismantled from April 2015 and replaced with a system of self-financing. As reported, the negotiated terms between the Welsh Government and the Treasury for exiting the system is for the current negative subsidy payments to be replaced by a one off settlement debt.
- 3.2 The settlement figure will not be fully quantified until closer to the transaction date and will depend on interest rates prevailing at the time. The interest and charges on the debt needs to be less than the current negative subsidy return for each Council's HRA to be 'better off' and the current projection for this Council is that this will be the case.
- 3.3 At the time of this report, discussions were ongoing between the Welsh Government and the UK Treasury on the final terms of the settlement and the actual resulting capital financing charges may vary from those included within this budget. The settlement figure currently included in the proposed budget is £87m.

4. Revenue Budget Proposals 2015/16

4.1 Overview

There is a projected surplus on the HRA next year of £19.9m. This surplus, together with the planned use of reserves, will contribute towards an increase in the capital programme which is planned to increase from an original programme in the current year of £38.5m to £49.3m next year.

The main changes from 2014/15 are as a result from the change from the Housing Subsidy system to the new self funding regime, and as a result, of the forecast net reduction in costs for 2015/16 from the elimination of the current Housing Subsidy of £5.57m, together with increased capital charges as a result of the Housing Subsidy system settlement and additional borrowing to support achievement of the Welsh Housing Quality Standard of £3.6m.

The main changes to the funding/income are an increase in rent and other income of £2.5m mainly arising from the proposed rent increase, together with a reduction in the planned use of reserves of some £5m in relation to funding the proposed capital programme for 2015/16. The main changes from the 2014/15 budget are shown in the following table:-

Item	£000
Elimination of Housing Subsidy cost	-5,575
Increase in capital financing charges	3,600
Efficiency savings target 2014/15 allocated .	500
Reduction in day to day maintenance as a result of efficiencies	-500
Reduction in revenue contribution to capital programme	-400
1.2% pay award and impact of Single status	170
Additional income including a 5.44% rent increase	-2,540
Reduction in contribution from reserves	5,060

4.2 Rent Income

4.2.1 The Welsh Government (WG) is introducing a new policy for setting rents for Local Authority housing from April 2015. The policy has already been applied to Registered Social Landlords (RSL's). The new policy replaces the regime of rent guidelines which were issued each year by the WG as part of the Housing Revenue Account Subsidy (HRAS system) which is scheduled to be dismantled from April 2015. Under the new policy:

- The Welsh Government will set a national target average rent.
- Welsh Ministers will determine the annual increase in the national target average.
- A range of local indices will be used to establish a table of percentages to the national average which will set the target average rent for each social landlord.
- The target rents for each landlord will be further adjusted by a quality factor according to the energy efficiency of the stock.
- Landlords have discretion to set actual rents as long as the average rent is within 5% (+ or -) of the target average.
- Transitional arrangements are included to ensure that any increase in rent for an individual tenant (after the national increase has been applied) is no more than £2 per week

4.2.2 The national target rent is based on the average charged by all Welsh Registered Social Landlords for general needs housing, and the national increase will be based on the Consumer Prices Index (CPI) in the preceding September of each financial year plus 1.5%.

4.2.3 The target average rent per week for Swansea provided by the WG (after applying the national increase but before any transitional limits) is set out in the following table. The WG figures are based on a 52 week period. However, the Council has traditionally charged rents over 50 weeks allowing two weeks during the year when rent is not collected. The equivalent 50 week average is also provided.

	Lower Band (i.e. mid point – 5%)	Mid Point	Higher Band (i.e. mid point + 5%)
WG weekly figures (based on 52 weeks)	£76.09	£80.10	£84.10
50 week equivalent	£79.13	£83.30	£87.47

- 4.2.4 There is discretion to set the average rent at any point between the lower and higher limits and in terms of the proposals for actual rents, consideration has been given to the need to fund existing commitments to improve the stock up to the WHQS by 2020 and to funding the provision of additional affordable housing to help meet the chronic shortage in supply. As such, a policy of maximising rental income and progression to the upper level is recommended.
- 4.2.5 In making this recommendation, the following has been taken into account:
- Council rents in Swansea are relatively low compared to many other Welsh Councils;
 - The target average for the Council set by the WG is lower than most other Welsh Councils;
 - The Housing Benefit system will continue to provide support to those tenants who need it to meet some or all of their rent payments;
 - There is a chronic shortage of affordable housing in Swansea;
 - There is protection for individual tenants in terms of a transitional capping arrangement.
- 4.2.6 The transitional arrangements limit the amount that can be actually charged and as a consequence, will limit the rate of progress for actual rents to reach the upper level. If the full £2 per week limit was used each year from 2015/16, it is likely to take until 2019/20 before the upper level is actually reached after which time, only the national increases would be applied.
- 4.2.7 The recommendation to use the full transitional limit until such time as the upper limit has been reached means an average rent in 2015/16 of £76.92 (over a 52 week period). This equates to a 5.44% increase on the average rent for 2014/15. As current rents are below the lower band, a minimum increase of 4.62% would need to be applied for rent levels to be within the parameters of the new policy.
- 4.2.8 In terms of implementation, converting the £2 transitional limit over a 50 week period would mean an actual limit of £2.08 per week. In addition, the proposal is to maintain the current differentials between the rent for different property sizes.
- 4.2.9 The policy excludes charges for services provided to a proportion of tenants which should be levied separately and any that are funded as part of the general rent should be separated or 'depooled'. An assessment in 2014 of services which could be charged separately concluded that current practices should continue. Equally, services currently subject to a separate service charge (mainly the charge for warden services in sheltered accommodation) should also continue.
- 4.2.10 A tenant consultation process involving a meeting of the Tenant's Consultative Panel and a dedicated article in the latest edition of 'Open House' has been completed. The outcome of this was that tenants are generally supportive of the proposals to progress towards the upper band.

4.3 *Inflation*

Provision has been included in the budget for a 1.2% annual pay increase from April , completing the 2.25% award from 1st January 2015. Other budgets, in particular repairs and maintenance and utility costs have been based on the latest prices.

4.4 *Capital Financing Charges*

Additional Capital financing charges will arise in 2015/16 (interest element only in the first year) as a result of the HRAS settlement borrowing.

4.5 *Fees, Charges and Allowances*

General fees, charges and allowances are normally increased either in line with the Authority's own inflation assumption, or in line with the agreed rent increase. If the recommendations relating to the rent increase are approved then these rent related items will increase by 5.44% and other charges by 1.2%.

4.6 *Contributions to the Capital Programme*

The additional income and net reduction as a result of the elimination of the subsidy system enables a contribution of £19.9m to the capital programme. A further £4.18m from reserves will also be utilised in supporting the capital programme.

4.7 *Efficiency Savings*

Efficiency savings as they are identified are then reflected in other the appropriate budgets .

4.8 *Revenue Maintenance Costs*

There is a slightly decreased provision for maintenance work on repairs that reflects ongoing efficiency and cost reductions of £0.5m

4.9 *Single Status*

The cost of single status is included within the budgets for 2015/16 and in conjunction with the pay award is estimated to cost around £0.17m

5. Risks and Uncertainties

- 5.1 The main risks and uncertainties for next year are the final financial impact of the Housing Subsidy buyout risks around delivery of the capital programme , but steps will be taken to manage this latter risk.

6. Reserves

- 6.1 The HRA balance at the start of this year was £13.9m and at the end of the current year it is estimated to be £12.5m. It is proposed that £4.19m is used next year to finance capital expenditure. The reserves position is detailed in Table B.

7. Equality Impact Assessments

- 7.1 Proposals for changing levels of funding in specific areas have been subject to a screening process. Service managers have considered the implications of proposed budgetary decisions and believe that the proposed budget protects the most vulnerable and will not disproportionately impact on protected groups.

8 Legal Implications

- 8.1 Tenants will need to be notified of the proposed increase in accordance with the provisions of section 102 of the Housing Act 1985. Section 102 b) states that variation of the Rent shall be carried out in accordance with the provisions of the Tenancy Agreement. Section 2.6 of the Council's Tenancy Agreement states that Tenants must be given 4 weeks notice before any Rent change.

Background Papers: None.

Appendices: Appendix - Table A: Summarised HRA 2014/15 to 2015/16
Table B: Movement in Balances 2014/15 to 2015/16

Table A: Summarised HRA 2014/15 to 2015/16

Classification	Budget 2014/15	Budget 2015/16
	£'000	£'000
<u>Expenditure</u>		
Management and Maintenance	28,310	28,163
Capital Charges	4,665	8,277
Revenue Funding for capital schemes	24,500	24,093
Negative subsidy	5,575	0
Total Expenditure	63,050	60,533
<u>Income</u>		
Rents and other income	53,800	56,343
Use of balances	9,250	4,190
Total Income	63,050	60,533

Table B: Movement in Balances 2014/15 to 2015/16

Description	£000's
Actual balance at 1 st April 2014	13,968
Budgeted use 2014/15	-9,250
Budgeted balance 31st March 2015	4,718
Forecast use 2014/15	-1,450
Forecast balance 31st March 2015	12,518
Budgeted use 2015/16	-4,190
Forecast balance 31st March 2016	8,328