1. Introduction

1.1 This report identifies the key financial arrangements which apply to local authority housing revenue finance together with their impact on the HRA budget for 2016-17.

1.2 The report considered by Cabinet on 11 January 2016 was referred to the Children & Families and the Older Persons, Health & Wellbeing Overview & Scrutiny Committees during January 2016.

Comments and observations made by the Committees are outlined below:

- Members confirmed their view expressed at a recent Members seminar that they wanted the discretionary rent increase for 2016-17 to remain at £1.50 per week and did not want to see it rise to £2.00 per week.

The Rent and Service Charge Policy report, considered by Cabinet on 22 February 2016 prior to consideration of the HRA Estimates 2016-17 report, set out three options for the discretionary rent increase for 2016-17:

Option 1 - £1.00 increase and transition of voids to target rent

Option 2 - £1.50 increase

Option 3 - £2.00 increase.

Option 1 was chosen for the discretionary rent increase for 2016-17.

- If rents are increased, the effect on tenants and especially those most vulnerable, needs to be known. This information was covered in the Rent and Service Charge Policy report considered by Cabinet on 22 February 2016, prior to their consideration of the HRA Estimates 2016-17 report.
2. **Background to HRA**

2.1 The Housing Revenue Account (HRA) is the account which has to be established by every Local Housing Authority to record the financial transactions arising from the management of their housing stock.

2.2 During 2015-16, there were significant changes to the HRA, namely the replacement of the HRAS system (negative subsidy) with a new system of self-financing (£80.7m buy-out cost), the commencement of a phased harmonisation of rent levels (target rents) between local authorities and registered social landlords, and the commencement of the de-pooling of costs from rents (service charges).

2.3 The administration of the HRA is governed by the provisions of the Local Government and Housing Act 1989 which requires control over expenditure and income charged to the HRA (Ring Fencing). This prevents any subsidy being given to the Account by local taxpayers via the Council Fund and vice versa thus making the HRA self-supporting. Provisions within the Local Government and Housing Act 1989 in respect of HRA subsidy were abolished by the enactment of Section 131 of the Housing (Wales) Act 2014.

2.4 Through the Housing (Wales) Act 2014 (Part 4 – Standards for Social Housing), Welsh Ministers introduced fundamental changes to the methodology used by public sector landlords in setting rent levels. These were incorporated into the HRA budget for 2015-16 and will be for 2016-17 onwards.

2.5 The Housing (Wales) Act 2014 (Part 4 – Standards for Social Housing) also introduced the requirement for public sector landlords to de-pool costs from the HRA and charge back to tenants as service charges. This was commenced by the Council in April 2015 with the introduction of service charges for sheltered housing warden costs.

3. **Revised Estimate 2015-16**

3.1 The revised estimate of income for 2015-16 is £21.0m, which is offset by estimated expenditure of £21.0m resulting in the HRA being in balance for the year (see attached financial statement).

3.2 The format of the HRA continues to reflect the accounting framework for fixed assets. The format includes the notional depreciation charges relating to HRA assets which are then “reversed out” of the accounts to establish “real” external financing costs related to actual HRA loan debt and minimum revenue provision (MRP) of 2% for the repayment of debt.

3.3 The estimated HRA Working Balance at 31 March 2016 is £0.752m. It is proposed that this balance remains unchanged during 2016-17.
4. **Estimate 2016-17**

4.1 Estimated income and expenditure for 2016-17 is £21.6m, as scheduled in the attached financial statement.

4.2 The exit from the HRAS system (negative subsidy) and increased rental income from progression towards target rents will provide the Council with additional resources to enable it to maintain the Welsh Housing Quality Standard, whilst continuing to invest in and improve its existing housing service provision. Outline financial assumptions for the next 30 years will continue to be included in the HRA Business Plan.

4.3 The estimated income and expenditure for 2016-17 has taken into account the Welsh Government Policy for Social Rents and new target rent tables. The HRA Business Plan 2016-46 has been updated to reflect inflationary increases in rent levels of only 1.4% (CPI -0.1% + 1.5%), the former HRA Business Plan 2015-45 having been based on inflationary increases in rent levels of 3.5% (CPI 2.0% + 1.5%)

4.4 The approved HRA Business Plan 2016-46 was submitted to Welsh Government to meet the deadline of 29 February 2016, in order for the Council to obtain the £3.968m Major Repairs Allowance (MRA) Grant for 2016-17.

5. **Rents 2016-17**

5.1 The Housing (Wales) Act 2014 (Part 4 – Standards for Social Housing) introduced fundamental changes to the methodology used by public sector landlords in setting rent levels from 2015-16. The objective of the changes was the phased harmonisation of rent levels (target rents) between local authorities and registered social landlords.

5.2 Welsh Government stipulated mandatory rent increases for 4 years from 2015-16. The increase will be the Consumer Price Index (CPI) as at the end of September each year (-0.1% in September 2015) plus 1.5%.

5.3 In 2015-16, the Council also commenced the discretionary transition to target rent levels by charging an additional £1.50 per week (Maximum of an additional £2.00 per week). On 22 February 2016, Cabinet were asked to set the discretionary element of the 2016-17 rent increase based on the three options as outlined in 1.2 above.
5.4 The implementation of the mandatory rent increase of 1.4% plus the discretionary element options outlined in paragraph 1.2 above, would result in the following increases for each dwelling for 2016-17:

Option 1 – The average weekly Council house rent would increase from £68.99 to £70.96 (£1.97 per week). The increase in respect of transitions from void to target rent may be significantly higher depending upon the base rent of the individual void property.

Option 2 – The average weekly Council house rent would increase from £68.99 to £71.46 (£2.47 per week).

Option 3 – The average weekly Council house rent would increase from £68.99 to £71.96 per week (£2.97 per week).

The rent increase for 2015-16 (mandatory plus discretionary) was £3.27 per week.

5.5 It should be noted that any rent increase will be implemented over a 48-week collection period as previously agreed by Council – the increase to take effect from 4 April 2016.

6. Rent De-pooling and the Levying of Service Charges

6.1 At the meeting on 22 February 2016, Cabinet considered a number of issues regarding the second phase of the de-pooling of costs from the HRA and the introduction of additional service charges.

Specifically Cabinet decided:

- That additional service charges are introduced from 4th April 2016.
- The basis for introducing such additional charges.
- That the introduction of service charges in relation to grounds maintenance is deferred to allow further analysis to be undertaken regarding costs and to await guidance from Welsh Government.
- That relevant service charges are applied to leaseholders and freeholders of properties purchased under the Right to Buy on the same basis as tenanted properties where the lease or freehold conveyance allows such charges to be made.
- Service Charges are reviewed and recalculated annually.
- The setting of individual service charges in future years is delegated to the Chief Finance Officer as the Council’s s151 Officer.
• Under- or over-collection of charges is calculated as part of the year end reconciliation process and that adjustments are applied to accounts in the following year.

The reason for the decision was to ensure compliance with the Housing (Wales) Act 2014 and to meet the deadline of de-pooling costs set by Welsh Government of April 2016.

6.2 The implementation of the Housing (Wales) Act 2014 will over time result in all social housing landlords applying rents and charges using the same principles. This will assist tenants and applicants in making choices about where they wish to live and in the longer term with the harmonisation of rents at the time of local government reorganisation.

6.3 The de-pooling of costs is based on the premise that the base rent of individual properties remains the same and that there is no corresponding reduction in rents as a result of the de-pooling exercise; this is the approach that was taken in Phase 1 of de-pooling when warden costs were introduced as service charges from April 2015.

6.4 There have been concerns by some Members that the de-pooling of costs without a corresponding reduction in the base rent across all properties to account for this, results in charging tenants who are now subject to service charges twice for the same service and there is a view that consideration needs to be given to applying a rent reduction to every property equivalent to the de-pooled costs.

6.5 Currently rent levels in Pembrokeshire are significantly below the target rent levels that have been set by Welsh Government and to which the Council must move over the coming years. The move towards target rents started in April 2015 when Council approved a rent increase for 2015-16 of CPI (1.2%) + 1.5% plus £1.50. Cabinet approved a rent increase for 2016-17 of CPI (-0.1%) + 1.5% plus £1.00 (£1.08 over 48 weeks) and that all void properties let after 4 April 2016 be taken straight to target rent.

6.6 The rents charged directly impact upon the Council’s 30 year HRA Business Plan. The Council is obliged to produce the Plan annually to provide an overview of investment in its housing services and stock and it is submitted to Welsh Government to enable the Major Repairs Allowance (MRA) Grant of £3.968m to be claimed.

The HRA Business Plan for 2016 – 2046 was approved by Cabinet on 22 February 2016 for submission to Welsh Government by 29 February 2016. The HRA Business Plan has been modelled on the basis of the rent increase approved by Cabinet on 22 February 2016. The modelling also included the assumption that base rents would not be reduced as a result of de-pooling.
6.7 If rents were to be reduced to account for costs to be de-pooled in 2016-17 (i.e. all relevant costs except those related to the sheltered housing warden service which were de-pooled in 2015-16) this would have the following impacts:

1. Every rent would be reduced by £0.77 per property per week (over 48 weeks) representing £208,000 total costs to be de-pooled.

2. All rents would be taken below target rent.

3. The approved rent increases for 2016-17 would then be applied to each property which would bring 205 properties back to target rent within the year but would be 100 less properties at target rent than with our current approved rent policy.

4. The period taken for rents to reach target rent levels will increase.

5. The financial tables within the HRA Business Plan would need to be remodelled to account for the corresponding loss of rent over the 30 year period.

6. To maintain the approved Business Plan position over the 30 year period and to achieve approximately the currently agreed capital balance in year 30, there would need to be consideration given to adjusting the rent increase to CPI (-0.1%) + 1.5% plus a minimum £1.22 (over 48 weeks) discretionary increase each year with all void properties re-let after 4 April 2016 being taken straight to target rent.

6.8 A sample calculation to reflect the above is shown below based on the average rent of £68.99 per week.

<table>
<thead>
<tr>
<th>Application of Cabinet approved rent increase (over 48 weeks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current average rent</td>
</tr>
<tr>
<td>Plus approved rent increase</td>
</tr>
<tr>
<td>(£68.99 + 1.4% + £1.08) =</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reduction following rent de-pooling (over 48 weeks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current average rent</td>
</tr>
<tr>
<td>Less reduction from base rent to take into account de-pooled costs</td>
</tr>
<tr>
<td>(£68.99 - £0.77) =</td>
</tr>
<tr>
<td>Plus currently approved rent increase</td>
</tr>
<tr>
<td>(£68.22 + 1.4% + £1.08) =</td>
</tr>
</tbody>
</table>
Reduction following rent de-pooling and applying a revised discretionary rent increase to maintain the approximate HRA Business Plan position over 30 years and the capital balance at year 30 (over 48 weeks)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current average rent</td>
<td>£68.99</td>
</tr>
<tr>
<td>Less reduction from base rent to take into account de-pooled costs (£68.99 - £0.77)</td>
<td>£68.22</td>
</tr>
<tr>
<td>Plus revised rent increase (£68.22 + 1.4% + £1.22)</td>
<td>£70.40</td>
</tr>
</tbody>
</table>

6.9 The introduction of additional service charges in 2016-17 will impact upon approximately 1200 properties; which represents 21% of the total number of properties. It is clear that the group of tenants most affected by the introduction of service charges will be those tenants living in sheltered accommodation (mainly older people and people with a disability) as they live in settings that have more communal facilities.

6.10 A significant number of the individual service charge elements to be introduced will be covered by Housing Benefit for those that are in receipt of this benefit. Approximately 68% of all tenants are in receipt of Housing Benefit and this figure increases to 76% of tenants living in sheltered housing.

7. RECOMMENDATION

It is recommended that:-

7.1 The revised estimate for 2015-16 and the estimate for 2016-17 be approved.

7.2 Council house rents be increased by 1.4% plus £1.00 per week (over 52 weeks) with effect from 4 April 2016 and the transition of voids to target rent for those properties relet after 4 April 2016.

7.3 The base rent of individual properties remains the same and there is no corresponding reduction in rents as a result of the de-pooling exercise.

Background Documents:

- Cabinet 06 July 2015 HRA Business Plan 2015-45
- Cabinet 22 February 2016 HRA Estimates 2016-17
- Cabinet 22 February 2016 Rent and Service Charge Policy
- Cabinet 22 February 2016 HRA Business Plan 2016-46