

Housing Revenue Account (HRA) - Rents and Charges 2019/20

Cabinet

Date: 6th February 2019

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Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To present the proposed rents, service charges, support charges for 2019/20 and proposed Housing Revenue Account (HRA) budget for 2019/20.
- 1.2 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.
- 1.3 The funding that will be provided from rents will be of direct benefit to all tenants as it contributes to the maintenance of the housing stock over both the short and long term. This will promote the Council's Corporate priorities One and Four to *"Improve Infrastructure and housing to support a growing, low-carbon economy"* and *"Help people to help themselves while always protecting our most vulnerable children and adults."*

2. Recommendations

Cabinet is invited to recommend to the Council as follows:

- 2.1 The proposed average rent for Housing Revenue Account (HRA) dwellings for 2019/20 of £78.60 per week (52 week basis), which is a decrease of 1.0%, be approved. This will be an average decrease of £0.79 per week (52 week basis). The range of decreases is shown in paragraph 3.8.
- 2.2 To authorise the Corporate Director, Communities and Housing to seek authority from the Secretary of State to extend the permission for the use of the Housing Revenue Account for payments to the Council's tenants under the Discretionary Housing Payments scheme, and provide a budget of £200k in 2019/20 as detailed at paragraphs 3.22.
- 2.3 The housing related support charges for 2019/20 and service charges for 2019/20 as outlined in Appendix 2 are approved.
- 2.4 Leaseholder service charges are set for 2019/20 as shown in Appendix 3.

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- 2.5 Based on the proposals within this report, the Housing Revenue Account (HRA) proposed budget 2019/20, shown in Appendix 4, be approved and that the HRA Capital Budget and Funding be approved as shown in Appendix 5 and as set out in 3.17 the tenure of the final 10 properties at Sussex Place to change tenure from shared ownership to affordable rent.
 - 2.6 That the draft 3 year capital projects and planned maintenance programme be approved at an indicative funding level of £15.398m (2018/19 prices) for 2019/20 Appendix 6.
 - 2.7 Rents charged on General Fund properties are reduced in line with Government guidance on Housing Revenue Account rents by 1% for 2019/20. Service charges for General Fund properties, as shown in Appendix 7, are approved.
 - 2.8 The charges for Private Sector Leased (PSL) accommodation for those accepted as homeless outlined in Appendix 7 are approved.
 - 2.9 Any underspend or overspend on the 2018/19 Housing Revenue Account be managed through the general revenue reserves.

3. Detail

- 3.1 The Housing Revenue Account (HRA) is a statutory account set up in accordance with the Local Government and Housing Act 1989. This is a significant budget for the Council amounting to £48.8m of Gross Income in 2019/20 (a budget overview is provided at Appendix 1). The account is ring fenced and cannot be subsidised by the General Fund or vice versa.
- 3.2 The HRA contains all expenditure relating to the Council's landlord function of circa 10,329 dwellings, supported housing schemes, sheltered schemes and, commercial premises. Income is generated through rents, charges and interest received on balances.

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- 3.3 Swindon's Housing Revenue Account (HRA) receives the majority of its income from the charges it levies upon its tenants. Tenants can pay up to 3 elements for their homes:
 - 3.3.1 **Rent** - a charge for the occupation of a dwelling. Rents pay for the management and maintenance of the properties.
 - 3.3.2 **Service charge** - additional services which may not be provided to every tenant, or which may be connected with communal facilities e.g. a caretaker service.

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3.3.3 **Support charge** - additional services to help tenants maintain their tenancies i.e. the Sheltered Housing Officer service in sheltered accommodation and the Homeline alarm system.

Government Rent Policy and Capital Investment

- 3.4 Following the introduction of the Welfare Reform and Work Act 2016, the Government introduced a requirement for Council rents to be reduced by 1% per annum for each year from 2016/17 through to 2019/20. Therefore, 2019/20 will be the last year of the required 1% rent reductions. This policy also changed the ability to re-let properties at the higher “target” rent, originally brought in to help align local authority and housing association rents. Figures used in this report therefore assume target rents will also be reduced by 1%. These are used when re-letting property. The Government have stated that rent policy from 2020/21 will revert to the previous system where rents can rise up to a cap of CPI + 1%.
- 3.5 Whilst the final year of the social rent policy represents lower rent payments for tenants, it also represents a real, and significant, loss of rental income to the Housing Revenue Account. Rent income in 2019/20 is therefore approximately £7m less than forecast before the rent reductions were introduced.
- 3.6 The level of rent directly affects the amount of funding available to run the housing landlord function and service the debt, but also importantly for capital investment. This becomes increasingly important because of the much needed investment required in the Council’s non-traditionally built homes and upgrades required to the sheltered housing stock.

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- 3.7 Given the Government’s rent policies provide for a continued annual reduction of 1% per annum, rents for 2019/20 have been prepared on this basis.
- 3.8 Table 1 shows the rent decrease by property size and the range of decreases within that band. The historical rent calculation formula means that there is no “average” property within the stock as the rent for each property is based on a combination of the number of bedrooms and the 1999 property value. Government policy assumes that all properties will move to their target rent when they become void which is why rent for new tenants remain at a higher rate. As a result of a significant amount of the HRA stock not reaching their target rents there is still a wide range of actual rents being paid.
- 3.9 The table excludes the “affordable rent” properties whose rents are calculated on a different basis to social housing rents as they are a product of the housing development programme. There are currently approximately 375 affordable rented properties within the HRA stock.

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Table 1 Average and range of rent by property size (52 week basis)

No. of properties at Dec 2018	No. of Bedrooms	Final rents at year end 2018/19	Rent for existing tenants for 2019/20	Net Change %	Rent for new tenants for 2019/20	Lowest rent per week	Highest rent per week
276	Bedsits	62.36	61.74	-1.0%	65.98	59.32	71.22
3,213	1	72.01	71.29	-1.0%	74.46	61.72	86.25
2,709	2	79.94	79.14	-1.0%	81.39	69.86	95.01
3,573	3	85.89	85.03	-1.0%	88.99	77.04	114.99
187	4	98.66	97.67	-1.0%	102.97	83.76	132.00
4	5	104.32	103.28	-1.0%	110.65	81.90	114.18
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9,962	Overall	79.39	78.6	-1.0%	81.92		

- 3.10 The HRA budget for 2019/20 is dependent upon the decisions Members make around changes to rents, service charges, support charges, and capital investment.
- 3.11 Appendix 2 provides a high level budget and Appendix 4 shows the HRA budget in more detail. The following paragraphs outline the major movements (key variances) from the 2018/19 base budget to the proposed 2019/20 budget. This section will also bring to Members' attention the short and medium term financial implications and challenges facing Swindon's HRA.
- 3.12 The current HRA debt will stand at £109.015 million on 1 April 2019 and the average interest rate for this is 3.32%. Although a policy of debt reduction in recent years has reduced the Council's HRA debt the interest payments on the remaining debt are still significant, and for 2019/20 the interest payment will be £3.619m (item 26, Appendix 4).
- 3.13 The budgeted cost of revenue repairs (item 3 & 4, Appendix 4) has increased slightly from the £11.627m budget in 2018/19 to £11.851m, reflecting the interim costs of the additional direct labour force delivering the repairs. This was a result of taking more housing voids work in-house. There is potential to deliver savings on the new voids contract when let in 2019/20.
- 3.14 The proposed budget includes a bad debt provision of £620k for 2019/20. This reflects the ongoing challenge of the phased introduction of Universal Credit for tenants. It is standard practice to make an allowance for bad debts, officers will

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continue to make inroads to keeping amounts owed as low as possible. Excellent work has been done to stabilise rent loss by ensuring a high collection rate (as at December 2018 this stood at 96.79% which is above the December 2017 performance. The allowance is included in item 11, Appendix 4.

Capital Programme

3.15 The HRA Capital Improvement Programme covers 3 major areas, these are:

- Capital projects e.g. kitchens & bathrooms, insulation improvements
- Planned maintenance programme e.g. fencing, paths, electrical maintenance, heating
- Regeneration, acquisition and new build programme.

3.16 The capital projects and planned maintenance programme has been set at £15.398m for 2019/20 (Item 6, Appendix 4). This is slightly less than the 2018/19 funding level of £15.5m. Appendix 5 items 17-20 provide a summary of the retained Right-to-buy (RTB) income that is available for investment in new build programmes.

3.17 Any other new build and major regeneration programmes will be brought to Cabinet for separate approval and will take account of the Housing Strategy. Following the removal of the borrowing cap at the end of October 2018, regeneration and new build opportunities can take advantage of additional borrowing where required as well as, capital receipts from Right-to-buy sales, Section 106 funding for affordable housing and Government funding from Homes England (HE). Appendix 5 line 4 identifies an anticipated spend on the Housing Development Programme of £6.78m. This includes final payments for schemes such as at Penhill Drive, Cranmore Avenue and Sussex Place. On the latter in order to complete the development, subject to Cabinet approval, the final 10 units originally envisaged as shared ownership properties will be converted to affordable rented units due to the Council's preferred partner withdrawing from the scheme due to market conditions. These units have already been funded from reserves, and whilst no capital receipts will be received in respect of the planned sale, there are no additional financial implications as grant funding will be available from Homes England.

3.18 A draft 5-year capital programme is attached at Appendix 6. The purpose of recommending a 5-year programme rather than for just 1 year is to enable better forward planning and provide certainty. The programme will be kept under review as the Government develops its rent policies. It is recommended that the indicative level of spend outlined in Appendix 6 be approved.

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General Fund Rents and Service Charges

- 3.19 Rent charges for the residential properties owned by the General Fund (including the David Murray John Tower - DMJ) have followed the same rent setting approach as used for HRA properties. Service charges for these properties have been reviewed for 2019/20 and aligned with the latest cost of service provision resulting in charges as outlined in Appendix 7 and it is recommended that the charges for the General Fund properties be approved.

Homelessness Contributions

- 3.20 The level of homelessness contributions for private accommodation is linked to the Local Housing Allowance (LHA) that is payable for each size of property. This enables a degree of affordability for tenants whilst also reducing costs on the homelessness budget. The Government changed funding arrangements for homelessness accommodation in 2017/18 and introduced a Flexible Homeless Support Grant that is not ring-fenced to homelessness. However, the Grant has been allocated to the temporary accommodation budget since 2017/18 to help mitigate costs and develop a new model of temporary accommodation. At the moment, there is no certainty on future grant allocations beyond 2019/20. The Government determined LHA rates have only had small increases in recent years, with the resulting charges shown in Appendix 7.

Affordable Rents

- 3.21 There are different guidelines that cover affordable rent properties and the current stock of these properties is circa 375. However, affordable rents are subject to the same restrictions as social rents in terms of the Government imposed rent decreases and therefore the budget has been prepared on the basis of a 1% reduction from the 2018/19 rent.

Discretionary Housing Payments Fund (DHP)

- 3.22 Following a ground breaking initiative achieved by the Council a specific Secretary of State approval has been rolled out nationally allowing all local authority HRAs to provide a Discretionary Housing Payments Fund (DHP) for tenants struggling with specific Welfare Reforms. For 2019/20 it is proposed to set this at £200k subject to Secretary of State Consent.

Support and Service Charges

- 3.23 There are no significant pressures on service charges. However, there are some increase due to the expectation of rising utility costs, in contrast to previous years where these costs have fallen. As a result, some service charges have therefore risen for 2019/20. Where reserves exist due to over-recovery in previous years,

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some of these reserves have been used to mitigate any increased charges. Full details of all service charges can be found in Appendix 2.

Leaseholder Service Charges

- 3.24 Leaseholders are recharged the full cost of providing services. The charges proposed for leaseholders are shown in Appendix 3.
- 3.25 Administration charges to cover the costs involved in the resale of leases is proposed to increase by 3.2% in line the Consumer Prices Index (CPI) +1% from £169.26 to £174.68 per transaction as shown in Appendix 3.

Garage Rents and Parking Charges

- 3.26 Garage rents are now held within the General Fund and all garage charges for 2019/20 are increasing by 5% in line with Council policy on fees and charges. Details are shown in Appendix 2. Cross over spaces linked to properties are increasing by 3.2% in line with CPI + 1%.

Provisional Budget for 2019/20

- 3.27 A summary of the budget proposals contained in this report is provided in Appendix 1. This demonstrates the budget is balanced with the operating surplus being used to fund Capital Expenditure without the need to draw on reserves.

HRA Business Plan 2019/20 – 2022/23

- 3.28 Appendix 8 shows the estimated impact of the 1% annual reduction in rents on the funding available for investment through to 2022/23, compared with the previous business plan. The overall change in funding available for capital investment is an increase of £0.7m from £64.8m to £65.5m. This increase is the result of rising income as rents begin to rise by CPI +1% from 2020/21 combined with operational savings. The key business plan assumptions are set out below.
- 3.29 CPI and RPI estimates are based on Treasury and ONS (Office of National statistics) data available at September 2018. Void allowances, which represent lost rent when properties are vacant between tenancies, rose significantly during 2017/18 and following targeted improvement action have fallen during 2018/19 as the backlog caused by the previous contractor failure has been addressed through a combination of in-house support to the void programme and closer management of the interim external contractors. Consequently, the void rate has been decreased slightly to reflect an anticipated increase in performance from 1.4% to 1.21%, the budget being reduced from £600k to £500k. Also included in the Business Plan assumptions is a bad debt allowance referred to in para 3.14 of £620k, or 1.49% of rents. All of these assumptions will be reviewed as and when the business plan is updated to reflect the latest information and therefore

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this is only indicative of the potential position in 2019/20. A full and updated HRA Medium Term Resource Plan will be presented to Cabinet early in the new financial year to reflect current performance.

Investment requirements

- 3.30 A budget of £8.4 million has been allocated to replace components such as roof coverings, doors and windows, electrical wiring and central heating etc. in order to maintain homes to the Decent Homes Standard, which is in line with the recommendations of the 2016 Stock Condition Survey. A budget of £550k has been set aside for contingency works which includes safety measures, structural and specialist repairs and fire safety works. The investment for extensive refurbishment works to the high-rise blocks of flats has been deferred by a year, whilst options on whether to refurbish or regenerate are being finalised. However, a budget of £600k has been allocated for water suppressive systems (sprinklers or misting systems) to further enhance fire safety to the high-rise blocks of flats and reassure residents that their homes are safe to live in. The investment to the non-traditional housing stock is to be prioritised for 2020/21 in conjunction with the need to refurbish or regenerate the high-rise blocks of flats. Periodic checks are to be undertaken to ensure that the long-term structural integrity and viability of the non-traditional housing stock is not put at risk. A budget of £2m has been allocated to deliver external planned maintenance to ensure that homes continue to be maintained to a good standard. A budget of £1.55m has been allocated to meet the increasing demand for major adaptations to allow residents with any special needs to live independently. The investment has increased to £500k to replace the vehicles for our in-house workforce due to the existing vans no longer being economical to repair which will also help to reduce the need to hire vehicles. These are summarised in Appendix 6

Consultation

- 3.31 The rent setting presentations to tenants and leaseholders explained the revised Government policies for 2019/20 and beyond and the impact on the funding available for investment in HRA stock. Following work with officers to deliver operational savings, and increased rentals from new builds and acquisitions, the budget for 2019/20 has been balanced without a requirement to draw on reserves or repay less debt. As such, no decisions were required for a formal consultation, but presentations were made during December, where the assumptions and details around the budget and charges were presented and made available to Council tenants and leaseholders. Attendance at the events were relatively low however the presentations were made available online and through social media.
- 3.32 A briefing paper on the Cabinet Report will be discussed at the Housing Management CMAG on the 30th January.

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4. Alternative Options

- 4.1 The parameters for setting local authority rents are largely controlled by Central Government who have provided guidance that rents should be reduced by 1% per annum from 2016/17 through to 2019/20. Local authorities could reduce by more than this, but after 2019/20, local authorities gain more discretion as the Government have stated they can set rents with increases up to CPI + 1%.
- 4.2 The setting of service charges is a local decision. Service charges should generally be set at a level that recovers the cost of providing those services, but does not make a profit. Should service charges be set lower than at a level that recovers costs, then the deficit will be funded through general rent income and result in less funding available to support capital investment.
- 4.3 The current policy is to repay £5m of HRA debt per annum, which reduces the following year's annual interest payments by £166,000. Cabinet could decide not to repay either some or all of this, which would increase the funding available for capital investment, but would incur additional debt interest charges. Appendix 8 shows how changes in the 2019/20 budget have impacted on the previous business plan through to 2022/23. Given the current capital programme includes a substantial amount of backlog from previous years, there would however be significant resource implications around the ability of officers in delivering a further £5m of capital investment in 2019/20 over and above that currently planned.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.

Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no such direct implications.

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Diversity Impact Assessment

- 5.4 A thorough Diversity Impact Assessment was carried out in support of the HRA Business Plan in 2012 and this has been updated based on the narrative in 5.5.1. A specific DIA has not been completed for this report.
- 5.5 Based on the information contained in this report the following considerations have been made
- 5.5.1 Setting of local authority rents is subject to Government guidance, which will require a year on year reduction of 1% up to and including 2019/20, although this will not apply to service charges which are still required to cover their costs. A careful balance needs to be struck between affordability and tenants being able to benefit from warmer and healthier homes. For those on the lowest incomes there will be no impact as their rents are covered by Housing Benefit or the Housing element in their Universal Credit claim, and they will continue to be able to claim their full entitlement under the respective national scheme. Support to enable them to do this is provided both by housing officers and benefits advisers. Housing officers are aware that a large proportion of employed Council tenants are on low incomes and that these decreases should benefit these tenants in some cases. Any tenants who feel that proposed increases in service charges and support costs will cause them hardship will be able to seek advice from their local Neighbourhood Housing Officers as well as from the Citizens Advice Bureau.
- 5.5.2 The Discretionary Housing Payment scheme funded by both the General Fund and the Housing Revenue Account, subject to Ministerial consent and set criteria, will continue to be available to alleviate hardship by meeting gaps in benefit previously received.
- 5.5.3 Information regarding Housing Benefit and the support available from Housing Services will continue to be provided to all tenants when they receive notification of new rents for 2019/20. Tenants who fall into rent arrears will be managed according to the Council's Rent Arrears Policy for which a Diversity Impact Assessment has also been completed.
- 5.5.4 The impact of the loss of rental income due to the 1% rent decrease has largely been mitigated in 2019/20 by efficiency savings identified within the Housing Teams, the completion of new housing properties which are let at affordable rent levels, the acquisition of properties as part of the £17m acquisition programme and the inclusion of 53 weeks rent in 2019/20. This will ensure for the coming year that the housing stock is maintained in the short term.

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Risk Management

- 5.6 Failure to raise enough revenue through rents to fund a capital programme that secures the long-term future of the council's housing stock is an important consideration that is part of the rent setting process. The implications of the Government's proposed 1% rent decrease are set out in Appendix 8.

6. Consultees

- 6.1 The Director of Finance (Section 151 Officer) and the Interim Director of Law (Monitoring Officer) are consulted in respect of all Cabinet reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1 – Proposed HRA Budget Overview 2019/20.
- 8.2 Appendix 2 – Service charges for 2019/20
- 8.3 Appendix 3 – Leaseholder charges for 2019/20
- 8.4 Appendix 4 – Detailed HRA Budget 2019/20
- 8.5 Appendix 5 – Proposed HRA Capital Budget 2019/20
- 8.6 Appendix 6 – Proposed HRA 3 year Capital Programme
- 8.7 Appendix 7 – Proposed HGF Rents & Service Charges 2019/20
- 8.8 Appendix 8 – Comparison of Business Plans showing the impact of proposed budget changes.

9. Key Decision/Decision in Cabinet Work Programme

- 9.1 This item is included in the Cabinet Work Programme for February 2019. This is not a key decision to be made by Cabinet because the final decisions are to be made by full Council on 21st February 2019.