

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

Author: Cabinet Member for Housing and Public Safety
Acting Corporate Director, Communities and Housing

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To present the proposed rents, service charges, support charges for 2018/19 and proposed Housing Revenue Account (HRA) budget for 2018/19.
- 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 directly 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 2018/19 of £79.63 per week (52 week basis), which is a decrease of 1.0%, be approved. This will be an average decrease of £0.80 per week (52 week basis). The range of decreases is shown in paragraph 3.9.
- 2.2 To authorise the Acting Corporate Board 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 2018/19 as detailed at paragraphs 3.25.
- 2.3 The housing related support charges for 2018/19 and service charges for 2018/19 as outlined in Appendix 2 are approved.
- 2.4 Leaseholder service charges are set for 2018/19 as shown in Appendix 3.

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

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- 2.5 Based on the proposals set out within this report that the Housing Revenue Account (HRA) proposed budget 2018/19, shown in Appendix 4, be approved and that the HRA Capital Budget and Funding be approved as shown in Appendix 5.
 - 2.6 That the draft 3 year capital projects and planned maintenance programme be approved at an indicative funding level of £15.5m (2017/18 prices) for 2018/19 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 2018/19. Service charges for General Fund properties, as shown in Appendix 7, are approved.
 - 2.8 Rents charged for plots at the Hay Lane Traveller and Gypsy Site are increased by £2.57 per week (5.0%) to £53.83 per week (52 week basis) in line with Council policy of fees and charges, and the rents for workpens, as shown in Appendix 7, are approved.
 - 2.9 The charges for Private Sector Leased (PSL) accommodation for those accepted as homeless outlined in Appendix 7 are approved.
 - 2.10 Any underspend or overspend on the 2017/18 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 £48.5m of Gross Income in 2018/19 (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 10,308 dwellings, supported housing schemes, sheltered schemes and, commercial premises. Income is generated through rents, charges and interest received on balances.

Housing Revenue Account (HRA) Rents and Charges

- 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.

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

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.

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. The new policy also changed the ability to re-let properties at target rent. Figures used in this report therefore assume that target rents will also be reduced by 1%. The Government have stated that rent policy from 2020/21 will revert to the CPI + 1% increase.

3.5 Whilst the move to the new 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.

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.

Housing Revenue Account Budget 2018/19

3.7 Given the Government's proposed rent policies provide for an annual reduction of 1% per annum, rents for 2018/19 have been prepared on this basis.

3.8 Table 1 below 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. Previous Government policy was that rents would converge in line with a formula towards "target rents," which would result in more consistency between properties. Properties that become void during the year are re-let at these target rents which is why rent for new tenants are at a higher rate. However as this process stopped before all properties reached their target rent, there is still a wide range of actual rents being paid. The table below 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.

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

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

No. of properties at Dec 2017	Bedroom size	Final position at year end 2017/18	Rent for existing tenants for 2018/19	Net change %	Rent for new tenants for 2018/19	Lowest rent per week	Highest rent per week
276	Bedsits	66.37	65.71	-1.0%	66.65	59.92	74.61
3,217	1	73.32	72.59	-1.0%	75.21	64.86	87.12
2,741	2	80.58	79.77	-1.0%	82.21	70.57	97.46
3,641	3	86.67	85.81	-1.0%	89.89	77.82	124.79
187	4	99.32	98.33	-1.0%	104.01	84.61	133.33
4	5	105.38	104.32	-1.0%	111.77	82.73	115.33
0	>5						
10,066	Overall	80.43	79.63	-1.0%	82.74		

- 3.9 The HRA budget for 2018/19 is dependent upon the decisions Members make around changes to rents, service charges, support charges, and capital investment.
- 3.10 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 2017/18 base budget to the proposed 2018/19 budget. This section will also bring to Members' attention the short and medium term financial implications and challenges facing Swindon's HRA.
- 3.11 The current HRA debt will stand at £114.015 million on 1 April 2018 and the average interest rate for this is 3.32%. Interest on this borrowing for 2018/19 is £3.785m (item 26, Appendix 4).
- 3.12 The budgeted cost of revenue repairs (item 3 & 4, Appendix 4) has increased slightly from the £11.318m budget in 2017/18 to £11.633m, reflecting the cost of the staff delivering the repairs.
- 3.13 The proposed budget includes a bad debt provision of £620k for 2018/19, representing an increase of £320k on last year. This reflects the anticipated impact that Universal Credit is expected to have on the level of arrears which have steadily risen since the introduction of Universal Credit. (Included in item 11, Appendix 4).

Capital Programme

- 3.14 The HRA Capital Improvement Programme covers 3 major areas, these are:
- Capital projects i.e. kitchens & bathrooms, insulation improvements etc.
 - Planned maintenance programme i.e. fencing, paths, electrical maintenance, heating etc.
 - Regeneration & acquisition / new build programme.

Further information on the subject of this report can be obtained from Ian Burbidge, tel: 07769 281 641, iburbidge@swindon.gov.uk.

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

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- 3.15 The capital projects and planned maintenance programme has been set at £15.5m for 2018/19 (Item 6, Appendix 4). This is the same funding level as set in 2017/18 for planned maintenance. In 2017/18 there was also a £1m to purchase properties within the HRA estate areas subject to demand and the ability to meet the HRA financial assessment criteria. The £1m programme has been replaced with the £17m Housing acquisitions programme that was approved by Cabinet on 26th April 2017, minute 118. 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.
- 3.16 Any other new build and major regeneration programmes will be brought to Cabinet for separate approval and will take account of the Housing Strategy. Regeneration and new build opportunities can take advantage of the borrowing headroom available to the HRA as well as Government funding from the Homes and Communities Agency (HCA).
- 3.17 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.

General Fund Rents and Service Charges

- 3.18 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 2018/19 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.

Hay Lane Traveller and Gypsy Site

- 3.19 There are 37 plots at Hay Lane and a rent of £51.26 per week was charged in 2017/18. It is proposed to increase this charge for 2018/19 in line with the Council's policy on fees and charges, with an increase of 5.0%.
- 3.20 Work pens at Hay Lane vary in size and each has a separate charge. It is proposed that the charges are increased by 5.0% for 2018/19 and it is therefore recommended that charges for Hay Lane outlined at Appendix 7 be approved.
- 3.21 The Council does not charge for its transit Gypsy and Traveller site, although it does request a returnable deposit. No change to this is proposed.

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

Homelessness Contributions

- 3.22 The level of homelessness contributions for private accommodation is linked to the Local Housing Allowance (LHA) that is payable for each size of property and a management fee paid by the Government for each property. The Government have withdrawn the management fee funding which has been replaced by the new Flexible Homeless Support Grant that is not ring-fenced to homelessness. However the Grant has been allocated to the temporary accommodation budget for 2017/18 and 2018/19 to help mitigate costs and develop a new model of temporary accommodation for 2019/20. The LHA rates have only had one small increase since they were fixed at 2015/16 rates by Government up to and including 2019/20, with the resulting charges shown in Appendix 7.

Affordable Rents

- 3.23 There are different guidelines that cover affordable rent properties and the current stock of these properties is circa 242. 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 2017/18 rent.

Discretionary Housing Payments Fund (DHP)

- 3.24 In 2017/18 the Council obtained permission from the Secretary of State to provide Discretionary Housing Payments Fund (DHP) of up to £300k through the HRA. This funding is only for the benefit of HRA tenants to ensure that sufficient funding is available to support those affected by Welfare Reform. The current permission is valid for the financial year beginning 1st April 2017. Current forecasts indicate that actual spend is likely to be significantly less than the £300k budget in 2017/18. However, it is anticipated that Welfare Reform will continue to place pressure on households and therefore authority is sought for the Acting Corporate Director, Communities and Housing to write to the DCLG for permission to extend the arrangement into 2018/19 and a budget of £200k be retained to support this arrangement.

Support and Service Charges

- 3.25 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 2018/19. Where reserves exist due to over-recovery in previous years, some of these reserves have been used to mitigate any increased charges. Full details of all service charges can be found in Appendix 2.

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

Leaseholder Service Charges

- 3.26 Leaseholders are recharged the full cost of providing services. The charges proposed for leaseholder are shown in Appendix 3.
- 3.27 Administration charges to cover the administration involved in the resale of leases is proposed to increase 4% in line the Consumer Prices Index (CPI) +1% from £162.75 to £169.26 per transaction as shown in Appendix 3.

Garage Rents and Parking Charges

- 3.28 Garage rents are now managed by the General Fund and all charges for 2018/19 are increasing by 5% in line with Council policy on fees and charges. Details are shown in Appendix 2.

Provisional Budget for 2018/19

- 3.29 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 2018/19 – 2021/22

- 3.30 Appendix 8 shows the estimated impact of the 1% annual reduction in rents on the funding available for investment through to 2021/22, compared with the previous business plan. The overall change in funding available for capital investment is an increase of £4.4m from £58.7m to £63.1m. 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.
- 3.31 CPI and RPI estimates are based on Treasury and ONS (Office of National statistics) data available at September 2017. Void allowances, which represent lost rent when properties are vacant between tenancies, have risen during 2017/18 following issues with the sole contractor for these works. Consequently, the void rate has been increased costs from £423k (1%) to £600k (1.4%) to cover higher void rates whilst a new contractor is identified. The allowance for an increase in the Bad debt provision has also risen to reflect rising rent arrears caused by families moving to Universal Credit. An allowance of £620k, or 1.5% of rents due is therefore included in the business plan assumptions. All of these assumptions will be reviewed as and when the business plan is updated to reflect the latest information and therefore this is only indicative of the potential position looking ahead. A full and updated HRA Medium Term Resource Plan will be presented at March Cabinet.

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

Investment requirements

- 3.32 A 10% sample stock condition survey report by Pennington Choices Ltd in 2016/17 identified an investment requirement of £168.11 million from 2018/19 through to 2022/23, including £36.98 million for structural repairs and thermal improvements to the non-traditional housing stock. A options appraisal has been completed for two of the high-rise blocks of flats in the south of the town. A budget provision has been made for design and procurement work to be carried out during 2018/19 with works to follow in 2019/20 to start the programme to refurbish the high-rise blocks of flats. The installation of a fire suppressive systems will be a high priority for refurbishment works and residents will be consulted on proposed works. The investment for repairs for 2017/18 was £27.8 million along with a proposed investment of £26.8 million for 2018/19. It is proposed to invest a total of £138.7 million for revenue and capital repairs over the 5-year period 2018/19 to 2022/23. The investment programme is being prioritised to maintain homes to the Decent Homes Standard and due to budget restrictions repairs to the non-traditional housing stock are planned to be delivered at a much lower level of spend than requirement indicated by the stock condition survey. Therefore, investment is prioritised and periodic checks are put in place to the non-traditional housing stock to make sure that their long-term viability is not put at risk.

Consultation

- 3.33 The rent setting presentations to tenants and leaseholders explained the revised Government policies for the next 3 years 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 2018/19 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 a presentation was provided during December, where the assumptions and details around the budget and charges were presented to Council tenants and leaseholders. Attendance at this event was low and a further presentation will be made during January.
- 3.34 A briefing paper on the Cabinet Report was debated at the Housing CMAG on the 17th January Although the group agreed they were not supportive of the report and its contents, no other proposals were made at the meeting.

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

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

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 2018/19 budget have impacted on the previous business plan through to 2021/22. 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 2018/19 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.

Diversity Impact Assessment

- 5.4 A thorough Diversity Impact Assessment was carried out in support of the HRA Business Plan in 2012. 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,

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

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 2018/19. 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 2018/19 by efficiency savings identified within the Housing Teams, the completion of new housing properties which are let at affordable rent levels, and the acquisition of properties as part of the £17m acquisition programme. This will ensure for the coming year that the housing stock is maintained in the short term.

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 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 Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

Housing Revenue Account (HRA) - Rents and Charges 2018/19

Cabinet

Date: 7th February 2018

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1 – Proposed HRA Budget Overview 2018/19.

8.2 Appendix 2 – Service charges for 2018/19

8.3 Appendix 3 – Leaseholder charges for 2018/19

8.4 Appendix 4 – Detailed HRA Budget 2018/19

8.5 Appendix 5 – Proposed HRA Capital Budget 2018/19

8.6 Appendix 6 – Proposed HRA 3 year Capital Programme

8.7 Appendix 7 – Proposed HGF Rents & Service Charges 2018/19

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 2018. This is not a key decision to be made by Cabinet because the final decisions are to be made by full Council on 22nd February 2018.