Housing Revenue Account (HRA) - Rents and Charges 2020/21

Cabinet **Date: 5th February 2020**

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	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 2020/21 and proposed Housing Revenue Account (HRA) budget for 2020/21.

1.2 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities for the HRA.

1.3 The funding that is provided from rents is of direct benefit to all tenants as it contributes to the maintenance of the housing stock over both the short and long term.

1.4 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 social rent for Housing Revenue Account (HRA) dwellings for 2020/21 of £81.25 per week (52 week basis), which is an increase of 2.7%, be approved. This will be an average increase of £2.14 per week (on a 52 week basis). The range of increases are shown in paragraph 3.8.

2.2 To authorise the Director of Housing to seek authority from the Secretary of State to extend permission to provide a budget of £200k within the HRA for payments to Council's tenants under the Discretionary Housing Payments scheme in 2020/21 as detailed at paragraphs 3.23.

2.3 Approve the housing related support charges for 2020/21 and service charges for 2020/21 as outlined in Appendix 2.

2.4 Approve the leaseholder service charges are set for 2020/21 as shown in Appendix 3.

Further information on the subject of this report can be obtained from Karl Read, tel: 07824 081182, ksread@swindon.gov.uk.

2.5 Based on the proposals within this report, the Housing Revenue Account (HRA) proposed budget 2020/21, 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 (2019/20 prices) for 2020/21 Appendix 6.

2.7 That the Director of Housing be authorised to undertake a new acquisition programme and approve the acquisition programme budget of £4m for 2020/21 in accordance with paragraph 3.19, to include the purchase of 1-4 bedroom properties to help meet priority housing needs arising from homelessness and clients supported by Adult Social Care..

2.8 Rents charged on General Fund properties are increased in line with the Governments Direction on the Rent Standard 2019 also applied to Housing Revenue Account rents. This allows for rent increases of up to the CPI for the September of the preceding financial year, plus 1%. Increases for 2020/21 will therefore be capped at 2.7%. Service charges for General Fund properties, as shown in Appendix 7, are approved.

2.9 The charges for Private Sector Leased (PSL) accommodation for those accepted as homeless once published by the Government and as set out in Appendix 7 are approved.

2.10 Any underspend or overspend on the 2019/20 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 £49.8m of Gross Income in 2020/21 (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 10,284 dwellings, including 4 supported housing schemes, 31 sheltered schemes, as well as commercial premises. Income is generated through rents, charges and interest received on balances.

<u>Housing Revenue Account (HRA) Rents and Charges</u>

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.

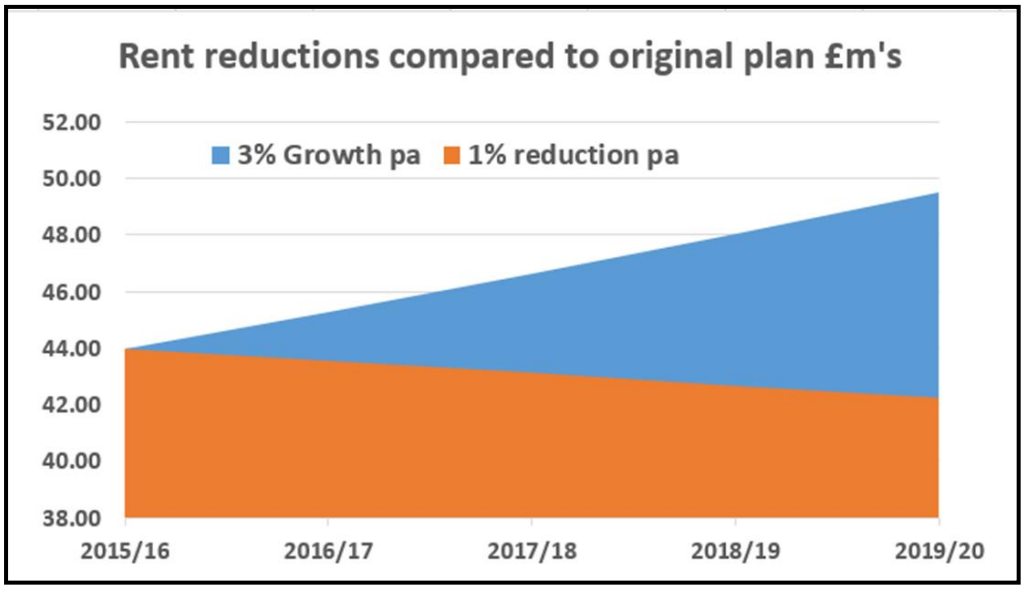
3.3.2 **Service charge** - additional services which may not be provided to every tenant, or which may be connected with communal facilities e.g. a caretaker service.

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 This year, 2019/20, represents the last year of 1% rent cuts, introduced under the Welfare Reform and Work Act 2016. Whilst the last four years resulted in reductions to rents paid by tenants, it also had a significant impact on the rent income generated and therefore, the funding available for capital investment.

3.5 The graph below shows the impact the 1% rent reductions have had on funding over the last 4 years compared to the planned 3% rises in the business plan. With rents now nearer to £44m than the planned £50m per annum. This is 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.



3.6 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%. Based on the September CPI, this would be a cap of £2.7%.

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Housing Revenue Account Budget 2020/21

3.7 Tenants have been consulted on two possible options for rents in 2020/21. The first is the option of no increase to 2019/20 rent levels. The second option is in-line with the latest Government Direction on the Rent Standard 2019, providing for an increase of up to 2.7% based on the preceding September CPI rate plus 1%. During the 2019/20 financial year the HRA benefitted from a 53 week year. This enabled the Council to manage significant budget pressures resulting over a 4 year Government imposed rent reduction period. Therefore, this equates to a shortfall of £0.8m in 2020/21 which combined with inflation pressures of £0.4m, results in a budget pressure of £1.2m. This amount is by coincidence the same as the additional income generated by a 2.7% increase in the rents for 2020/21. Therefore, without the 2.7% increase, further savings of £1.2m would be required.

3.8 Table 1 shows the social rent increase by property size and the range of increases 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.

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

No. of properties at Dec 2019	No. of Bedrooms	Actual Rents at Dec 2019	2020/21 Rents assuming a 2.7% increase	Net Change in rent	Lowest rent per week	Highest rent per week
262	Bedsits	65.04	66.80	2.7%	59.32	71.22
3,174	1	72.27	74.22	2.7%	61.72	86.25
2,696	2	79.26	81.40	2.7%	69.86	95.01
3,538	3	85.18	87.48	2.7%	77.04	114.99
184	4	97.83	100.47	2.7%	83.76	132.00
4	5	103.28	106.07	2.7%	81.90	114.18
0	5>					
9,858	**Overall**	**79.11**	**81.25**	**2.7%**		

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 growing housing development programme. There are currently approximately 426

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affordable rented properties within the HRA stock. The table below shows the averages for the affordable rented properties.

Table 2 Average and range of affordable rents by property size (52 week basis)

As presented in February 2019 Cabinet Report						
No. of properties at Dec 2019	**No. of Bedrooms**	**Actual Rents at Dec 2019**	**2020/21 Rents assuming a 2.7% increase**	**Net Change in rent**	**Lowest rent per week**	**Highest rent per week**
0	Bedsits	0.00	0.00	0.0%	0.00	0.00
81	1	90.02	92.46	2.7%	79.28	110.33
162	2	102.93	105.71	2.7%	85.20	137.34
156	3	122.76	126.08	2.7%	55.23	161.12
24	4	131.38	134.93	2.7%	53.91	172.68
0	5	0.00	0.00	0.0%	0.00	0.00
3	5>	244.62	251.22	2.7%	242.84	262.94
426	**Overall**	**110.34**	**113.32**	**2.7%**		

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 2019/20 base budget to the proposed 2020/21 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 £104.0 million on 1 April 2020 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 2020/21 the interest payment will be £3.4m (item 26, Appendix 4).

3.12 The budgeted cost of revenue repairs (item 3 & 4, Appendix 4) has increased slightly from the £11.9m budget in 2019/20 to £12.1m. This reflects an increase in the responsive work being completed by the Repairs teams and their associated costs.

3.13 The proposed budget includes a bad debt provision of £600k for 2020/21. This reflects an improvement in collection rates against a back drop of ongoing challenges as a result of the phased introduction of Universal Credit for tenants. It is standard practice to make an allowance for bad debts, officers will 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 2019 this stood at 96.65% which is very slightly lower than the December 2018 performance of 96.79% although it is anticipated that this difference will be recovered before financial year end. The allowance is included in item 11, Appendix 4.

Capital Programme

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

- Capital projects e.g. kitchens & bathrooms, insulation improvements including a more comprehensive External Wall Insulation (EWI) programme on non-traditional properties which will bring these properties up to date.
- Planned maintenance programme e.g. fencing, paths, electrical maintenance, heating
- Regeneration, acquisition and new build programme.

Capital Projects and Planned Maintenance

3.15 The capital projects and planned maintenance programme has been set at £15.8m for 2020/21 (Item 6, Appendix 4). This includes an allowance for vehicle depreciation of £240k, reducing the amount available for planned maintenance to £15.6m, slightly higher than the 2019/20 funding level of £15.4m. 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. 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 £8.97m. This includes works on the Queens Drive development delivering 149 homes and three bungalow schemes delivering 16 new homes.

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.

Regeneration and Acquisition

3.18 Alongside the current Regeneration programme which includes Queens Drive and a number of smaller bungalow projects, the HRA have been acquiring primarily 1 and 2 bed properties as part of a £17m acquisition programme over the last 3 years. It is essential we use the fund to acquire all property types, including 1 to 4 bed general purpose properties, bungalows, adapted properties, wheelchair accessible properties, and properties that meet the needs of Adult Social Care clients. It should be noted that the use of right-to-buy receipts from its sale of council houses also enables, in part, the avoidance of repayment of these receipts to the Government, which it would otherwise have had to do within three years of the right-to-buy sale. During the last 3 years, we have purchased 108 which are included in the Additions column in the table below. Sales of council houses during the same period were 163.

Table 3 – Stock movements 2017/18 to 2019/20

	RTB Sales	Additions	Demolitions / Other Changes	TOTAL stock
2017/18	-59	53	28	10,299
2018/19	-66	119	-52	10,300
2019/20	-41	25		10,284

3.19 The current acquisition programme is likely to come to an end at the end 2019/20, but the need for the HRA to maintain levels of purchasing additional properties to address homelessness pressures remains. The required use of right-to-buy receipts over the next few years is steadily increasing as a result of RTB sales in the previous 3 years. During 2020/21, the HRA will have to spend £4.2m on development or acquisitions to avoid repaying RTB receipts to the Government. For this reason, it is proposed to approve a £4m acquisition programme in 2020/21 which combined with existing build programmes will ensure no RTB monies will need to be repaid to Government. This scope of this programme will be expanded to include the purchase of all property types including 1-4 bedroom properties to help meet priority housing needs arising from homelessness and clients supported by Adult Social Care.

General Fund Rents and Service Charges

3.20 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. A review of the service charges for these properties has resulted in no changes for 2020/21 as outlined in Appendix 7 and it is recommended that the charges for the General Fund properties be approved.

Homelessness Contributions

3.21 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. Following funding changes for homelessness and the introduction of the Flexible Homeless Support Grant (FHSG) in 2017/18, the homelessness function is now funded by the rents and benefits received from rents as well as the FHSG. At present, the Government has confirmed that FHSG funding for 2020/21 will be equal to 2019/20 levels. However, Local Housing Allowance Rates are not announced until early in the new year and it is these rates that will be adopted by the Council once they are formerly announced as shown in Appendix 7.

Affordable Rents

3.22 Affordable Rents were based historically on 80% of the Local Housing Allowance. The current method is to base them on 80% of Market Rent as per the latest Homes England guidance. There are currently 426 affordable rent properties. However, affordable rents are subject to the same restrictions as social rents in terms of the Government imposed rent increases and therefore the budget has been prepared on the basis of a 2.7% rent increase on 2019/20 levels.

Discretionary Housing Payments Fund (DHP)

3.23 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 2020/21 it is proposed to set this at £200k subject to Secretary of State Consent. In 2019/20, it is anticipated that we may spend up to £40k of this budget, although demand for this may increase with rents increasing in 2020/21.

Support and Service Charges

3.24 Indications on the price of utility services have shown that there are likely to be some significant increases in these costs for 2020/21. As a result, many of the service charges that contain these costs have been increased in contrast to previous years where increases have been smaller. 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.

Leaseholder Service Charges

3.25 Leaseholders are recharged the full cost of providing services. The charges proposed for leaseholders are shown in Appendix 3.

3.26 Administration charges to cover the costs involved in the resale of leases is proposed to increase by 2.7% in line with the Consumer Prices Index (CPI) +1% from £174.68 to £179.4 per transaction as shown in Appendix 3.

Garage Rents and Parking Charges

3.27 Garage rents are now held within the General Fund and all garage charges for 2020/21 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 2.7% in line with CPI + 1%.

Provisional Budget for 2020/21

3.28 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 2020/21 – 2023/24

3.29 Appendix 8 shows the estimated impact of proposals set out in this report on the funding available for investment through to 2023/24, compared with the previous business plan. The overall change in funding available for capital investment is a very slight increase of £100k from £68.5m to £68.6m. The key business plan assumptions are set out below.

3.30 CPI and RPI estimates are based on Treasury and ONS (Office of National Statistics) data available at September 2019. Void allowances, which represent lost rent when properties are vacant between tenancies, rose significantly during 2017/18 and following targeted improvement action over the last year have fallen during 2019/20. It is anticipated that actions taken will reduce the cost of voids to £400k in 2020/21 and the rate has therefore been reduced from 1.21% to 0.96% in 2020/21. Also included in the Business Plan assumptions is a bad debt allowance referred to in para 3.13 of £600k, or 1.44% of rents. 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 in 2020/21. 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

3.31 A budget of £6.9 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.

3.32 A budget of £550k has been set aside for contingency works which includes safety measures, structural and specialist repairs and fire safety works.

3.33 The investment for extensive refurbishment works to the first of 2 high-rise blocks of flats has been deferred by a year, whilst options on whether to refurbish or redevelop are being finalised (Cabinet report dated 4 December 2019 refers).

3.34 We continue to invest in the refurbishment, insulation and maintenance of the non-traditional stock with an allocation of a further £2.1 million.

3.35 A budget of £2m has been allocated to deliver external planned maintenance to ensure that homes continue to be maintained to a good standard.

3.36 A budget of £1.5m has been allocated to meet the increasing demand for major adaptations to allow residents with any special needs to live independently

3.37 We plan to allocate £0.75m to replace the vehicles for our in-house workforce due to the existing vans no longer being economical to repair. This will also help to reduce the hire of vehicles and enable the Housing Service to increase the use of electric/hybrid vehicles within fleet.

3.38 Budget provision has also been made of £0.5m for costs associated with the transfer of Housing Repairs staff to Unit 5 Hillmead Industrial Estate to provide fit-for-purpose accommodation and drive service improvement. These are summarised in Appendix 6.

Consultation

3.39 The rent setting presentations to tenants and leaseholders outlined the impact of the 1% rent reduction over the last 4 years on the funding available for investment in HRA stock. Tenants have been presented with two options on rent changes for 2020/21, these being no change on rents, or a 2.7% increase in line with Government guidance based on (CPI +1%). Following work with officers to deliver operational savings, increase rentals from new builds and acquisitions, and absorb the impact of there being one less weeks rent in 2020/21 compared to 2019/20, the budget for 2020/21 can only be balanced with the rent increase of 2.7%. Any rent increase below this level will require either a reduction in reserves or the funding available for capital investment.

3.40 A briefing paper on the Cabinet Report will be discussed at the Housing Management CMAG on the 27th 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 now confirmed that rents for the next 5 years can increase up to a cap based on the previous September's 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 2020/21 budget have impacted on the previous business plan through to 2023/24. The current capital programme does have an in year backlog, reducing the programme by £5m could allow sufficient time for the programme to catch up, however it would also mean depleting the capital reserve by £5m for future years expenditure in line with the needs of the stock condition survey.

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.

Climate Change Impact

5.3 The recommendations would bring about a reduction in the Council's carbon footprint through the improvement of thermal efficiency in the housing stock through insulation and improvement to components such as boilers etc.

5.4 In addition, ongoing work to move towards the use of more electric vehicles as the current fleet is replaced will reduce carbon emissions.

Further information on the subject of this report can be obtained from Karl Read, tel: 07824 081182, ksread@swindon.gov.uk.

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

5.5 There are no such direct implications.

Diversity Impact Assessment

5.6 A thorough Diversity Impact Assessment was carried out in support of the HRA Business Plan and this has been thoroughly reviewed and updated.

5.7 Based on the information contained in this report the following considerations have been made

5.7.1 Setting of local authority rents is subject to Government guidance, which following 4 years of rent reductions, now allows local authorities to increase rents by up to 2.7% based on CPI +1%.

5.7.2 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 this increase could cause them hardship in some cases. Similarly, 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.

5.7.3 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.

5.7.4 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 2020/21. Tenants who fall into rent arrears will be managed according the Council's Rent Arrears Policy for which a Diversity Impact Assessment has also been completed.

Risk Management

5.8 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 revised rents regime allowing for increases of up to CPI +1% is set out in Appendix 8.

6. Consultees

6.1 The Corporate Director of Finance and Assets (s151 officer) and Chief Legal Officer (Monitoring Officer) are consulted in respect of all reports.

6.1.1 The Corporate Director of Finance and Assets (s151 Officer) cleared this report for publication on: 28th January 2020.

6.1.2 The Chief Legal Officer (Monitoring Officer) cleared this report for publication on: 28th January 2020.

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1 – Proposed HRA Budget Overview 2020/21.

8.2 Appendix 2 – Service charges for 2020/21.

8.3 Appendix 3 – Leaseholder charges for 2020/21.

8.4 Appendix 4 – Detailed HRA Budget 2020/21.

8.5 Appendix 5 – Proposed HRA Capital Budget 2020/21.

8.6 Appendix 6 – Proposed HRA 3 year Capital Programme.

8.7 Appendix 7 – Proposed HGF Rents & Service Charges 2020/21.

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 2020. This is not a key decision to be made by Cabinet because the final decisions are to be made by full Council on 20th February 2020.

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