

Housing Revenue Account (HRA) - Rents and Charges 2016/17

Cabinet

Date: 10th February 2016

Author: Cabinet Member for Housing and Public Safety
Board Director, Service Delivery

Wards: All

Locality Affected: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To present the proposed rents, service charges and support charges for 2016/17 and the proposed Housing Revenue Account (HRA) budget for 2016/17.
- 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 and improvement of the housing stock over both the short and long term. This will promote the Councils 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 2016/17 of £80.76 per week (52 week basis), which is a decrease of 1.0%, be approved, subject to confirmation from the Government as mentioned in paragraph 3.6 of this report. This would be an average decrease of £0.81 per week (52 week basis). The range of increases is shown in paragraph 3.10.
- 2.2 To authorise the Board Director, Service Delivery 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 £300k in 2016/17 as detailed at paragraphs 3.27.
- 2.3 The housing related support charges for 2016/17 and service charges for 2016/17 as outlined in Appendix 2 are approved.
- 2.4 Leaseholder service charges are set for 2016/17 as shown in Appendix 3.

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- 2.5 Based on the proposals set out within this report that the Housing Revenue Account (HRA) proposed budget 2016/17, shown in Appendix 4, be approved and that the HRA Capital Budget and Funding be approved as shown in Appendix 5.
 - 2.6 That a budget of £1m is approved to acquire properties as detailed at paragraph 3.36 below, and to authorise the Board Director, Service Delivery in consultation with the Board Director, Resources to commit this expenditure.
 - 2.7 That the draft 3 year capital projects and planned maintenance programme be approved at an indicative funding level of £15.7m (2015/16 prices) for 2016/17 onwards as shown in Appendix 6.
 - 2.8 Rents charged on General Fund properties are increased by an average increase of 0.9% and the service charges for Christopher House and the David Murray John Apartments, as shown in Appendix 7, be approved.
 - 2.9 Rents charged for plots at the Hay Lane Residential Gypsy Site are increased by £0.45 per week (0.9%) to £50.26 per week (52 week basis) and the rents for workpens, as shown in Appendix 7, are approved.
 - 2.10 The charges for Private Sector Leased (PSL) accommodation for those accepted as homeless outlined in Appendix 7 are approved.
 - 2.11 Any underspend on the 2015-16 Housing Revenue Account is added to 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 £49.7m of Gross Income in 2016/17 (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 10,300 dwellings, supported housing schemes, sheltered schemes, commercial premises and garages. 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:

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- 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 neighbourhood warden or staircase lighting charge.
- 3.3.3 **Support charge** - additional services to help tenants maintain their tenancies e.g. the warden service in sheltered accommodation and the Homeline alarm system.

Government Rent Policy and Capital Investment

- 3.4 Government rent policy guidance, introduced nationally for local authorities in April 2002, established the local authority average guideline rent increase by applying Retail Price Index (RPI) inflation at the previous September plus 0.5%, and a convergence factor of up to £2 per week. The £2 per week convergence factor cap reflected the policy objective of increasing Local Authority rents to similar levels to those charged by Registered Providers (Housing Associations). Under self-financing, the Government calculated an allocation of debt to Swindon of £138.6m on the basis that this would be affordable given rents would increase per the policy in place at the time and detailed above.
- 3.5 Following consultation the Government announced that from 2015/16 this guidance would be replaced by new guidance that requires rent increases to be via a formula of September Consumer Price Index (CPI) + 1% for the next 10 years. Historically CPI has been lower than RPI, so the expected impact of this policy was to reduce annual rent increases, and therefore significantly reduce the rental income predictions on which our business plan is based.
- 3.6 Following the introduction of the new Welfare Reform and Work Bill, the Government is expected to introduce 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 is also expected to change the ability to re-let properties at target rent. Figures used in this report also assume that target rents will also be reduced by 1% subject to confirmation from the Government.
- 3.7 Whilst the move to the new social rent policy represents lower rent increases for tenants, it does represent a real, and significant, loss of rental income to the Council.
- 3.8 The level of rent directly affects the amount of funding available to run housing services and service the debt, but also importantly for capital investment as demonstrated below. The level of rent directly affects the amount of funding available to run housing services and repay the debt, and significantly impacts on the resources available for future capital investment as demonstrated below. This

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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. Cabinet previously approved a 3-year programme from 2015/16 to 2017/18 of £16.8m per annum in order to aid certainty and allow longer-term investment planning rather than the previous annual approach. However, in the light of the proposed changes in rent policy, this will need amending to reflect the lower level of resources that will be available in the coming years.

Housing Revenue Account Budget 2016/17

- 3.9 Given the Government's proposed rent policies provide for an annual reduction of 1% per annum, rents for 2016/17 have been prepared on this basis.
- 3.10 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. However, this process has now stopped and rents only move to target when the property is re-let. Consequently, there is still a wide range of actual rents being paid.

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

No. of properties at Dec 2015	Bedroom size	Final position at year end 2015/16	Rent for existing tenants for 2016/17	Net change %	Rent for new tenants for 2016/17	Lowest rent per week	Highest rent per week
277	Bedsits	66.08	65.42	-1.00%	68.00	59.98	74.11
3,242	1	73.67	72.93	-1.00%	76.72	63.61	87.02
2,817	2	81.88	81.06	-1.00%	83.87	71.71	97.92
3,773	3	88.25	87.37	-1.00%	91.74	79.4	113.14
192	4	100.89	99.88	-1.00%	106.04	86.32	114.2
4	5	107.52	106.44	-1.00%	114.05	84.41	117.67
2	>5	102.05	101.03	-1.00%	113.37	97.82	104.24
10,307	OVERALL	102.05	101.03	-1.00%	113.37		

- 3.11 The HRA budget for 2016/17 is dependent upon the decisions Members make around changes to rents, service charges, support charges, and capital investment.
- 3.12 Appendix 4 shows the proposed HRA budget for 2016/17 assuming Members agree to the recommendations on rents and charges set out in this report. The following paragraphs outline the major movements (key variances) from the

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2015/16 base budget to the proposed 2016/17 budget. This section will also bring to Members' attention the short term and medium financial implications and challenges facing Swindon's HRA.

- 3.13 The current HRA debt will stand at £130.5 million on 31 March 2016 and the average interest rate for this is 3.32%. Interest on this borrowing for 2016/17 is £4.332m (item 26, Appendix 4).
- 3.14 The budgeted cost of revenue repairs (item 3&4, Appendix 4) has remained at a similar level to last year at £12.532m in 2016/17.
- 3.15 The proposed budget includes a £100k decrease in bad debt provision to £300k for the year 2016/17. This is due to less of an impact from Universal Credit than was originally anticipated (included in item 10, Appendix 4).
- 3.16 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.
- 3.17 The capital projects and planned maintenance programme has been increased to £17.0m. This consists of £15.7m capital budget (item 1, Appendix 5) and £1.3m revenue repairs & maintenance budget (which is within the Contribution to Repairs Account budget shown at item 4 of Appendix 4). The 15/16 equivalent was £16.8m in total for both elements.
- 3.18 It is proposed to provide an additional £1m on top of that budgeted for in 2016/17, to continue with the programme to purchase of 1 and 2 bedroom properties within the HRA estate areas. It is proposed this is to be funded from existing HRA reserves. In addition, this funding stream will also be used to acquire properties that are suitable to support Adult Social Care clients who need accommodation, (item 2, Appendix 5). This will provide options for those tenants who need to downsize due to the introduction of the Welfare Reforms. 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. It is anticipated that this funding, referred to in the previous paragraph, will be used to help fund this.
- 3.19 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.

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- 3.20 A draft 3 year capital programme is attached at Appendix 6. The purpose of recommending a 3 year programme rather than the usual 1 year is to enable better forward planning and provide certainty. However, with reduced revenue surpluses available as a result of the Governments proposed rent policy, any shortfall in funding for 2017/18 through to 2019/20 between the proposed programme and available revenue resources will be filled through the use of existing HRA reserves. The programme will be kept under review as more details of the Government's rent policies emerge. It is recommended that the indicative level of spend outlined in Appendix 6 be approved.

General Fund Rents and Service Charges

- 3.21 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 2016/17 and aligned with the latest cost of service provision resulting in decreased charges as outlined in Appendix 7 and it is recommended that the charges for the David Murray John Tower and Christopher House (Flats over the shops at Marlowe Avenue) be approved.

Hay Lane Residential Gypsy Site

- 3.22 There are 37 plots at Hay Lane and a rent of £49.81 per week was charged in 2015/16. It is proposed to increase this charge for 2016/17 in line with CPI + 1% to £50.26 per week, an increase of 0.9%.
- 3.23 Workpens at Hay Lane vary in size and each has a separate charge. It is proposed that the charges are increased by 0.9% for 2016/17 and it is therefore recommended that charges for Hay Lane outlined at Appendix 7 be approved.
- 3.24 The charge for pitches at the transit Gypsy and Traveller site (when in use) will remain in line with the pitch fee for Hay Lane residential site.

Homelessness Contributions

- 3.25 The level of homelessness contributions for private accommodation is linked to the Local Housing Allowance that is payable for each size of property. The details of these charges are shown on Appendix 7 but it should be noted that the Government has stated Local Housing Allowance rates will be frozen at their current levels for three years.

Affordable Rents

- 3.26 There are different guidelines that cover affordable rent properties. It is anticipated however that affordable rents will be subject to the same restrictions as social rents and therefore the budget has been prepared on the basis of a 1%

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reduction from the 2015/16 rent. Any new affordable rents in 2016/17 will continue to be set in line with existing Housing policy in line with the Local Housing Allowance.

Discretionary Housing Payments Fund (DHP)

- 3.27 In 2015/16 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 2015. Current forecasts indicate that actual spend is likely to be close to this £300k budget and therefore authority is sought for the Board Director, Delivery to write to the DCLG for permission to extend the arrangement into 2016/17 and a budget of £300k be retained to support this arrangement.

Support and Service Charges

- 3.28 There are no significant pressures on service charges and as a result of utility costs being lower than anticipated, many of the service charges have decreased on the 2015/16 prices. Where reserves exist due to over-recovery in previous years, these have been used to mitigate any increases in charges. Full details of all service charges can be found in Appendix 2.

Leaseholder Service Charges

- 3.29 Leaseholders are recharged the full cost of providing services. The charges proposed for leaseholder are shown in Appendix 3.
- 3.30 Administration charges to cover the administration involved in the resale of leases is proposed to stay unchanged at £155 per transaction and is included in Appendix 3.

Garage Rents and Parking Charges

- 3.31 Garage and parking space rents for tenants have been held again this year due to the level of demand as demonstrated by the level of voids. Cross over charges and premium parking provision have been increased in line with inflation. Details are shown in Appendix 2.

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Provisional Budget for 2016/17

- 3.32 A summary of the budget proposals contained in this report will produce a balanced HRA budget in 2016/17 and is summarised below. Appendix 1 provides a more detailed breakdown.

	£m	£m
Rent (£43.19m) & other income		£50.054
Less Operational Costs	(£ 12.190)	
Repairs Service	(£ 11.232)	
DHP	(£ 0.300)	
Debt Interest	<u>(£ 4.332)</u>	
Available for investment		£ 22.000
Debt Repayment		<u>(£ 5.000)</u>
Available for Capital Investment		<u>£ 17.000</u>

- 3.33 The proposed budget includes £1.457m of cost pressures (including rent reductions of c£700k, but £1.657m of savings which has resulted in an increase in the funding available for capital investment of £200k over and above the £16.8m approved for 2015/16 at Cabinet in February last year.

HRA Business Plan 2016/17 – 2019/20

- 3.34 Appendix 8 shows the estimated impact of the 1% annual reduction in rents on the funding available for investment over the next 4 years, compared with the previous business plan. The overall change in funding available for capital investment is a reduction of £13m from £75.7m to £62.7m. Rent loss is anticipated to be £22.8m, however a reduction in the budgeted allowances for voids and bad debts of £6.2m, as well as a number of other amendments such as inflation assumptions and estimates of Right to Buy sales, has helped mitigate this. The key business plan assumptions are set out below:

Business Plan Assumptions (previous & current)

	2016	2017	2018	2019
CPI – previous assumption	2.2%	2.7%	2.7%	2.7%
CPI – current assumption	-0.9%	1.0%	2.0%	2.0%
RPI – previous	3.4%	4.0%	4.0%	4.0%
RPI – current		2.0%	3.0%	3.0%
Rent Increases – previous	3.2%	3.7%	3.7%	3.7%
Rent Increases – current	-1.0%	-1.0%	-1.0%	-1.0%
Voids – previous	1.5%	1.5%	1.3%	1.2%
Voids – current	1.0%	1.0%	1.0%	1.0%
Bad Debts – previous	2.9%	3.5%	4.0%	5.0%
Bad Debts – current	0.7%	0.7%	0.7%	0.7%

Further information on the subject of this report can be obtained from Paul Smith, 01793 463976, psmith2@swindon.gov.uk.

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- 3.35 CPI and RPI estimates are based on Treasury and ONS (Office of National statistics) data available at the time of writing the report. Void allowances, which represent lost rent when properties are vacant between tenancies, have reduced to reflect better than expected performance in 2015/16. Allowances for Bad debts, which reflect unpaid rent, were increased significantly in the previous business plan to reflect the expected impact of welfare reform. However, bad debts in 2015/16 to date are estimated to be around £300k, or 0.7% of rents due, and therefore the business plan assumptions have been changed to reflect this position. 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.

Investment requirements

- 3.36 The Council are currently using the RAND Associates stock condition assessment carried out in 2011, which recommended an investment of £108.2m over the first 5 years of the Housing business plan. Up to and including these 2016/17 proposals, £76.73 million will have been provided, leaving a shortfall of £31.45 million against the recommended investment programme. Therefore, structural investigation works to our non-traditional housing stock have been completed and an independent Stock Condition Survey is currently being undertaken to get an up to date position on the long term future investment requirements. The outcome of these surveys will be considered as part of the HRA Medium Term Financial Plan (MTFP) that will be presented to Cabinet in March 2016.

Consultation

- 3.37 The rent setting presentation explained the revised Government policies for the next 4 years and the impact on the funding available for investment in HRA stock. Consultation events were publicised using usual communications with Council tenants and were held during December 2015. Attendance at these events is traditionally low and to address this, other opportunities were used to encourage tenants to take part in the consultation stage, including the use of the Housing Facebook Page, the Housing Sounding Board and Swindon 105.5 FM. This approach resulted in the highest ever return for such a consultation with 368 responses compared to 199 last year.
- 3.38 As the reduction in rent levels is mandatory, the consultations asked for views around a combination of ways to increase resources available for investment which were:

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- A) **Use some of our 'reserves'.**
- B) **Repay less of our debt.**
- C) **Reduce the amount we spend on improvements to our homes.**
- D) **A combination of options A and B.**

3.39 The results from the consultation exercise were as follows:

3.39.1 The majority of tenants, 60%, supported Option D – a combination of using some reserves and reducing the amount of debt we repay over the next four years.

3.39.2 Both Tenant Associations for Sheltered Housing and the Swindon Tenants Campaign Group recommended Option B – to repay less debt.

3.40 The outcome of feedback from the consultation with the Housing Advisory Forum on the 20th January will be given verbally at the Cabinet meeting.

4. Alternative Options

4.1 The setting of local authority rent is no longer a local decision. Central Government is legislating for a reduction of 1% per annum for the next 4 years.

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 the impact over the next 4 years of delaying the repayment of debt in full on the funding available. 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 2016/17 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.

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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. This has been updated annually to reflect the changes in rents and identified no adverse impact for any protected characteristic. A copy can be obtained from the report author.
- 5.5 Setting of local authority rents is subject to Government guidance which for the next four years will require a year on year reduction of 1%, 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. The Diversity Impact Assessment concludes that for those on the lowest incomes there will be no impact as their rents are covered by Housing Benefit, and they will continue to be able to claim their full entitlement under the 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 Housing Officers and their local Neighbourhood Housing Officers as well as from the Citizens Advice Bureau. The Discretionary Housing Payment scheme funded by both the General Fund and, subject to Ministerial consent and set criteria, also funded by the Housing Revenue Account, will also continue to be available to alleviate hardship by meeting gaps in benefit previously received.
- 5.6 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 2016/17. 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.

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- 5.7 The impact of the loss of rental income due to the 1% rent decrease has largely been mitigated in 2016/17 by efficiency savings identified within the Housing Teams and will ensure for the coming year that the housing stock is maintained in the short term.

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 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 Board Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

Appendix 1 – Proposed HRA Budget Overview 2016/17.

Appendix 2 – Service charges for 2016/17

Appendix 3 – Leaseholder charges for 2016/17

Appendix 4 – Detailed HRA Budget 2016/17

Appendix 5 – Proposed HRA Capital Budget 2016/17

Appendix 6 – Proposed HRA 3 year Capital Programme

Appendix 7 – Proposed HGF Rents & Service Charges 2016/17

Appendix 8 – Comparison of Business Plans showing the impact of a 1% rent reduction of not repaying debt of £5m over for the next 4 years

9. Key Decision/Decision in Cabinet Work Programme and Forward Plan

- 9.1 This is not a key decision to be made by Cabinet because the final decision on setting Housing Revenue Account rents and charges for 2016/17 and approving the HRA budget for 2016/17 are to be made by full Council on 25th February 2016. At this meeting, Council will also be asked to approve the General Fund

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rents and charges for the David Murray John Tower, the Hay Lane Residential Gypsy Site and homelessness contributions.

- 9.2 This item is included in the Cabinet Work Programme and Forward Plan for February 2016.