Housing Revenue Account (HRA) - Rents and Charges 2017/18

Cabinet **Date: 8th February 2017**

Author:	Cabinet Member for Housing and Homelessness
	Corporate Board Director, Communities and Place
Wards:	All
Locality Affected:	All
Parishes Affected:	All

1. Purpose and Reasons

1.1 To present the proposed rents, service charges, support charges for 2017/18 and the proposed Housing Revenue Account (HRA) budget for 2017/18.

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 2017/18 of £80.18 per week (52 week basis), which is a decrease of 1.0%, be approved. This will be an average decrease of £0.81 per week (52 week basis). The range of decreases is shown in paragraph 3.9.

2.2 To authorise the Head of Housing Management and Community Safety 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 2017/18 as detailed at paragraphs 3.27.

2.3 The housing related support charges for 2017/18 and service charges for 2017/18 as outlined in Appendix 2 are approved.

2.4 Leaseholder service charges are set for 2017/18 as shown in Appendix 3.

Further information on the subject of this report can be obtained from Ian Burbidge, 01793 464384, iburbidge@swindon.gov.uk.

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2.5 Based on the proposals set out within this report that the Housing Revenue Account (HRA) proposed budget 2017/18, 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 3.17 below, and to authorise the Corporate Board Director, Communities and Place in consultation with the Interim 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 £16.5m (2016/17 prices) for 2017/18 Appendix 6.

2.8 Rents charged on General Fund properties are reduced in line with Government guidance on Housing Revenue Account rents by 1% for 2017/18. Service charges for General Fund properties, as shown in Appendix 7, be approved.

2.9 Rents charged for plots at the Hay Lane Residential Gypsy Site are increased by £1.00 per week (2.0%) to £51.26 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 2016/17 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 £48.7m of Gross Income in 2017/18 (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 10,258 dwellings, supported housing schemes, sheltered schemes, commercial premises and garages. Income is generated through rents, charges and interest received on balances.

3.3 Figures presented in this report are based on asset transfers being approved by Members between the Housing Revenue Account and the General Fund which is contained in a separate section of the report agenda. Appendix 10 shows a summary of the impact of the asset transfer on the budget for 2017/18.

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Housing Revenue Account (HRA) Rents and Charges

3.4 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:

3.4.1 **Rent** - a charge for the occupation of a dwelling. Rents pay for the management and maintenance of the properties.

3.4.2 **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.

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

Government Rent Policy and Capital Investment

3.5 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%.

3.6 Whilst the move to the new social rent policy represents lower rent payments for tenants, it does represents a real, and significant, loss of rental income to the Council.

3.7 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 as demonstrated below. 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. Cabinet 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.

Housing Revenue Account Budget 2016/17

3.8 Given the Government's proposed rent policies provide for an annual reduction of 1% per annum, rents for 2017/18 have been prepared on this basis. The previous exemption from rent deceases that was granted on supported and sheltered housing in 2016/17 has been removed by the Government for 2017/18.

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3.9 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 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)

No. of properties at Dec 2016	Bedroom size	Final position at year end 2016/17	Rent for existing tenants for 2017/18	Net change %	Rent for new tenants for 2017/18	Lowest rent per week	Highest rent per week
277	Bedsits	66.81	66.14	-1.00%	67.33	60.53	73.37
3,223	1	73.59	72.85	-1.00%	75.97	62.97	86.68
2,774	2	81.13	80.32	-1.00%	83.02	71.28	96.94
3,693	3	87.41	86.53	-1.00%	90.80	78.61	112.01
189	4	99.93	98.93	-1.00%	104.94	85.46	114.11
4	5	106.44	105.38	-1.00%	112.90	83.57	116.49
2	>5	101.03	100.02	-1.00%	112.24	96.84	103.20
10,162	**Overall**	**80.99**	**80.18**	**-1.00%**	**83.61**		

3.10 The HRA budget for 2017/18 is dependent upon the decisions Members make around changes to rents, service charges, support charges, and capital investment.

3.11 Appendix 4 shows the proposed HRA budget for 2017/18 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 2016/17 base budget to the proposed 2017/18 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 £125.5 million on 31 March 2017 and the average interest rate for this is 3.32%. Interest on this borrowing for 2017/18 is £3.969m (item 28, Appendix 4) assuming that the asset transfer has been agreed by Members.

3.13 The budgeted cost of revenue repairs (item 3&4, Appendix 4) has reduced from the £12.532m budget in 2016/17 to £11.318m. This reduction reflects staff costs being charged to Capital expenditure and the transfer of repair and maintenance costs from the HRA to the General Fund as a result of the asset transfer.

3.14 The proposed budget includes a bad debt provision of £300k for 2017/18, the same value as in 2016/17. Whilst Universal Credit is anticipated to have an impact on the level of arrears and will be closely monitored, the Council already holds significant balances to cover these arrears and is therefore not expecting to require any further provision in this area. (Included in item 13, Appendix 4).

3.15 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.

3.16 The capital projects and planned maintenance programme has been set at £16.5m (Item 6, Appendix 4). The 16/17 equivalent was £15.7m including a Revenue Contribution to Capital Outlay.

3.17 It is proposed to provide a further £1m in 2017/18 to continue with the programme to purchase properties within the HRA estate areas. This programme will look at all properties subject to demand, specifically any property that meets the HRA financial assessment criteria. These criteria include ensuring that the rental stream achieves a payback period in line with the HRA business plan and all valuations are agreed via the Councils Property Team. It is proposed that this is to be funded from existing HRA resources.

3.18 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 3, 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 will also be used to supplement the acquisitions programme referred to in 3.17.

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.

3.20 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. However, with reduced revenue surpluses available as a result of the Government's proposed rent policy, any shortfall in funding for 2017/18 to 2019/20 between the proposed programme and available revenue resources will need to be funded through the use of existing HRA reserves in the first instance. 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

3.21 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 2017/18 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 Residential Gypsy Site

3.22 There are 37 plots at Hay Lane and a rent of £50.26 per week was charged in 2016/17. It is proposed to increase this charge for 2017/18 in line with CPI + 1% to £51.26 per week, an increase of 2.0%.

3.23 Work pens at Hay Lane vary in size and each has a separate charge. It is proposed that the charges are increased by 2.0% for 2017/18 and it is therefore recommended that charges for Hay Lane outlined at Appendix 7 be approved.

3.24 The Council does not charge for its transit Gypsy and Traveller site. No change to this is proposed.

Homelessness Contributions

3.25 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 are in the process of withdrawing the management fee funding which will be replaced by an alternative funding process that will not be ring-fenced to homelessness. However, the value for this has not yet been determined by Government. The LHA rates have not changed since they were fixed at 2015/16 rates by Government up to and including 2019/20, but the net result is reduced charges as shown on Appendix 7.

Affordable Rents

3.26 There are different guidelines that cover affordable rent properties. 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 2016/17 rent.

Discretionary Housing Payments Fund (DHP)

3.27 In 2016/17 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 2016. Current forecasts indicate that actual spend is likely to be significantly less than the £300k budget in 2016/17. However, it is anticipated that Welfare Reform will continue to place pressure on households and therefore authority is sought for the Head of Housing Management and Community Safety to write to the DCLG for permission to extend the arrangement into 2017/18 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 again in 2016/17, many of the service charges have decreased for 2017/18. Where reserves exist due to over-recovery in previous years, a significant proportion of these have been used to mitigate any increased 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 increase 5% in line with the Council Policy on fees and charges from £155 to £162.75 per transaction as shown in Appendix 3.

Garage Rents and Parking Charges

3.31 Garage and parking space rents for tenants have been increased by 5% on the 2016/17 charges in line with Council policy. This follows a number of years where charges have not been increased. The same increase is also applied to cross over charges and premium parking provision. Details are shown in Appendix 2.

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Provisional Budget for 2017/18

3.32 A summary of the budget proposals contained in this report will produce a balanced HRA budget in 2017/18 and is summarised below. Appendix 1 provides a more detailed breakdown.

	£m	£m
Rent (£43.21m) & other income		48.745
Less Operational Costs	(12.363)	
Repairs Service	(11.318)	
DHP	(0.300)	
Debt Repayment	(5.000)	
Debt Interest	(3.969)	
Available for investment		15.795
Capital Investment requirement		16.538
Budget shortfall to be met from Reserves		(0.743)

3.33 The proposed budget includes pressures for an increased capital investment requirement of £836k as well as the cost pressure of the proposed asset transfer of £513k (Appendix 10). These have been partly offset by budget savings and additional income of £606k leaving a deficit of £743k. It is proposed that this balance be funded using existing reserves balances.

HRA Business Plan 2017/18 – 2020/21

3.34 Appendix 8 shows the estimated impact of the 1% annual reduction in rents on the funding available for investment through to 2020/21, compared with the previous business plan. The overall change in funding available for capital investment is a reduction of £1.093m from £60.046m to £58.954m. Rent income is anticipated to rise by £2.945m due partly to rent increases in 2020/21 and to additional income from new build projects and the conversion of social rents to affordable rents. The key business plan assumptions are set out below:

Business Plan Assumptions (Latest in Bold)				
	2017	**2018**	**2019**	**2020**
CPI - previous assumption	1.0%	2.0%	2.0%	2.0%
CPI - current assumption	**1.0%**	**2.0%**	**2.0%**	**2.0%**
RPI - previous	2.0%	3.0%	3.0%	3.0%
RPI - current	**2.0%**	**3.0%**	**3.0%**	**3.0%**
Rent Increases - previous	-1.0%	-1.0%	-1.0%	3.0%
Rent Increases - current	**-1.0%**	**-1.0%**	**-1.0%**	**3.0%**
Voids - previous	1.0%	1.0%	1.0%	1.0%
Voids - current	**1.0%**	**1.0%**	**1.0%**	**1.0%**
Bad Debts - previous	0.7%	0.7%	0.7%	0.7%
Bad Debts - current	**0.7%**	**0.7%**	**0.7%**	**0.7%**

Further information on the subject of this report can be obtained from Ian Burbidge, 01793 464384, iburbidge@swindon.gov.uk.

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 remained at the rate for 2015/16 to reflect a similar performance achieved in 2016/17. The allowance for an increase in the Bad debt provision has remained at the same level as 2016/17 as the funds set aside to cover bad debts are sufficient to cover the anticipated impact of Welfare Reform. An allowance of £300k, or 0.7% 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.

Investment requirements

3.36 A 10% sample stock condition survey report by Pennington Choices Ltd identified an investment requirement of £168.11 million over the next 5 years of the Housing business plan, including £36.98 million for structural repairs and thermal improvements to the non-traditional housing stock. Housing are also currently undertaking an options appraisal for the high-rise blocks of flats. This total investment requirement includes both revenue and capital investment. Housing are currently delivering structural repairs to the non-traditional housing stock at a much lower level of spend than requirement indicated by the stock condition survey. It is proposed to invest £127 million including cyclical and responsive repairs over this period.

Consultation

3.37 The rent setting presentation explained the revised Government policies for the next 3 years and the impact on the funding available for investment in HRA stock. Detail was also provided on the revenue impact of proposed asset transfers between the Housing Revenue Account and the General Fund. This combined with an increased capital funding requirement has resulted in a budget deficit of £743k, and the methods to meet this deficit are what formed the basis of the consultation. Consultation events were publicised using usual communications with Council tenants and were held during December 2016. Attendance at these events is traditionally low and to address this, other opportunities have been used to encourage tenants to take part in the consultation stage as set out in more detail in appendix 9.

3.38 As the reduction in rent levels is mandatory, the consultations asked for views around the two key issues. The first was ways to meet the indicated budget deficit which were:

A) **Use some of our 'reserves'.**

B) **Repay less of our debt.**

C) **A combination of options A and B.**

3.39 Tenants views were also sought on the asset transfer:

D) **Do you agree or disagree with the asset transfer**

3.39.1 The full results are shown in Appendix 9. The most significant support was received for Options A and C. 234 individual responses were received

3.39.2 Both STV and Swindon Tenants Campaign Group supported Option B – to repay less debt. TASH requested an extension of the consultation period and provided individual responses.

3.40 The outcome of feedback from the consultation with the Housing Advisory Forum on the 11th January will be given verbally at the Cabinet meeting.

4. Alternative Options

4.1 The setting of local authority rent is currently not a local decision. Central Government has provided guidance that rents should be reduced by 1% per annum from 2016/17 through to 2019/20.

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 trough to 2020/21 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 2017/18 over and above that currently planned.

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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, 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, 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 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.

Further information on the subject of this report can be obtained from Ian Burbidge, 01793 464384, iburbidge@swindon.gov.uk.

5.5.2 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 2017/18. 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.

5.5.3 The impact of the loss of rental income due to the 1% rent decrease has largely been mitigated in 2017/18 by efficiency savings identified within the Housing Teams and the completion of new housing properties which are let at affordable rent levels. 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 Interim 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 2017/18.

Appendix 2 – Service charges for 2017/18

Appendix 3 – Leaseholder charges for 2017/18

Appendix 4 – Detailed HRA Budget 2017/18

Appendix 5 – Proposed HRA Capital Budget 2017/18

Appendix 6 – Proposed HRA 3 year Capital Programme

Appendix 7 – Proposed HGF Rents & Service Charges 2017/18

Appendix 8 – Comparison of Business Plans showing the impact of proposed changes including the asset transfer and a 1% rent reduction.

Appendix 9 – Consultation results

Appendix 10 – Asset Transfer Impact 2017/18

Further information on the subject of this report can be obtained from Ian Burbidge, 01793 464384, iburbidge@swindon.gov.uk.

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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 2017/18 and approving the HRA budget for 2017/18 are to be made by full Council on 23rd February 2017. At this meeting, Council will also be asked to approve the proposed asset transfer between the Housing Revenue Account and the General Fund, General Fund 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 2017.

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