

**POLICY & FINANCE COMMITTEE**  
**27 JANUARY 2022**

**2022/23 HOUSING REVENUE ACCOUNT (HRA) BUDGET AND RENT SETTING**

**1.0 Purpose of Report**

1.1 The annual report being presented to the Committee on the Housing Revenue Account (HRA) will:

- a) provide the actual outturn of the HRA for the 2020/21 financial year (1 April 2020 - 31 March 2021) (column 2 of **Appendix A1**);
- b) examine the proposed income and expenditure on the HRA for the 2022/23 financial year (column 4 of **Appendix A1**), in accordance with Section 76 (Duty to prevent debit balance on Housing Revenue Account) of the *Local Government and Housing Act 1989*;
- c) provide indicative amounts of income and expenditure for the 2023/24 to 2025/26 financial years (columns 5 to 7 of **Appendix A1**); and
- d) set rent levels and service charges for 2022/23 (with effect from the first Monday in April 2022).

1.2 The following paragraphs provide the necessary detail for the matters above.

**2.0 Background Information**

2.1 The setting of the HRA budget and the approval of rent levels will allow the required time to notify tenants of proposed changes to rents in accordance with legislation.

2.2 The key dates in the budget setting timetable are detailed in the table below:

Council determination of HRA budget and rent setting	8 February 2022
Newark & Sherwood District Council update of rent systems	By end of February 2022
Generation of rent cards and letters to notify tenants of variation of their rent levels (tenants are required to be given one month's notice by law of rent changes).	By end of February 2022

2.3 Any slippage from these key dates would jeopardise the implementation of rent increases from the first Monday in April 2022, and as a consequence, pose a risk to the sustainability of the 30-year HRA Business Plan (BP).

**Statutory Duty**

2.4 Section 76 of the *Local Government and Housing Act 1989* requires local housing authorities to set a budget annually for their HRA, and that implementation of the budget proposals will not result in a debit balance (deficit position) at year-end.

- 2.5 Following housing financing reforms (self-financing) in April 2012 the council's HRA has been operating within a 30-year business plan. The inputs and assumptions in the Business Plan are key to setting the HRA budgets annually for each year of the HRA's four-year medium-term financial plan (MTFP).
- 2.6 Members will be aware that on 8 July 2015, Government announced that registered providers (including social housing stock-owning local authorities) had to reduce social housing rents by 1% each year for four years from 2016/17, in accordance with section 23 (Reduction in social housing rents) of the *Welfare Reform and Work Act 2016*. 2019/20 was the last year of the 1% rent reduction.
- 2.7 The 1% annual rent reductions resulted in the HRA Business Plan losing more than £11m (13%) in rental income over the four years. This was equivalent to more than six months' worth of rental income in 2019-20, or the funds to build more than 100 homes.
- 2.8 This budget supports the delivery of the Landlord Strategy (elsewhere on this agenda) and supports the aspirations for our services as detailed within the Strategy.
- 2.9 Members should note that any surpluses in 2021/22 are unlikely to be repeated and are the result of underspend due to an abnormal year in terms of a pandemic and the restructure of Housing services resulting in holding a number of senior posts vacant therefore these funds would not be annually available to offset against any rent increase.
- 2.10 Due to Covid-19 pandemic there have been supply problems for a wide range of products in the building and maintenance trade which has already lead to significant increases in costs this year. This is currently masked in the HRA as only essential repairs were carried out during the first lockdown period due to Covid-19. Now teams have caught up with the backlog and we enter the busiest half of the year this impact will become more visible as we reinstate our full services again. Officers are also predicting that these increases in costs will not reduce post Covid-19.
- 2.11 Members will also be aware that now that Brexit has been implemented, there will be an even greater impact on the supply chain for building supplies and other materials than as per paragraph 2.10 above. The HRA will need to position itself to be able to absorb cost increases as necessary.

#### Rent Standard 2020

- 2.12 In February 2019, the Secretary of State for Housing, Communities & Local Government published a Direction to the Regulator of Social Housing (RSH) to set a Rent Standard which would apply from 2020. This was published alongside a Policy Statement on Rents for Social Housing 2018 (Rent Policy Statement) for the Regulator to have regard to when setting its Rent Standard.
- 2.13 The Rent Standard 2020 specifies that rents must be set in accordance with the Rent Policy Statement. The government's Rent Policy Statement now allows annual rent increases to social rent and affordable rent properties for at least five years, up to (and including) the Consumer Price Index (CPI) rate published for September of the preceding financial year plus 1%.

2.14 As the CPI for September 2021 was 3.1%, the Rent Policy Statement allows an annual rent increase of 4.1% for 2022/23. This would represent an average weekly social rent increase of £3.18 per week based on 52 week social rent in 2021/22 of £77.60 (average of all our housing stock rents). This is equivalent to £165.36 per year or £13.78 per month, and will provide over £900,000 of additional income for the HRA.

2.15 By providing a five-year rent settlement, the Government has recognised:

*“the need for a stable financial environment to support the delivery of new homes”, and that “enabl[ing] registered providers to plan ahead” will allow them “to make the best possible use of their resources”.*

2.16 In restricting annual rent increases to CPI + 1%, the Government aims to:

*“strike a fair balance between the need to maintain existing affordable homes and the provision of additional affordable housing; the interests of existing and potential social housing tenants; and the cost to taxpayers through Housing Benefit/Universal Credit”.*

2.17 From 1 April 2020, therefore, social housing providers registered with the RSH (‘registered providers’) must now comply with the Rent Standard 2020.

2.18 It is worth noting the November 2021 CPI was 5.1% which means the Council’s rent increase is below the national CPI increase, however, our inflationary costs are increasing as a result.

#### Borrowing Cap

2.19 As part of the HRA self-financing reforms introduced in April 2012, the government set a maximum amount of housing debt that each local authority could have. In subsequent years, the government awarded some local authorities limited increases to their housing borrowing limits. On 29 October 2018, the Limits on Indebtedness (Revocation) Determination 2018 revoked all previous determinations that specified limits on local authority housing indebtedness.

2.20 Though councils are no longer restricted in how much they can borrow in their HRAs, there is still the requirement for councils to make sure that all borrowing is affordable and proportionate within the context of their 30-year HRA business plan (BP). The council has used the expert external advice it obtained on the assumptions in the BP to monitor the affordability of future indebtedness. Anticipated future levels of indebtedness are currently viable within the plan.

#### 30-year HRA Business Plan (BP)

2.21 The BP summarises the viability of the council’s plans to fulfil its management, maintenance and investment responsibilities to its HRA assets over the next 30-years. Key assumptions are made in the BP based on the council’s strategic priorities and policies, detailed stock data and other factors.

2.22 The assumptions in the BP are key to setting the HRA budgets annually for each year of the HRA’s four-year MTFP. Adverse variations in these assumptions can have significant consequences, as the examples in paragraph 2.7 make clear. Failure therefore for Members

to agree the proposals in this report could lead to a material impact on the delivery of housing management services to tenants, as well as the viability and delivery of any future proposals for any further HRA development programmes, future phases (non-committed) for Yorke Drive regeneration scheme and other investment activities.

- 2.23 The council obtained expert external advice on monitoring the BP’s capacity for borrowing (paragraph 2.20). The narrative of the HRA BP and assumptions in the financial model will be reviewed and updated when circumstances allow and presented to the Committee for approval.
- 2.24 Officers monitor relevant government policy announcements and model the implications of these on the HRA BP. The Building Safety Bill and Fire and Building Safety (Public Inquiry) Bill are currently both with the House of Commons for review; any changes to the Decent Homes Standard, the carbon zero/green agenda and the detailed requirements arising from the Social Housing White Paper which was released in November 2020. Officers will model the impacts of these changes on the HRA BP as further details become available. There is an expectation of increased scrutiny on performance, accountability to tenants and an increased expectation of regulation.

#### Rent Cycle

- 2.25 Rent is currently charged over 48 weeks, giving tenants four rent free weeks albeit that the full years rent charge is the same as if charged across 52 weeks. Members will be aware we are looking at the possibility to move from a 48 week rent cycle (with 4 rent free weeks) to a 52 week rent cycle annually as part of the secure tenancy review which is planned for 2022/23.

#### Affordability Considerations

- 2.26 This section provides information regarding the impact of the proposed changes to rent and services charges, as well as data on how tenants pay their rent and the support they receive from Housing Benefit and Universal Credit.

#### ***Rent level comparable data***

- 2.27 *Table 1* compares 2020/21 data on average rent levels for the private rented sector (PRS) in Newark and Sherwood and in England to the council’s average social housing rents for general needs tenants.

*Table 1: Comparison of 2020/21 data on average rent levels for the PRS in Newark and Sherwood, the PRS in England, and NSDC’s social housing rents for general needs tenants*

<b>Size of accommodation</b> <b>All amounts are average amounts per week</b>	<b>Private rented sector: Newark and Sherwood</b>	<b>Private rented sector: England</b>	<b>Social housing rents for general needs tenants: NSDC</b>
Room only	£99.92	£95.08	-
Studio	£72.23	£132.69	£57.75
1 bedroom	£98.08	£150.00	£64.75
2 bedrooms	£126.92	£161.54	£72.15

3 bedrooms	£144.23	£184.62	£82.83
4+ bedrooms	£252.69	£311.54	£89.62
<b>Average: all accommodation sizes</b>	<b>£126.92</b>	<b>£168.46</b>	<b>£79.95</b>

2.28 For all sizes of accommodation, the council's average social housing rents for general needs tenants are significantly lower than those in the PRS.

2.29 *Table 2* compares 2020/21 data on average rent levels for Private Registered Providers (PRPs) in Newark and Sherwood to the council's average social housing rents, split for each by whether properties are for general needs tenants or supported housing tenants.

*Table 2: Comparison of 2020/21 data on average rent levels for PRPs in Newark and Sherwood and NSDC's social housing rents, split by general needs tenants and supported housing tenants*

Type of accommodation	Social Rent: General Needs		Social Rent: Supported Housing/Housing for Older People	
	NSDC	Private Registered Providers	NSDC	Private Registered Providers
All amounts are average amounts per week				
Non-self-contained	-	-	-	£152.72
Bedsit	£57.75	£65.64	£68.96	£116.70
1 bedroom	£64.75	£75.95	£70.33	£93.67
2 bedrooms	£72.15	£90.03	£78.59	£91.05
3 bedrooms	£82.83	£92.02	£85.68	£109.69
4 bedrooms	£89.62	£101.41		
5 bedrooms	£95.70	£96.45		
<b>Average: excluding non-self-contained</b>	<b>£79.95</b>	<b>£87.97</b>	<b>£75.08</b>	<b>£95.48</b>
<b>Average: all accommodation types</b>	<b>£79.95</b>	<b>£87.97</b>	<b>£75.08</b>	<b>£108.24</b>

2.30 For all sizes of accommodation, the council's average social housing rents are lower than those of the PRPs. It should be noted that direct comparisons can only be made between the accommodation types for general needs tenants, due to variation in the type and nature of accommodation provided for supported housing tenants/housing for older people.

2.31 The average 2020/21 social rent levels of £87.97 (general needs tenants) and £108.24 (supported housing tenants) by Newark and Sherwood PRPs in *Table 2* excludes service charges. *Table 3* shows the average 2020/21 service charges for these groups.

*Table 3: average 2020/21 net rent, service charge and gross rent charged by PRPs in Newark and Sherwood to general needs tenants and supported housing tenants*

Type of tenant	Net rent	Service charge	Gross rent
All amounts are average amounts per week			
General Needs	£87.97	£4.67*	£90.61*
Supported Housing/Housing for Older People	£108.24	£71.39	£179.63

- 2.32 It should be noted in *Table 3* that the gross rent equals the sum of the net rent and service charge only for supported housing tenants: not for general needs tenants. This is because the average service charge relates only to those properties with service charges, and as all properties for supported housing tenants have service charges whereas not all properties for general needs tenants have service charges.
- 2.33 Further information on the council's limited range of service charges are provided in the 'Service Charges' section below.

### ***Housing Benefit (HB) and Universal Credit (UC)***

- 2.34 A snapshot of data taken in December 2021 shows that of the 5,448 current tenants, 3,474 (64%) received help from benefits towards paying their rent. 2,179 (40%) were in receipt of Housing Benefit and 1,295 (24%) were in receipt of Universal Credit. The remaining 1,974 (36%) of tenants paid their rent without receiving help from benefits.
- 2.35 Universal Credit (UC) is the Government's working-age benefit which combines six means-tested ('legacy') benefits, including Housing Benefit (HB), into a single monthly payment. UC was a central feature of the government's *Welfare Reform Act 2012*. The Government started rolling out UC in 2013, with the full service commencing in 2018 across Newark and Sherwood.
- 2.36 Since 2018, there has been a significant increase in the number of council housing tenants claiming UC, increasing from 95 to 1,295 between June 2018 and December 2021. Of these 1,295 UC claimants, around 31% have their rent paid directly to the council, either due to being in arrears or due to a vulnerability. Over 70% of these 1,295 UC claimants are general needs tenants.
- 2.37 UC cases increased significantly during 2020 due to the COVID-19 pandemic, but have since stabilised as people have moved off the benefit. It is anticipated that over 2,000 tenants will be claiming UC once all relevant households have transferred to UC.
- 2.38 As the number of council housing tenants claiming UC is increasing, the number claiming Housing Benefit (HB) as a standalone ('legacy') benefit is decreasing. Around 2,300 of council households had tenant(s) in receipt of legacy HB in December 2020, compared to the 2,179 currently receiving legacy HB.
- 2.39 Despite the trends outlined above, a significant number of council housing tenants will continue to receive legacy HB even after all relevant households have transferred to UC. This is because eligible adults of all ages (including older people) can claim legacy HB, whereas only eligible adults of working-age can claim UC. Around 47% of the council's social housing stock is designated for older people.
- 2.40 Around 1,406 of the 2,179 households, or just under two-thirds, are entitled to the maximum amount of HB, and around 773 households to partial HB.
- 2.41 Residents claiming HB or UC who need additional help with meeting their housing costs can request a Discretionary Housing Payment (DHP) from their local council. Claimants are supported to make claims for DHP where appropriate with a view to sustain tenancies wherever possible.

- 2.42 The Committee should note that officers recognise the importance of supporting tenants at an early stage to sustain their tenancies, especially around rent collection, benefit entitlement and arrears management.
- 2.43 This commitment to a supportive approach is illustrated by two specific projects within the Community Plan, the Starting Well project and the Targeted Arrears Support Project, which seek to ensure tenancies are sustained wherever possible.
- 2.44 The Starting Well project will implement a range of initiatives to ensure new tenancies start in a positive way to give the best chance of tenancy success; whilst the Targeted Arrears Support Project will aim to provide targeted support to tenants that have been financially affected by the Coronavirus pandemic.

#### Service Charges

- 2.45 In addition to rent, local authorities can charge for other services they provide (service charges). Section 93 (Power to charge for discretionary services) of the *Local Government Act 2003* requires charges to be set such that taking one financial year with another, the income from charges for a service does not exceed its costs of provision.
- 2.46 The Policy Statement on Rent for Social Housing (February 2019) sets out an expectation that service charge increases remain within the limit of rent charge of CPI + 1% in order to keep service charges affordable. **Appendix C** details the current (2021/22) and proposed (2022/23) service charges, with proposed increases to current charges of 4.1% (CPI + 1%). Subsequent paragraphs provide details about the services that tenants are charged for.

#### ***Housing-Based Services for Supported Housing and Extra Care Services***

- 2.47 The main housing-based support service provided is a community alarm service, to help tenants live more independently. Tenants with lifeline units in their properties can raise an alarm call from anywhere in the home if they require this. Around half of the council's social housing properties have these lifeline units.
- 2.48 Tenants in properties with lifeline units currently pay £1.78 per week for the community alarm service and this report proposes to increase that charge by 7 pence a week to a weekly charge of £1.85 per week. This represents an increase of around 3.93% per week. This charge is mandatory, in line with the terms of their tenancy agreement. This charge is not eligible for housing benefit.
- 2.49 In addition to these support services, tenants in the extra care housing schemes receive additional housing management and housing-related services due to their specialist needs. The council currently has four extra care housing schemes. These are at Gladstone House, The Broadleaves, Vale View and the Bilsthorpe Bungalows.

#### ***Other Housing-Based Services***

- 2.50 Other weekly service charges applied to tenants are for the costs of water and sewerage provided to properties at Vale View (£3.88 per week) and for the costs (where appropriate) of landscaping, lighting and drainage provided to 70 general needs properties (average weekly charge of £5.53 per week).

2.51 The council provides a number of housing-related services for which it does not currently recover the cost of provision through service charges, therefore resulting in costs being met through rent income. Such services include communal cleaning, communal lighting and grounds maintenance. It is proposed that work is undertaken to identify these costs and how they might be separated from the rent charge and identified as distinct service charges. This would help to meet the cost of provision, increase transparency and meet the expectations of the Regulator.

### ***Non-Housing Based Services***

2.52 Officers manage the garages, garage ports (or car ports/parking spaces) and garage plots (or parking plots) within the council's HRA. Garages and garage ports are structures owned by the council, fully enclosed and partially enclosed respectively, whereas garage plots are pieces of land on which tenants supply their own garage structure. The charges for garages (garage rents) and garage plots are weekly, whilst those for garage ports are annually. All garage-based charges exclude standard rate value-added tax (VAT) if let to council housing tenants, and include VAT if let to non-council housing tenants.

2.53 Whilst it may be possible to increase rents by more than 4.1% (CPI + 1%) for more desirable garages, officers are aware that a large increase in rent may increase the expectations of tenants around improvements to the condition and security of garages. It is therefore proposed not to introduce differential rent levels at the current time.

2.54 Officers continue to identify existing and redundant garage sites which could be suitable for inclusion in the council's approved housing development programme.

## **3.0 Proposals**

3.1 In light of the above, officers are proposing to the Committee that it recommends to Council at its meeting on 8 February 2022:

- a) the HRA budget for 2022/23, as set out in **Appendix A1** to this report;
- b) an increase of 4.1% (CPI + 1%) in the 2022/23 rents of all properties in the HRA as at 31 March 2022; and
- c) the 2022/23 service charges as set out in **Appendix C** to this report.

## **4.0 Digital Implications**

4.1 There are no digital implications directly arising from this report.

## **5.0 Equalities Implications**

5.1 The proposed rent increase would apply to all council social housing properties, whether or not these are occupied, rather than to the tenants themselves or to tenants in specific properties. The proposed rent increase is therefore not expected to discriminate against any of the characteristics protected under the *Equality Act 2010*.

- 5.2 The proposed rent and service charge increases are, however, expected to adversely impact tenants in receipt of benefits. The government's increase of 3.1% in State Pension and working-age benefits for 2022/23 is less than the 4.1% proposed increase in rent and most service charges for next year.
- 5.3 As outlined in paragraph 2.41, working-age council housing tenants claiming benefits in need of help with housing costs can request a DHP from the council. The Government has not yet announced how much DHP it will be giving councils for 2022/23.
- 5.4 Officers recognise the importance of supporting tenants of all ages to sustain their tenancies, as outlined in paragraph 2.42.

## **6.0 Financial Implications (FIN21-22/6206)**

- 6.1 The majority of the financial implications are set out in the body of this report or its **appendices**. The financial implications of tenants' Right to Buy (RTB) are covered in further detail below.

### Right to Buy (RTB)

- 6.2 The council signed a Retention Agreement with the Secretary of State to use 40% of its retained receipts (1-4-1 receipts) from properties sold under the RTB scheme on the provision of replacement social housing. The one-for-one replacement of RTB sales with new affordable rent homes is at the national level.
- 6.3 If the council is unable to spend its retained receipts within three years of receiving them, it must return these to Government with interest of 4% above the base rate (currently 0.25%).
- 6.4 By December 2021, the council managed to spend all of the 1-4-1 receipts received between April 2013 and December 2016; and by December 2026, the council anticipates that it will spend all of the 1-4-1 receipts received between January 2017 and December 2021.
- 6.5 Officers closely monitor spend against the council's approved HRA development programme to ensure that 1-4-1 receipts are used as appropriate.
- 6.6 The number of RTB sales affects how much the council receives in 1-4-1 receipts, and thus how much the council must spend on replacement social housing from its own resources or borrowing, though also affects the number of properties from which the council receives weekly rent.
- 6.7 Officers consider current and prospective local and national trends in RTB sales when setting the HRA budget annually.

## **7.0 Community Plan – Alignment to Objectives**

- 7.1 The implementation of the proposals in this report will directly support the council's HRA to meet multiple objectives of the Community Plan 2020-2023, such as to:
- a) *"Create vibrant and self-sufficient local communities..."*; and

b) *“Create more and better quality homes...”*.

7.2 Some of the actions the council is taking to achieve the Community Plan objectives are:

- enhancing the quality of empty homes when let;
- exploring & developing carbon neutral initiatives to upgrade properties and improving fuel efficiency;
- encouraging tenancy success in a home by developing and delivering the first phase of the 'Starting Well';
- integrating the management of housing revenue account green spaces within the public realm and provided by our in house StreetScene;
- supporting the regeneration of a central estate and improving local amenities through delivering Yorke Drive Regeneration Project; and
- contributing to the offer of digital inclusion for tenants and local communities.

## **8.0 RECOMMENDATIONS**

**That the following recommendations be made to Council at its meeting on 8 February 2022:**

- a) the HRA budget for 2022/23, as set out in Appendix A1 to this report;**
- b) an increase of 4.1% (CPI + 1%) in the 2022/23 rents of all properties in the HRA as at 31 March 2022; and**
- c) the 2022/23 service charges as set out in Appendix C to this report.**

### **Reason for Recommendations**

**To advise Members of the proposed HRA budget and changes in rent and service charge levels for 2022/23 and for these to be recommended to Council at its meeting on 8 February 2022.**

### **Background Papers**

Nil.

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