POLICY & FINANCE COMMITTEE
24 JANUARY 2019

HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTING 2019/20

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 year 2017/18 (column 2 of **Appendix A1**).

b. Examine the proposed income and expenditure on the HRA for 2019/20 (column 4 of **Appendix A1**) in accordance with Section 76 of the Local Government and Housing Act 1989, to avoid a deficit on the Housing Revenue Account.

c. Provide the indicative figures of income and expenditure for the financial years 2020/21 to 2022/23 (columns 5 to 7 of **Appendix A1**).

d. Set rent levels and service charges with effect from April 2019.

e. Set charges for garage rents, plots and garage ports with effect from 1st April 2019.

f. Set housing support service charges and all other service charges with effect from 1st April 2019.

g. Detail the annual management fee payable to Newark and Sherwood Homes (2019/20), in accordance with the Management Agreement. The annual management fee is still currently under negotiations and still to be finalised. An update along with revised HRA budget papers will be presented to Committee in the form of a revised **Appendix A**.

1.2 The following paragraphs will provide the necessary detail to the above matters.

2.0 Introduction

2.1 The setting of the HRA budget and the approval of rent levels, to be presented to full Council at its meeting in February 2019, will allow the required time to notify Council housing tenants of the 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	12 February 2019
Newark and Sherwood Homes update of rent systems	By end of February 2019
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 2019

2.3 Any slippage from these key dates would jeopardise the implementation of the rent changes for 1 April 2019.

3.0 Background Information

3.1 Since April 2012, following the housing finance reforms, the HRA has been operating within a 30 year self-financing HRA Business Plan. Council Officers have been working with colleagues from Newark and Sherwood Homes to monitor and review the Business Plan, which informs the 2019/20 budget process and medium term financial plan 2020/21 to 2022/23.

3.2 The HRA budget proposed in this report is based on the Government announcement made on 8 July 2015, stating that local authorities must secure that the amount of rent in the relevant year by a tenant of social housing is 1% less than the amount that was payable by the tenant in the previous 12 months. This 1% per year rent reduction commenced in 2016/17 and will continue for the year 2019-20.

3.3 The cumulative impact of the 1% rent reduction has been factored into the HRA Business Plan and is reflected in the proposed budget.

3.4 Every 6/7 years 53 Mondays fall in a financial year, which will be the case in 2019/20 and as rent debits are raised on Mondays this means that the HRA benefits from an extra weeks rent.

3.5 This has created two immediate issues that should be considered:

a) The 4 year -1% rent decrease introduced by the Welfare Reform Act 2016 means that the 53 Mondays of rent in 2019/20 can be interpreted as taking LAs over the required 1% decrease on rents in the 52 Monday year in 2018/19.

b) Universal Credit Legislation does not allow for 53 Monday years and therefore Universal Credit claimants could find themselves a week in arrears if charged 53 weeks rent.

3.6 The Local Government Association (LGA) is in discussion with Ministry of Housing, Communities & Local Government (MHCLG) and Department of Works and Pensions (DWP) on this matter and **Appendix B** sets out the current position.

3.7 In light of the above issues the budget for the HRA 2019/20 has been prepared with rent for 52 weeks. This has been factored into the HRA business Plan.

Management Fee

3.8 In accordance with the Management Agreement with Newark and Sherwood Homes the required process is currently being followed and an agreement for the management fee for 2019/20 has yet to be reached. A verbal update will be made at the meeting.

HRA Business Plan

3.9 In accordance with the management agreement the Company is charged to:

Maintain and manage effective HRA Business Plan forecasting and modelling, undertake scenario testing in liaison with the Council and make recommendation for the maintenance of a viable and sustainable HRA Business Plan

3.10 In respect of the above in October 2017 the Council requested that the Company work with the Council, providing all the necessary financial inputs and assumptions, to complete a fundamental review of the financial model that underpins the HRA Business Plan. This work has taken longer than timetabled with the Company and an external validation has just been completed. Council officers are now able to review the outcome of this work and a future report will be presented to the Committee on this matter.

3.11 Further consideration is also necessary to understand what additional capacity the removal of the HRA Borrowing Cap can bring to the HRA Business Plan, along with analysing the potential impact of the recent proposals within the Social Housing Green Paper over the medium term of the Plan.

Rent Cycle

3.12 The Company have recently informed the Council that their Board have requested that the Council consider a review of its secure tenancy agreement to amend from a 48 week rent cycle (*with 4 rent free weeks*) to a 52 week rent cycle.

3.13 Officers of the both the Council and Company are now considering how best to progress this matter, set against the benefits and disadvantages of the proposal, the resources required, timetabling and the need to undertake statutory consultation with all tenants. A future report will be supplied to the Committee on this matter once all appropriate considerations have been made.

4.0 National and Local Policy Context

4.1 Reflecting on the narrative at paragraph 3.2, on 7 February 2017 Government published the Housing White Paper "Fixing Our Broken Housing Market" stating that it would provide clarity over future rent levels and offer a clear and stable long-term framework for investment with the expectation that significantly more affordable homes are built. The White Paper specifically stated that:

'It will set out, in due course, a rent policy for social housing landlords (housing associations and local authority landlords) for the period beyond 2020 to help them to borrow against future income, and will undertake further discussions with the sector before doing so. *Our aim is to ensure that they have the confidence they need about their future income in order to plan ahead. The Government also confirms that the 1% rent reduction will remain in place in the period up to 2020'*

4.2 In respect of the above MHCLG recently closed a consultation paper proposing to issue a new direction from the Secretary of State to the Regulator of Social Housing to ensure that, from 2020 onwards, the Regulator's rent standard:

- reflects Government's announcement on 4 October 2018 (announcement in October 2017) that it intends to permit registered providers to increase their rents by up to CPI+1% each year, for a period of at least 5 years; the announcement recognises the need for a stable financial environment to support the delivery of new homes
- applies to local authority registered providers (as well as to private registered providers), to reflect the roll out of Universal Credit.

4.3 The direction also sets out the basis on which social rents and affordable rents are set. The following documents covering this matter can be found on www.gov.uk:

- Rents for social housing from 2020-21
- Policy statement on rents for social housing
- The Direction on the Rent Standard 2018

4.4 MHCLG and DWP in 2017 published consultation on the future funding for supported housing, the outcome of this was announced on 9 August 2018 with the decision that housing benefit will remain in place to fund this accommodation, protecting the viability of the HRA Business Plan.

4.5 The Government, however, still intends to develop an oversight regime for this area, ensuring there is quality and value for money across the whole supported housing section, along with undertaking a review of housing related support to better understand how housing and support currently fit together.

4.6 Most recently MHLCG published the Social housing green paper: a 'new deal' for social housing, which sets out a new vision for social housing with five principles to underpin a new, fairer deal for social housing residents:

1) A safe and decent home which is fundamental to a sense of security and our ability to get on in life;
2) Improving and speeding up how complaints are resolved;
3) Empowering residents and ensuring their voices are heard so that landlords are held to account;
4) Tackling stigma and celebrating thriving communities, challenging the stereotypes that exist about residents and their communities, and
5) Building the social homes that we need and ensuring that those homes can act as a springboard to home ownership.

4.7 The Green Paper also confirms that the Government will not be implementing the Higher Value Asset provisions of the 2016 Housing and Planning Act, looking to repeal this legislation when Parliamentary time allows, and confirms that implementation of the fixed-term tenancy provisions within Act is now a decision at the discretion of individual social landlords. This has removed some potential risks to the long term viability of the HRA Business Plan.

4.8 In addition, at the most recent Conservative party conference the Prime Minister announced that Councils' HRA borrowing cap will be scrapped by the end of October 2018 and a determination has now been issued revoking previous determinations that specified a local authority's limits on indebtedness.

5.0 Newark and Sherwood Homes Management Fee

5.1 Under the management agreement, Newark and Sherwood Homes (NSH) will be paid a fee in accordance with the framework detailed below. The activity of NSH is integral to the effective management and long term viability of the HRA Business Plan. This gives rise to a requirement for the Management Fee to be considered within the context of the HRA as a whole.

Fee Elements

The annual management fee comprises:

i. Service Fees – Core Housing Management Services - Tenancy sustainment and income recovery
ii. Service fees – Core Housing Management Services – Repairs and maintenance
iii. Service Fees – Core Housing Management Services – Core service support
iv. Service Fees – Core Housing Management Services – Company

5.2 The payments are set for a 3 rolling year period. In the first year of the agreement (2014/15) a 'base line' Management Fee was set. This was set for 3 years (subject to taking into account external factors including inflation and other aspects which are out of the control of the Company). The next rebase year for the management Fee was 2017-18. This determined the management fee for the next 3 year period, again using the framework which sets out the fee element along with the efficiency targets for the fifth and sixth years. 2020-21 will see the management fee rebased again.

5.3 The process to formulate the Management Fee for 2019/20 is being discussed and negotiated between senior officers of both the Council and Company. Unfortunately, at this point the negotiations have not been concluded and as such the Management Fee cannot be reported. It is anticipated that a verbal update along with the revised HRA budget papers will be presented to Committee.

5.4 For the Committee's reference the total management fee payable for 2016/17 was £7,796,900, 2017/18 was £8,083,310 and £8,265,360 (£8,221,290 plus 20% estimated rent income for Gladstone House £44,070) for 2018/19.

Additional income to NSH

5.5 Members will be aware that the Gladstone House extra care scheme became operational in 2018/19. There are 60 units in total. All tenants pay rent of £92.31 or £101.54 (one or two bed units) and a service charge of £127.85 per week. This service charge is to be paid over to Newark and Sherwood Homes as this covers the cost of providing food, TV Licence, lifelines and general services of communal areas. As some of these charges are variable, the payment of the service fee to NSH should be quarterly on agreement of costs and associated income. These charges are in addition to the management fee detailed in 5.3. The charges above are the rent and service charges for 2018/19 and are subject to the implementation of the agreed changes in this report.

5.6 In addition to the Management Fee detailed in 5.3 – 20% of the rent collected for Gladstone House should be paid over to Newark and Sherwood Homes for the management of the extra care accommodation.

5.7 Payments will also be made where NSH provide general fund Services to the Council, i.e. Non HRA Core Services such as Right to buy administration and Hostel management. The Company also receive income from the management of the HRA capital programme and 5 year development programme. Income of approximately £0.47m from photovoltaic cells, where solar panels are fitted to HRA properties, is received annually and currently pass ported to NSH.

Reserves

5.8 For the Committee's information the Company's reserves are listed below and accord with the Management Agreement:

Reserves	Outturn 2017/18 (£000's)	Estimate 2018/19 (£000's)
Minimum Reserve	450	475
Core Service Reserve	100	100
Bad Debt Reserve	50	50
Development and IT reserve	142	191
Staffing and Pay Reserve	100	100
Capital Financing Reserve	2339	1507
Growth	0	616
Capital Development Fund	1854	3007
Major Repairs Reserve	12	31
TOTAL	5047	6077

5.9 The Company, subject to specific clauses in the Management Agreement, must use any available surpluses or reserves, following discussion with the Council, in furtherance of the Council's strategic housing objectives/aims.

6.0 Rent Levels

6.1 As part of the self-financing settlement in 2012 the assumption was made that local authorities would continue to follow the Government's guidelines on annual rent setting i.e. that rents would continue to move towards convergence with other Registered Providers and that rent increases would be based on September RPI plus 0.5% with a cap on increases of RPI + 0.5% plus £2. As a result of this the self-financing settlement figure assumed a certain level of income in the business plan.

6.2 Further to this, the Government then actioned a consultation on the future rent setting policy for social housing. It proposed to end convergence with effect from 1st April 2015, and to increase rents in future by CPI + 1%. There was an element of flexibility as the proposals allowed for vacant properties to be relet at target (formula) rent. The rent setting policy was amended to reflect this change.

6.3 Members will be aware that on 8 July 2015 Government made an announcement that local authorities must reduce social rents by 1% each year for four years from 2016-17.

6.4 In line with the Government announcement and Welfare Reform & Work Act 2016 the rent levels on the majority of Council held stock have been calculated by applying a decrease of 1%. Any new lets during the year 2019/20 will be set at target rent as at 8 July 2018 less 1%.

6.5 There are a number of exemptions from the 1% reduction policy prescribed by the Welfare Reform and Work Act 2016. The one that impacts on Newark & Sherwood District Council is the temporary social housing for the homeless and as such for the financial year 2018/19 it was agreed that rent and service charge levels for the existing temporary accommodation would be calculated on CPI plus 1% equating to a 3.8% overall increase.

6.6 The calculation for the service charge element has been reviewed and it is proposed that September CPI plus 1% (3.4%) is an appropriate increase for rent and service charges for 2019/20. However, the Business Manager - Housing, Health & Community Relations has said that there is scope for this to be re-evaluated in the year and for 2020/21 as part of wider temporary accommodation proposals being considered. These proposals will be reported to Homes and Communities in March 2019.

6.7 The Committee should note that the total rent rebate case load is 3,115 (57.95%) of the total housing stock, 5375, as at 31 March 2018). The position related to benefits is now complicated by the under occupation charge which is applied after benefit is calculated – 2,215 (41.2%) tenants are currently on 100% benefit, with 898 (16.71%) claimants receiving partial benefit. Of the total number of claimants 697 (12.97%) have their benefit reduced due to an under occupation charge – these could be full or partial benefit cases.

6.8 Officers from Revenues & Benefits work closely with Newark and Sherwood Homes to ensure that Discretionary Housing Payment funds are committed to households in real need and to date this funding has benefited District Council tenants as follows:

- Funds already paid out £52,667
- Committed payments £13,356
- 129 households have been helped all due to under occupation
- Of these 129 properties, 64 have been substantially adapted for the claimants needs; these are automatically renewed each year.

6.9 This financial support helps households to progress solutions aimed at enabling the long term sustainability of their tenancy and alleviates hardship.

7.0 Service Charge Issues

7.1 Newark and Sherwood Homes have indicated that a number of the service charge costs are not currently being met by the service charges that are applied to the tenant.

7.2 Information has yet to be provided as to which charges are falling short and what the difference between cost and income is.

7.3 In light of the above it is anticipated that an analysis of the service charge costs will be undertaken by NSH in 2019/20, with the intention to review the charges in 2020-21 to move towards full cost recovery.

7.4 Therefore, it is proposed that CPI plus 1% be agreed on all service charges, and during 2019-20 a full and complete review of costs and charges are undertaken by NSH to enable a true charge to be established.

8.0 Housing Support Service Charge

8.1 Housing based support services are a core function provided by Newark and Sherwood Homes under the terms of its management agreement with the Council.

8.2 The main support service provided is to tenants in the Council's supported accommodation, representing approximately 50% of the Council's housing stock.

8.3 All tenants living in designated supported housing are responsible for paying a mandatory lifeline service of £1.66 per week in line with the conditions of the tenancy agreement.

8.4 An increase of CPI plus 1% would increase the charge to £1.72 per week in 2019/20. This charge is not covered by Housing Benefit.

8.5 The Company also offers the following support services, which are discretionary:

a) An intensive housing management service to aid those tenants who need higher levels of involvement to sustain their tenancy, and
b) A range of additional services available to tenants and private customers, each attracting a varying charge.

8.6 It is proposed that all discretionary services provided to tenant and private customers should be increased by September 2018 CPI plus 1% (3.4%).

9.0 Other Service Charges

9.1 A number of tenants have water and sewerage provided at their property with the costs of these being recharged through a weekly service charge. It is proposed that these weekly charges are increased in line with September 2017 CPI + 1% i.e. 3.4%.

9.2 A number of properties built since 2010/11 are currently subject to a weekly service charge covering the costs (where appropriate) of landscaping, lighting and drainage. It is proposed that these weekly charges are increased in line with September 2018 CPI +1%, i.e. 3.4%.

9.3 Temporary housing accommodation, Seven Hills and Wellow Green, are subject to a service charge fee. It is proposed that these weekly charges are increased in line with September 2018 CPI + 1% (3.4%), as referenced in paragraph 6.6.

10.0 Garage Rents, Plots and Garage Ports

10.1 The level of garage rents was raised in 2018/19, in line with the rent increase, to £8.36 per week, (plus VAT if they are let to non-Council tenants).

10.2 The level of garage plot rents was raised in 2018/19, in line with the rent increase, to £42.77 per annum with VAT payable for non-Council tenants.

10.3 The level of garage port rents was raised in 2018/19, in line with the rent increase, to £3.74 per week with VAT payable for non-Council tenants. .

10.4 Whilst it may be possible to increase rents by more than CPI + 1% (3.4%) for the more desirable garages, officers are aware that a large increase in rent will increase the expectations of tenants around improvements to the condition and security of the garages. Therefore it is not proposed to introduce differential rent levels at the current time.

10.5 Officers from both the Council and NSH continue to identify existing and redundant garage sites that are suitable for inclusion in the 5 year HRA development programme.

10.6 The 1% reduction in rent does not extend to garage rents.

11.0 <u>Financial Considerations - FIN18-19/8216</u>

11.1 The majority of the financial implications are set out in the body of the report.

11.2 The Housing Revenue Account balances at 31 March 2018 were £2,000,000. Under self-financing, the risks previously met by the Government through housing subsidy have now been transferred to local authority HRAs therefore the self-financing HRA business plan assumes a minimum prudent general reserve of £2,000,000.

11.3 At the most recent Conservative party conference the Prime Minister announced that Councils' HRA borrowing cap will be scrapped by the end of October 2018 and a determination has now been issued revoking previous determinations that specified a local authority's limits on indebtedness.

11.4 Once again it has been a very difficult year, with a significant amount of resources being used in the preparation of the Housing Revenue Account annual budget and the Business Plan.

11.5 The budget includes costs that continue to fall to the HRA following the transfer of management of the housing stock to Newark and Sherwood Homes, for example property insurance, depreciation, and costs of financing the borrowing to fund the capital programme. The budget also includes costs of back funded superannuation (in respect of the service prior to 1 November 2004 of those staff who transferred to Newark and Sherwood Homes), external audit fees, and costs of services which continue to fall to the HRA, for example a recharge from Financial Services for work done in respect of rent setting, servicing the Strategic Housing Liaison Panel, final accounts and budget processes etc.

Right to Buy

11.6 The number of properties sold under 'Right To Buy' sales in 2018/19 to December 2018 amount to 25.

11.7 In 2014 the Council signed up to the national 1-for-1 replacement policy, whereby additional receipts can be retained in order to part fund the construction of new social housing.

11.8 The conditions for retaining 1-for-1 receipts are that they must constitute no more that 30% of the total amount spent on the provision of new affordable housing and that the full amount of spending on the scheme must be spent (work completed) within 3 years of the retained receipts. The remaining 70% of the scheme cannot be funded from public sector grant (e.g. Homes England funding) or non RTB housing receipts.

11.9 1-for-1 receipts can be used for development costs of replacement homes at affordable rent which may be acquired or constructed and can be provided by a registered provider so long as the local authority has nomination rights. Development costs may include the cost of acquiring new land but not the value of land already owned by the authority.

11.10 The Government has recently consulted on introducing some flexibility to the use of the 1-for-1 receipts and the outcome of this is now awaited.

11.11 The Council is using its' 1-for-1 receipts to contribute to the funding of the 5 year HRA development programme, within the parameters set by Government.

Depreciation

11.12 The Council stock is now depreciated on a componentisation basis, the depreciation remains as a charge to the HRA transferring funds to the Major Repairs Reserve (MRR). Officers from the Council and NSH continue to scrutinise the capital programme on an ongoing basis to ensure that sufficient funding is available.

Balances

11.13 At the end of the financial year 2017/2018, the Housing Revenue Account added £4,443,913 to the MRR from the HRA General Reserve to allow a prudent £2,000,000 in the general reserve and to allow for continuing repair and growth within the HRA.

11.14 The Council's current policy for the Housing Revenue Account is to establish a sustainable housing growth programme, as loans reach maturity they are repaid, however dependant on the capital programme and the available resources the borrowing may be refinanced in order to deliver the 5 year HRA development programme. The revenue budget is developed in line with the capital programme requirements and the resources available to deliver the housing growth programme, while making sure that the housing Revenue Account remains financially viable.

12.0 Proposals

12.1 The proposed budget for 2019/20 is attached at **Appendix A1.**

12.2 The proposed combined management and maintenance fee be verbally reported and agreed under the existing management agreement as stated in paragraph 5.3.

12.3 Additional payments to cover the cost of the services and the management of Gladstone House be agreed.

12.4 The proposed rent in line with Welfare Reform & Work Act 2016 on the majority of Council held stock has been calculated by applying a decrease of 1%. Any new lets during the year 2018/19 will be set at target rent as at 8 July 2018 less 1%. The rent on temporary accommodation is exempt from the rent reduction.

12.5 Following a review of the support service provision, the Council implemented charges on a tiered service approach. It is recommended that these charges should be increased by 3.4% in line with CPI + 1% from 1st April 2019.

12.6 As stated in paragraphs 9.1, 9.2, and 9.3 it is proposed that all other services charges are increased by 3.4% in line with CPI + 1% from 1 April 2019.

12.7 That charges for garages, garage plots and garage ports are increased in line with the rent policy relating to garages with effect from 1 April 2019, CPI plus 1% (3.4%).

13.0 RECOMMENDATIONS that:-

(a) the following recommendations be made to Council at its meeting on 12 February 2019:

i. the Housing Revenue Account budget for 2019/2020 as set out in the revised Appendix A1 (to be circulated), be recommended to Council on 12th February 2019;
ii. included within the HRA budget for 2019/20, the Management and Maintenance Fee be agreed;
iii. Additional payments for the management of Gladstone House be made to Newark and Sherwood Homes;
iv. the rent of all properties in the Housing Revenue Account, as at 31st March 2019, be decreased by 1% in accordance with Welfare Reform and Works Act;
v. the rent on temporary accommodation be increased by CPI plus 1% (3.4% from 1st April 2019;
vi. that all services charges and support charges should be increased by CPI plus 1% (3.4%) with effect from April 2019;
vii. that garage, garage plot and garage port rents are increased by 3.4% in line with CPI + 1% with effect from 1st April 2019.

Reason for Recommendations

To advise Members of the proposed HRA budget for 2019/2020, the rent levels, garage rent, garage plots, garage ports and Housing Support Service Charge levels and for all to be recommended to Council.

Background Papers

None

For further information please contact Rob Main on Extension 5930 or Robin Clay on Extension 5332.

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