

**HOUSING REVENUE ACCOUNT BUDGET AND RENT SETTING 2018/19**

**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 2016/17 (column 2 of **Appendix A1**).
- b) Examine the proposed income and expenditure on the HRA for 2018/19 (column 4 of **Appendix A1**) in accordance with Section 76 of the Local Government and Housing Act 1989, to avoid a deficit on the HRA.
- c) Provide the indicative figures of income and expenditure for the financial years 2019/20 to 2021/22 (columns 5 to 7 of **Appendix A1**).
- d) Set rent levels and service charges with effect from April 2018.
- e) Set charges for garage rents, plots and garage ports with effect from 1 April 2018.
- f) Set housing support service charges and all other service charges with effect from 1<sup>st</sup> April 2018.
- g) Detail the annual management fee payable to Newark and Sherwood Homes (NSH), in accordance with the management agreement.

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, which will be presented to full Council at its meeting in February 2018, 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	13 February 2018
Newark and Sherwood Homes update of rent systems	By end of February 2018
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 2018

2.3 Any slippage from these key dates would jeopardize the implementation of the proposed rent decrease from 1 April 2018.

### **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 2018/19 budget process and medium term financial plan 2019/20 to 2021/22.
- 3.2 In accordance with the management agreement with NSH, the Council's Housing Management Company, the required process has been followed to determine the fee for 2018/19.
- 3.3 The HRA budget proposed in this report is based on the Government announcement made on 8<sup>th</sup> 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 financial years 2018-19 and 2019-20.

### **4.0 National Policy and Impact**

- 4.1 In terms of national policy the Housing White Paper – 'Fixing Our Broken Housing Market', published in February 2017, sets out how Government want to help encourage more investment in social housing, to create a stable financial environment by setting a long term rent deal for councils and housing associations in England.
- 4.2 Under proposals published on 4<sup>th</sup> October 2017, increases to social housing rents will be limited to the preceding September Consumer Price Index (CPI) plus 1% for 5 years from April 2020 and therefore moving away from the current policy of an annual rent reduction of 1%. Government states that this will give social tenants, councils and housing associations the security and certainty they need.
- 4.3 The Housing and Planning Act 2016 proposed that it would phase out lifetime secure tenancies, introduce fixed term tenancies and charge a levy to local authorities to sell any of their higher value housing. It was the intention that these policies would be implemented in April 2017. To date, however, no further guidance has been issued by Government on these matters.
- 4.4 Due to this and lack of specific detail around implementation frameworks, officers have been unable to assess the impact of these policies against the HRA Business Plan.
- 4.5 At the end of October 2017 the Department for Communities and Local Government (DCLG) now called Ministry of Housing, Communities & Local Government and Department for Works and Pensions (DWP) published a consultation document looking at the future funding of supported housing, ("*Funding Supported Housing*" <https://goo.gl/on1RZT>).
- 4.6 In this consultation document the Government recognise that any new funding model for supported housing cannot be a one size fits all and must meet the needs of a diverse sector. For the purposes of funding supported housing the Government consider there to be three broad groups:

- a) Sheltered housing and extra care supported housing
- b) Short term and transitional support
- c) Long term support

4.7 The group that directly relates to the Council's housing stock is sheltered housing and extra care supported housing. It is proposed that a 'sheltered rent' will be introduced, a type of social rent which keeps funding for sheltered housing and extra care funding in the welfare system.

4.8 The Council is in the process of drawing up a response to this consultation document.

4.9 Officers of the Council and Newark and Sherwood Homes will continue to monitor the impact of national policy implementation on the HRA Business Plan.

## **5.0 Newark and Sherwood Homes Management Fee**

5.1 Under the management agreement, 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 year rolling 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.

5.3 The process to formulate the management fee for 2018/19 has been discussed and negotiated between senior officers of both the Council and Company at the regular Strategic Housing Liaison meetings. This has enabled the Council to recommend that the management fee for 2018/19, after adjustments, inflation and the 3% efficiency figure have been applied, should be £8,265,360. A breakdown of the fee is detailed at **Appendix B**.

5.4 For the Committee's reference the total management fee payable for 2015/16 was £7,705,041 for 2016/17 £7,796,900 and 2017/18 £8,083,310.

### ***Additional income to NSH***

- 5.5 Members will be aware that the Gladstone House extra care scheme will be operational in 2018/19. There are 60 units in total. All tenants will pay rent of £92.31 or £101.54 (one or two bed units) and a service charge of £128.87 per week. This service charge will be paid over to NSH as this covers the cost of providing food, TV Licence, lifelines and general services of communal areas. This is in addition to the adjustments shown in the management fee. These are the rent and service charges for 2018/19.
- 5.6 Payments will also be made where NSH provide general fund Services to the Council, i.e. other NSH work – Non HRA Core Services (Right to buy/Hostel management). The income of approximately £0.5m from photovoltaic cells where solar panels are fitted to council properties is received in the HRA annually and pass ported to NSH.

### ***Reserves***

- 5.7 For the Committee's information, the Company's reserves are listed below and accord with the management agreement:

<b>Reserves</b>	<b>Outturn 2016/17 (£000's)</b>	<b>Estimate 2017/18 (£000's)</b>
Minimum Reserve	431	456
Core Service Reserve	100	100
Bad Debt Reserve	50	50
Development and IT reserve	29	142
Staffing and Pay Reserve	100	100
Growth	2,531	1,241

- 5.8 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.
- 5.10 In considering the detail contained within the above paragraphs and **Appendix B**. The following proposals are put forward for the Committee's consideration and approval:
- a) The **base fee** of £7,966,580 plus IT reserve adjustment of £139,000, and all other adjustments detailed in the **Appendix B**, which equates to a total **service fee** of £8,265,360 be agreed to be paid to NSH for the management fee for 2018/19.

### **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 HRA 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 1 April 2015, and to increase rents in future by CPI + 1% rather than RPI +1%. There was an element of flexibility as the proposals allowed for vacant properties to be relet at target (formula) rent. The Council's 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. The Committee will note that in 2016/17 Government allowed supported housing rents to be increased by CPI + 1% for one year only, whilst it considered the future funding for supported housing.
- 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 2018/19 will be set at target rent as at 8 July 2017 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 the Council is the temporary homeless accommodation at Seven Hills and Wellow Green, (general fund units). It is proposed that these rents will increase by September 2017 CPI +1%, i.e. 3.7%. It should be noted by Committee that, as a comparison for affordability, this increase will take Wellow Green properties above the weekly local housing allowance for a two bed property, this is currently £92.98. The proposed rent of £103.24 will remain fully eligible for Housing Benefit.
- 6.6 The Committee should note that the total rent rebate case load is 3,125 (58%) of the total housing stock as at 31 March 2017). The position related to benefits is now complicated by the under occupation charge which is applied after benefit is calculated – 2,484 (46%) tenants are currently on 100% benefit, with 641 (12%) claimants receiving partial benefit. Of the total number of claimants 656 (12%) have their benefit reduced due to an under occupation charge – these could be full or partial benefit cases.
- 6.7 Officers from Revenues and 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 £62,320
  - Committed payments £17,450
  - 119 households have been helped all due to under occupation
  - Of these 119 properties, 63 have been substantially adapted for the claimants needs; these are automatically renewed each year.
- 6.8 This financial support helps households to progress solutions aimed at enabling the long term sustainability of their tenancy and alleviates hardship.

## **7.0 Housing Support Service Charge**

- 7.1 Housing based support services are a core function provided by NSH under the terms of its management agreement with the Council.

- 7.2 The main support service provided is to tenants in the Council's supported accommodation, representing approximately 50% of the Council's housing stock.
- 7.3 All tenants living in designated supported housing are responsible for paying a mandatory lifeline service of £1.60 per week in line with the conditions of the tenancy agreement.
- 7.4 An increase of CPI plus 1% would increase the charge to £1.66 per week in 2018/19. This charge is not covered by Housing Benefit.
- 7.5 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.
- 7.6 It is proposed that all discretionary services provided to tenant and private customers should be increased by September 2017 CPI plus 1%, i.e. 3.7%.

## **8.0 Other Service Charges**

- 8.1 A number of tenants have heating and water/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. 3.7%.
- 8.2 New properties built since 2010/11 are currently subject to a weekly service charge of between £2.63 and £6.34 covering the costs (where appropriate) of landscaping, lighting and drainage. It is proposed that these weekly charges are increased in line with September 2017 CPI +1%, i.e. 3.7%.
- 8.3 Temporary homeless accommodation at Seven Hills and Wellow Green, are subject to a service charge fee of £32.30 per week. It is proposed that these weekly charges are increased in line with September 2017 CPI + 1%, i.e. 3.7%.

## **9.0 Garage Rents, Plots and Garage Ports**

- 9.1 The level of garage rents was raised in 2017/18, in line with the rent increase, to £8.05 per week, (plus VAT if they are let to non-Council tenants).
- 9.2 The level of garage plot rents was raised in 2017/18, in line with the rent increase, to £41.20 per annum with VAT payable for non-Council tenants.
- 9.3 The level of garage port rents was raised in 2017/18, in line with the rent increase, to £3.60 per week with VAT payable for non-Council tenants. .
- 9.4 Whilst it may be possible to increase rents by more than CPI + 1% (3.7%) 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.

- 9.5 As part of the 5 year HRA Development Programme officers from both the Council and NSH continue to identify existing and redundant garage sites which could be suitable for inclusion in the programme.
- 9.6 The 1% reduction in rent does not extend to garage rents.

## **10.0 Financial Considerations**

- 10.1 The HRA balances at 31 March 2017 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.
- 10.2 Once again it has been a very difficult year, with a significant amount of resources being used in the preparation of the HRA annual budget and business plan.
- 10.3 The budget includes costs that continue to fall to the HRA, 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 NSH), external audit fees, and costs of central 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***

- 10.4 The number of properties sold under 'Right to Buy' sales in 2017/18 to December 2017 amount to 12. The District Council has 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.
- 10.5 Under the 1-for-1 replacement policy the Government states that every additional council home sold under Right to Buy will be replaced at a national level by an affordable rent home. The baseline is the number of Right to Buy property sales assumed in the self-financing settlement made prior to the recent policy invigoration (40,000 nationally in the first 10 years of self-financing).
- 10.6 The conditions for retaining 1-for-1 receipts are that they must constitute no more than 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. HCA funding) or non RTB housing receipts.
- 10.7 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.
- 10.8 Through the 5 year HRA Development Programme, and ongoing monitoring of the 1-for-1 receipts received, officers of both the Council and NSH are ensuring that these monies are allocated and spent within the programme to meet the necessary Government conditions.

### ***Depreciation***

- 10.9 The Council stock is to be depreciated on a componential basis from April 2017. The depreciation remains as a charge to the HRA transferring funds to the Major Repairs Reserve (MRR). There is an additional transfer from the HRA to the Major Repairs Reserve to ensure that there is sufficient funding for the capital programme during the life of the 30 year HRA Business Plan. Officers from the Council and NSH continue to scrutinise the capital programme on an ongoing basis to ensure that sufficient funding is available.

### ***Balances***

- 10.10 At the end of the financial year 2016/2017, the HRA added £6,481,055 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.
- 10.11 Under current Council Policy, the HRA debt level is not reducing. This is to enable the Council to focus on a programme of housing growth. Although as loans become due for repayment they are refinanced. The HRA rent income budget for 2018/19 takes account of additional income from the first phase of the Council's 5 year housing development programme.

### **11.0 Proposals**

- 11.1 The proposed HRA budget for 2018/19 is attached at **Appendix A1**.
- 11.2 The proposed combined management and maintenance fee of £8,265,360, set within the HRA budget for 2018/19 and in line with the Management Agreement as stated in paragraph 5.3 should be noted.
- 11.3 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 2017 less 1%. The rent on temporary homeless accommodation is exempt from the rent reduction, as detailed in paragraph 6.5.
- 11.4 Following a fundamental 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 3.7% in line with September CPI + 1% from 1 April 2018.
- 11.5 As stated in paragraphs 8.1, 8.2, and 8.3 it is proposed that all other services charges are increased by 3.7% in line with September CPI + 1% from 1 April 2018.
- 11.6 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 2018, September CPI plus 1% (3.7%).

### **12.0 RECOMMENDATION**

**That the following recommendations be made to Council at its meeting on 13 February 2018:**

- i. the HRA budget for 2018/2019 as set out in Appendix A1 to this report be recommended to Council on 13 February 2018;**



- ii. included within the HRA budget for 2018/19, the management and maintenance fee of £8,265,360 be noted;
- iii. the rent of all properties in the Housing Revenue Account, as at 31 March 2018, be decreased by 1% in accordance with Welfare Reform and Works Act;
- iv. the rent on temporary accommodation be increased by CPI plus 1% (3.7%) from 1 April 2018;
- v. that all services charges and support charges should be increased by September CPI plus 1% (3.7%) with effect from April 2018;
- vi. that garage, garage plot and garage port rents are increased by 3.7% in line with September CPI + 1% with effect from 1 April 2018.

### Reason for Recommendations

To enable the HRA budget for 2018/2019, the rent levels, garage rent, garage plots, garage ports and Housing Support Service Charge levels to be recommended to Council.

### Background Papers

None

For further information please contact Dean Rothwell on extension 5587, Robin Clay on Extension 5332 or Rob Main on Extension 5930.

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