POLICY & FINANCE COMMITTEE
23 JANUARY 2020

2020/21 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 2018/19 financial year (01 April 2018 - 31 March 2019) (column 2 of **Appendix A1**);

b) examine the proposed income and expenditure on the HRA for the 2020/21 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 2021/22 to 2023/24 financial years (columns 5 to 7 of **Appendix A1**);

d) set rent levels and service charges for 2020/21 (with effect from the first Monday in April 2020); and

e) detail the 2020/21 allocation for housing management services. In previous years, this would have been the management fee payable by the council to Newark and Sherwood Homes Ltd (NSH/the company).

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	11 February 2020
Newark & Sherwood District Council update of rent systems	By end of February 2020
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 2020

2.3 Any slippage from these key dates would jeopardise the implementation of rent increases from the first Monday in April 2020, 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 08 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 is the last year of the 1% rent reduction.

2.7 The 1% annual rent reductions have resulted in the HRA Business Plan losing more than £11m (13%) in rental income over the four years. This is equivalent to more than six months' worth of rental income in 2019-20, or the funds to build more than 100 homes.

Rent Standard 2020

2.8 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.

2.9 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%.

2.10 As the CPI for September 2019 was 1.7%, the Rent Policy Statement allows an annual rent increase of 2.7% for 2020/21.

2.11 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".

2.12 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*".

2.13 From 01 April 2020, therefore, social housing providers registered with the RSH (‘registered providers’) must now comply with the Rent Standard 2020.

2.14 Newark and Sherwood Homes (NSH) have already made tenants aware about the background to the proposed rent increase through the quarterly rent statements issued in early January 2020 and on its website.

Borrowing Cap

2.15 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.

2.16 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 (HRA BP). The council has recently obtained expert external advice on the assumptions in the current BP, which concluded that the council’s anticipated future level of indebtedness is currently viable within the plan.

Management fee / allocation for housing management services

2.17 On 26 September 2019, the Committee agreed to bring the housing management services provided by Newark and Sherwood Homes (NSH) back in-house for direct service provision by the council. This is anticipated to take place on 01 February 2020.

2.18 For 2019/20 and previous years, the council has budgeted to pay NSH an annual management fee for housing management services. For 2020/21 and future years, the council will need to itemise its budget for housing management services.

2.19 As the council is in the process of bringing housing management services back in-house, this report proposes to designate the budget for what would have been the 2020/21 management fee as an allocation for housing management services instead.

2.20 As part of the housing management review, the council is recruiting to a newly created post of Director of Housing, Health and Wellbeing. A role of the director will be to shape how the council delivers housing management services in 2020/21 and future years, which will be done in consultation with the relevant Committee and tenants. Once this work is completed, a report will be presented to Policy & Finance Committee itemising the council’s housing management services budget, so that the Committee can scrutinise spend and inform the annual HRA budget setting process.

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 for Members to agree the proposals in this report could impact on the delivery of housing management services to tenants, as well as the viability and delivery of the council's approved HRA development programme, Yorke Drive regeneration scheme and other investment activities.

2.23 The council has recently obtained expert external advice validating both the HRA BP's financial model and the BP's capacity for borrowing (paragraphs 2.15 and 2.16). The narrative of the HRA BP and assumptions in the financial model will be reviewed and updated once the new Director is in post. A report will then presented to the Committee for approval.

2.24 Officers monitor relevant government policy announcements and model the implications of these on the HRA BP. In the Queen's Speech on 19 December 2019, the Government said that it "*will bring forward a Social Housing White Paper"*, and introduce a new Building Safety Bill and a Fire Safety Bill "*to improve building safety*". Officers will model the impacts of these on the HRA BP as further details become available.

Rent Cycle

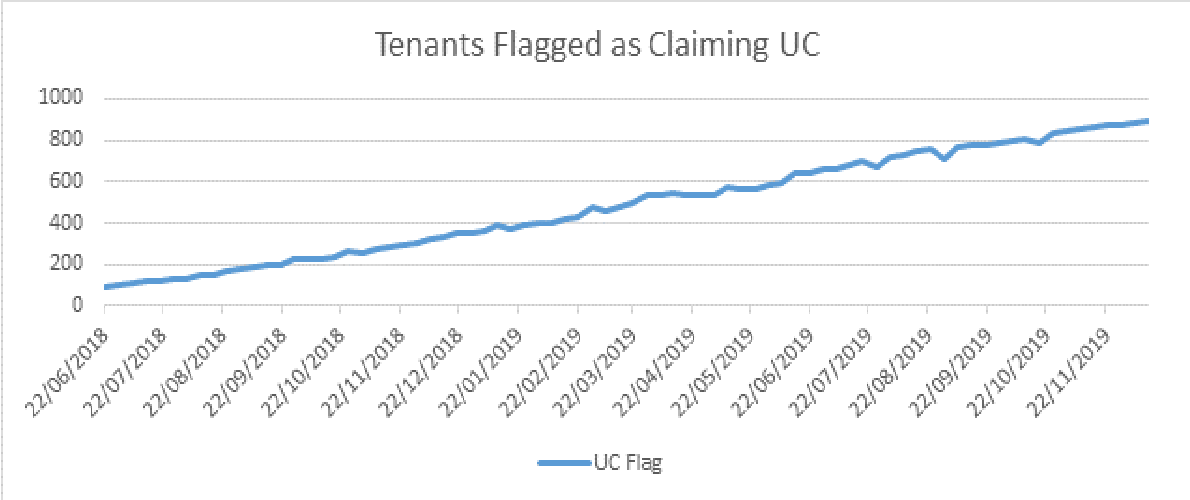
2.25 A member of the Board of Newark and Sherwood Homes Ltd requested in 2018 that the council consider a review of its secure tenancy agreement, to move from a 48 week rent cycle (with 4 rent free weeks) annually to a 52 week rent cycle annually.

2.26 A paper was taken to the Board in November 2018 which considered the options and proposed that a working party be set up to investigate further. Officers have not actively progressed this proposal, as other priorities have since taken precedent. The new director may wish to review the annual rent cycle once in post.

Universal Credit (UC) and Housing Benefit (HB)

2.27 Universal Credit (UC) is the Government's new 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.

2.28 Since 2018, there has been a significant increase in the number of council housing tenants claiming UC. As per the graph below, the number of tenants claiming UC has increased from 95 to 895 between June 2018 and December 2019. The council expects over 2,000 tenants to be claiming UC once all relevant households have transferred to UC.



2.29 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 2,950, or just over half, of council households currently have tenant(s) in receipt of legacy HB.

2.30 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. Nearly half of the council's social housing stock is designated for older people.

2.31 Around 1,900 of the 2,950 households, or just under two-thirds, are entitled to the maximum amount of HB, and around 1,050 households to partial HB.

2.32 A small proportion of the 2,950 households receive less HB than they are entitled to, because their HB entitlement is reduced by the benefit cap and/or under-occupancy charge ('bedroom tax' or 'removal of the spare room subsidy'). Tenants in these households may be entitled to maximum or partial HB.

2.33 Residents claiming HB or UC who need help with meeting their housing costs can request a Discretionary Housing Payment (DHP) from their local council. Council and NSH officers work closely together to ensure DHP funds are committed to households in most need.

2.34 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.

Service Charges

2.35 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.

2.36 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 (2019/20) and proposed (2020/21) service charges, with proposed increases to current charges of 2.7% (CPI + 1%). Subsequent paragraphs provide details about the services that tenants are charged for.

Housing-Based Support Services

2.37 The main housing-based support service that NSH provides 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.

2.38 Tenants in properties with lifeline units currently pay £1.72 per week for the community alarm service. This charge is mandatory, in line with the terms of their tenancy agreement. This charge is not eligible for housing benefit.

2.39 As well as a range of other support services, officers also provide intensive housing management (IHM) services for tenants in extra care housing schemes. As tenants in these properties need higher levels of support to sustain their tenancies, the charges for IHM services vary depending on the scheme that tenants live in. The council currently has three extra care housing schemes (Bilsthorpe Bungalows, Gladstone House and Vale View), with a fourth in Boughton due for completion towards the end of 2020/21.

2.40 Details of the current and proposed service charges are in **Appendix C**.

Other Housing Based Services

2.41 In addition to charges for IHM services and lifeline units, tenants at Gladstone House are charged for receiving certain meals and a television (TV) licence. The TV licence charge is to recover the cost of an accommodation for residential care (ARC) concessionary TV Licence. As the cost of an ARC licence has not changed (£7.50 per year), it is proposed that the TV licence charge remains unchanged (£0.21 per week).

2.42 Other weekly service charges applied to tenants are for the costs of water and sewerage provided to properties at Vale View (£3.73 per week) and for the costs (where appropriate) of landscaping, lighting and drainage provided to 71 general needs properties (average weekly charge of £5.47 per week).

2.43 Details of the current and proposed service charges are in **Appendix C**.

Non-Housing Based Services

2.44 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.

2.45 Whilst it may be possible to increase rents by more than 2.7% (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.

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

2.47 Details of the current and proposed service charges are in **Appendix C**.

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 11 February 2020::

a) the HRA budget for 2020/21, as set out in **Appendix A1** to this report;

b) an increase of 2.7% (CPI + 1%) in the 2020/21 rents of all properties in the HRA as at 31 March 2020;

c) an increase of 2.7% (CPI + 1%) in all 2020/21 service charges, except for the television (TV) licence costs payable by tenants of Gladstone House; and

d) that the TV licence costs payable by tenants of Gladstone House in 2020/21 remain at £0.21 per week.

4.0 Equalities Implications

4.1 The proposed rent increase would apply to all council social housing dwellings, 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*.

4.2 The proposed rent and service charge increases are, however, expected to adversely impact working-age tenants in receipt of benefits. The government's increase of 1.7% in working-age benefits for 2020/21 is less than the 2.7% proposed increase in rent and most service charges for next year.

4.3 As outlined in paragraph 2.33, 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 2020/21.

4.4 Though the proposed rent and service charge increases are not expected to adversely impact tenants in receipt of State Pension (as State Pension will increase by 3.9% for 2020/21), officers recognise the importance of supporting tenants of all ages to sustain their tenancies, as outlined in paragraph 2.34.

5.0 <u>Financial Implications</u>

5.1 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) and the council's approach to depreciation are covered in further detail below.

<u>Right to Buy (RTB)</u>

5.2 The council signed a Retention Agreement with the Secretary of State to use 30% 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.

5.3 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 0.75%).

5.4 By December 2019, the council managed to spend all of the 1-4-1 receipts received between April 2013 and December 2016 (more than £900,000).

5.5 By December 2022, the council anticipates that it will spend all of the 1-4-1 receipts received between January 2017 and December 2019 (more than £2,000,000). This will require spending nearly £7,000,000 on replacement social housing overall.

5.6 Officers closely monitor spend against the council's approved HRA development programme to ensure that 1-4-1 receipts are used as appropriate.

5.7 The number of RTB sales in 2019/20 is at its lowest level since 2012/13 nationally and since 2015/16 in the district. This will reduce 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 increases the number of properties from which the council receives weekly rent.

5.8 Officers consider changing local trends in RTB sales when setting the HRA budget annually.

<u>Depreciation</u>

5.9 In previous years, the depreciation charge budgeted for future years only accounted for those assets in the council's asset register. Assets in the register are those fully acquired or developed, such as homes newly built.

5.10 The depreciation charge now budgeted for future years includes assets planned for acquisition or development as part of the council's approved capital programme.

5.11 This move towards accounting more wholly for the council's depreciable assets increases the accuracy (and monetary value) of the depreciation charge now budgeted in the HRA for future years.

6.0 Community Plan – Alignment to Objectives

6.1 One of the actions in the Community Plan 2019-2023 for the council to "*accelerate the supply of new homes including associated facilities*" is for the HRA to "*deliver 335 homes by 2021/22*". Implementation of the proposals in this report will directly support the council's HRA to deliver these new homes.

7.0 RECOMMENDATIONS

That the following recommendations be made to Council at its meeting on 11 February 2020:

a) the HRA budget for 2020/21, as set out in Appendix A1 to this report;

b) an increase of 2.7% (CPI + 1%) in the 2020/21 rents of all properties in the HRA as at 31 March 2020;

c) an increase of 2.7% (CPI + 1%) in all 2020/21 service charges, except for the television (TV) licence costs payable by tenants of Gladstone House; and

d) that the TV licence costs payable by tenants of Gladstone House in 2020/21 remain at £0.21 per week.

Reason for Recommendations

To advise Members of the proposed HRA budget and changes in rent and service charge levels for 2020/21 and for these to be recommended to Council at its meeting on 11 February 2020.

Background Papers

Nil.

For further information please contact Rob Main (Business Manager - Housing Strategy & Development) on Extension 5930 or Mohammed Sarodia (Assistant Business Manager - Financial Services) on Extension 5537.

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