



Title	Housing Revenue Account (HRA) Budget 2020/21 and Housing Rents
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Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	<p>Executive 9th January 2019 Item 4: Housing Revenue Account base budgets 2019/20</p> <p>Executive 7 February 2018: Housing Revenue Account (HRA) Budget 2018/19 and Housing Rents</p>
Background Papers	As above

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes (Ref 1,107)
Equality Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Bill Hunt
Heads of Service		Lisa Barker (Head of Housing) & Mike Snow (Finance)
CMT		
Section 151 Officer		Mike Snow
Monitoring Officer		Andrew Jones
Finance		Andrew Rollins
Portfolio Holder		Councillor Matecki
Consultation & Community Engagement		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. Summary

- 1.1 This report presents to Members the latest Housing Revenue Account (HRA) budgets in respect of 2019/20 and 2020/21.
- 1.2 The information contained within this report makes the recommendations to Council in respect of setting next year's budgets, the proposed changes to council tenant housing rents, garage rents and other charges for 2020/21.

2. Recommendations

The Executive is asked to recommend to Council:

- 2.1 That rents for all tenanted dwellings (excluding shared ownership) be increased by CPI +1% for 2020/21.
- 2.2 That HRA dwelling rents for all new tenancies created in 2020/21 are set at either Target Social (Formula) Rent for Social rent properties, or at Warwick Affordable rent for Affordable rents properties.
- 2.3 That members note that shared ownership rents are increased by RPI plus 0.5% in line with the lease agreement
- 2.4 That garage rents for 2019/20 are increased by 10% per year for 5 years from 2020/21.
- 2.5 That the latest 2019/20 and 2020/21 Housing Revenue Account (HRA) budgets are agreed (Appendix 3).
- 2.6 That the latest sheltered housing Heating, Water and Lighting full recovery recharges for 2020/21 are noted (Appendix 4)
- 2.7 That the MCHLG Rough Sleeping Initiative Grant Bid budgets are agreed (Appendix 5)

3. Reasons for the Recommendations

3.1 National Housing Rent Policy

- 3.1.1 In July 2015 the Government announced that with effect from April 2016, the rents charged for existing tenants by local authority housing landlords should be reduced by 1% per year, for four years. 2019/20 was the final year of this reduction.
- 3.1.2 The 1% rent reduction per annum also applied to supported housing, with 2019/20 being the final year of this reduction.
- 3.1.3 From April 2020, a new policy will come into effect, with Councils allowed to increase rents by CPI (1.7% at September) + 1% per annum.
- 3.1.4 For new tenancies, landlords are permitted to set the base rent as the Target Social Rent (also known as Formula Rent). In the Councils case this represents a small increase over the social rent charged for tenanted properties and is

projected to increase rental income by around £6,000 in 2020/21. These tenancies will then be subject to agreed rental policy to comply with the Welfare Reform and Work Bill 2016.

- 3.1.5 Approval of the Councils request to charge affordable rents from Homes England in relation to properties at Sayer Court Leamington, and Bremridge Close, Barford, enables the Council to charge Warwick Affordable Rent Levels. New tenancies established in these properties during 2020/21 would be charged at the full Warwick Affordable Rent Value.
- 3.1.6 Rents on new affordable housing schemes within the HRA will have rents charged in line with the planning permission and grant approvals from Homes England.
- 3.1.7 Details of current rents and those proposed as a result of these recommendations are set out in Appendix 1. A comparison of the Council's social rents with affordable and market rents is set out in Appendix 2.
- 3.1.8 The recommendations ensure that the Council is operating in compliance with national policy and guidance on the setting of rents for General Needs and Supported Housing properties.

3.2 **Shared Ownership**

- 3.2.1 During 2019/20, the Council took ownership of 4 shared ownership properties at Bremridge Close Barford, Prior to these 15 shared ownership dwellings were purchased in 2015 at Great Field Drive in Southwest Warwick.
- 3.2.2 Shared owners are required to pay rent on the proportion of their home which they do not own.
- 3.2.3 The shared ownership properties' rent increases are not governed by national Policy.
- 3.2.4 The Council adopted the Homes and Communities Agency (HCA) template lease agreement which includes a schedule on rent review. Schedule 4 of the lease agreement determines that the rent will be increased by RPI (2.2% at November 2019) + 0.5% from April 2020.

3.3 **Garage Rents**

- 3.3.1 Garage rent increases are not governed by national guidance. Any increase that reflects costs of the service, demand, market conditions and the potential for income generation can be considered. The HRA Business Plan base assumption is that garage rents will increase by 10% for a 5-year period from 2020/21 and then in line with inflation. However, the Council does not have in place a formal policy for the setting of rents for garages.
- 3.3.2 There are waiting lists for a number of garage sites, whilst other sites have far lower demand; where appropriate these sites are being considered for future redevelopment as part of the overall garage strategy for the future.

- 3.3.3 Two different rent charges apply to garages depending upon whether the renter is an existing WDC tenant or not. There are also parking spaces and cycle sheds which are charged for.
- 3.3.4 Market Research shows that in the private sector, garages are being marketed in the district with rents ranging from £40-£85 per month (local market valuations last reviewed January 2020). The average monthly rent for a Council garage is currently £42.47.
- 3.3.5 Consideration has been made of the level of increase that could be applied to the garages. Unlike housing rents in recent years, there had been no requirement to reduce garage rents, in 2019/20 members approved a £4 rise in garage rents. From 2020/21 it is proposed to adopt an increase of 10% per year over a 5-year period being recommended across all chargeable areas.
- 3.3.6 The location of many of our garage sites and quality of the land, landscape and garage condition constrain the levels of rent that can reasonably be achieved. It is considered that many sites require investment to improve their condition, provide greater community benefits, extend the life or accommodate the development of additional affordable housing. The Housing Service has completed a review of garage sites to determine their optimum potential as an asset of the HRA. Most sites will simply require some form of fairly modest improvement such as to roofs or to the hardstanding. Others may require more significant work or may benefit from a more strategic redesign and realignment with contemporary expectations. In addition, the garages and external areas at key high rise sites are in need of some redesign and modernisation. The proposal is to undertake a detailed redesign of the external environments at the high rise blocks and to detail the requirements for improving sites as they are discounted for their potential for new development.
- 3.3.7 Any additional income generated from Garage Rents for the service will help to alleviate the loss of rental income from dwellings and ensure the continuous viability of the Housing Revenue Account Business Plan.
- 3.3.8 Should members approve the recommendation, projected income for 2020/21 will increase by a net £67,040 compared to 2019/20.
- 3.3.9 Alongside the rent increase, a review of garage voids has indicated that on average 15% of the total garage stock is void throughout the year, worth approximately £130,000 in potential income. Work to review each site to potentially reduce the level of voids and possibly attract additional income is in progress.
- 3.3.10 Garage rents will increase by 10% per year from April 2020. Tenants weekly charge will increase by £0.89 per week from £8.91 to £9.80. Non-tenants also pay VAT on the charge, so it will increase by £1.07 per week, from £10.69 to £11.76.

3.4 **Housing Revenue Account (HRA) budgets**

- 3.4.1 The Council is required to set a budget for the HRA each year, approving the level of rents and other charges that are levied. The Executive makes recommendations to Council that take into account the base budgets for the HRA and current Government guidance on national rent policy.

- 3.4.2 The dwelling rents have been adjusted to take account of the loss of rent resulting from actual and anticipated changes in property numbers for 2019/20 and 2020/21. This includes additional rental income from 6 new build properties already Purchased at Bremridge Close and a further 19 which are due to be purchased and subsequently let to tenants, and changes based on the number of Right-To-Buy sales in 2019/20, and those forecast for 2020/21.
- 3.4.3 The total increased income generated from inflating rents in line with Government Rent Setting Policy in 2020/21 is estimated to be £742,000. This increase is attributed to the different elements of the HRA Housing Stock and Garages as follows:
- General Social Housing Stock rents will increase by CPI (1.7% at September) + 1% per annum for a 5-year period from 2020/21, this change to rent policy generates an increase of £658,715
 - Affordable Housing Stock rents will also increase by CPI (1.7% at September) + 1% per annum which equates to an increase of £14,400 in 2020/21
 - Shared ownership property rents will increase by RPI + 0.5% in accordance with the terms of the lease. As at November 2019, RPI was 2.2% +0.5% totalling a 2.7% increase, therefore the income budget has been increased by £2,038
 - The garages rental income budget has been increased by £67,040 to take into account the 10% per annum increase in charges for 2012/20 and current level of voids
- 3.4.4 Full details of the Housing Revenue Account Budget will be included within the Budget Book; a summary is provided in appendix 3.
- 3.4.5 The Housing Employee Restructure approved at 20th December Employment Committee resulted in a funding requirement approved by Executive on an assessment of the maximum cost of the new structure calculated on every member of the team being paid at the highest possible point of their agreed pay scale. This total maximum cost of £530,215 represents an increased to the Housing Revenue Account of £542,769 and a saving to the General Fund of £12,554. This increase has been included in the HRA employee budgets in Appendix 3, the team structure will be reviewed mid-year 2020/21 to assess an accurate budgetary position of the restructure employee costs once all posts have been appointed to.
- 3.4.6 The Council has submitted a grant bid for MHCLG's Rough Sleep Initiative Grant to fund 6 Rough Sleeping Interventions as a national measure to reduce the number of Rough Sleepers in Warwickshire during the 12-month period of 2020/21. The Interventions are listed on Appendix 5 and are expected to commence in April 2020. The final Grant Allocations are expected to be announced by MHCLG late in January 2020 with budgets replicating the Grant Claim being included in Appendix 3. The budgets are mixed between the General Fund and Housing Revenue Account due to the nature of the schemes with any shortfall in Grant Award being met from the 2020/21 MHCLG Flexible Homelessness Support Grant award. The Total Intervention costs are estimated

at £678,275 with £660,028 being funded via the Grant Bid and the remaining £18,247 being funded using the existing 2020/21 MHCLG Flexible Homelessness Support Grant award. A further Bid has been made to Warwickshire County Council to support the Homeless Interventions of £100,000, at the time of writing this report the outcome of this bid is unknown. If the bid is successful, then this would negate the need to use the MHCLG Flexible Homelessness Support Grant award and budgets would be reduced accordingly.

3.4.7 The Housing Investment Programme is presented as part of the separate February 2019 report 'General Fund 2020/21 Budget and Council Tax'.

3.4.8 The recommendations will enable the proposed latest Housing Investment Programme to be carried out and contribute available resources to the HRA Capital Investment Reserve for future development whilst maintaining a minimum working balance on the HRA of at least £1.5m in line with Council policy.

4. Policy Framework

4.1 The Housing Revenue Account (HRA) budget is a financial expression of the Council's housing policies, having regard to the available resources and rent setting consequences. This report is in accordance with the Council's Financial Strategy.

4.2 Fit for the Future

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities. Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces. All communities have access to decent open space. Improved air quality. Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy. Increased employment and income levels. Vibrant town centres. Improved performance / productivity of local economy.
Impacts of Proposal		
Ensure housing standards and services are suitable	Ensure HRA budgets are sufficient to maintain	Ensure rents are set in accordance with national

for tenants, leaseholders and shared owners, meeting their needs and contributing to their health and well-being.	HRA owned open spaces and the neighbourhoods around Council owned homes.	policy at lower than market rents rates to enable the cost of living for tenants to be reduced, allowing more money to be spent in the wider economy.
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools. All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours.	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes. Increase the digital provision of services.	<u>Intended outcomes:</u> Better return/use of our assets. Full Cost accounting Continued cost management. Maximise income earning opportunities. Seek best value for money.
Impacts of Proposal		
The HRA budgets provide the necessary resources to achieve these outcomes	Enable tenants' needs to be met, and support improvement of services relating to Council Housing Stock.	Rent charges proposed ensure that debt can be serviced alongside the strategy outlined in the HRA Business Plan.

A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. The HRA is subject to the same regime to ensure efficiency within the service.

4.3 **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. Improving housing standards in residents' homes directly and positively contributes to the Housing and Health-and-Wellbeing desired outcomes. It also contributes to the Housing and Homelessness Strategy objective of improving the management and maintenance of existing housing.

4.4 **Changes to Existing Policies**

The budgets proposed are in accordance with existing policies. The report does not propose any changes to the policies regarding rent setting.

4.5 **Rents Policy**

4.5.1 This report recommends following the latest Central Government rent guidance. This is also the rent policy assumed in the current HRA Business Plan.

4.5.2 As agreed in June 2014, void homes are re-let at Target Social Rent, in line with the latest Central Government rent guidance.

5. Budgetary Framework

- 5.1 The HRA is a key component of the Council's budget framework and the budgets proposed are in accordance with the long term HRA Business Plan.
- 5.2 The CPI+ 1% rent increase for tenanted properties is budgeted for within the latest HRA Business Plan pending approval in February 2020.
- 5.3 The recommended budgets maintain the minimum working balance on the HRA expected under current Council policy, increasing by inflation each year.
- 5.4 The HRA Business Plan will continue to be reviewed throughout 2020/21 to take account of any subsequent changes to national policy or adjustments needed to reflect changes to existing spending priorities.

6. Risks

- 6.1 The risks, and appropriate control mechanisms, for the 2019/20 HRA Budget and the rent increase process are considered below.
- 6.2 When setting the HRA budget for 2019/20, a sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows: -
 - 0.5% change in void housing rent loss = £125,000 increase or decrease to rental income.
 - Currently only the element of anticipated capital receipts from Right to Buy (RTB) sales specifically reserved for provision of affordable housing has been included for HRA use in future years. It is assumed that the remainder of receipts, known as RTB Any Purpose receipts, will continue to be used to fund other capital projects. Each sale currently generates an average 'usable capital receipt' for the Council of around £82,900 (of which £32,300 is RTB Any Purpose, and £46,600 RTB 1-4-1 receipts). This is calculated after a share is paid to the Treasury under capital receipt 'pooling' regulations, and transaction costs are deducted.
 - On average the loss of rental income due to RTB sales is £4,700 per property for a full year; so in the year of sale the initial losses will be approximately half of this, £2,350, for each home sold, assuming RTB sales are spread fairly evenly throughout the year.
 - In some circumstances, ex-RTB properties must be offered to the Council in advance of the property being advertised on the market. A modest number of properties are repurchased each year, mitigating the rental loss. Furthermore, the Council has agreed proposals to build new council housing replacing those sold through the RTB.
 - The implementation of Universal Credit as a replacement to Housing Benefit has raised an issue whereby every 5-6 years 53 Mondays fall in a financial year, such a year occurred in 2019/20 with the next occurrence being circa 2024/25. This presents an issue as 53 rent debits are raised, rather than the usual 52, which causes issues with tenants in receipt of Universal Credit, which cannot account for a 53-week year effectively leaving the tenant short over the year by 1 weeks rent. This could have impacted up to

780 claimants, with an estimated maximum loss of £70,200 potential income to the HRA during a 53-week year although this loss would not be immediately apparent due to the Councils tenant arrears policy and Universal Credit has not been fully implemented with a large number of tenants still receiving Housing Benefit. This issue will be monitored, the LGA are continuing to make representations to both DWP and MHCLG in regards to a long-term solution to this issue.

- 6.3 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 20120/21 and HRA Business Plan.
- 6.4 The Housing Revenue Account faces a number of financial pressures arising from changes to national policy and legislation:
- The legislative 1% HRA rental income reduction policy applicable over the last four financial years reduced income levels from £25.8m in 2015-2016 when the policy was implemented to circa £24.8m in 2019/20.
 - It was confirmed in October 2017 that from April 2020 HRA rental income will be able to be increased by CPI (at September) + 1% each year for a five-year period.
 - The introduction of Universal Credit, which began its roll out in October 2018, may lead to additional challenges in recovering rent as residents adjust to the new systems. The HRA bad debt provision in the latest base budgets has been set to take consideration of this change.
- 6.5 Officers will closely monitor the changes discussed in paragraph 6.4 above. As and when more details become available, Budgets and the Business Plan will be updated to reflect this, with Members being notified accordingly.

7 Alternative Options

7.1 Garage Rents

7.1.1 The Council has discretion over the setting of Garage rents.

7.1.2 It would be possible to set Garage rents higher than those proposed to maximise income; however significantly higher rents may make Garages harder to let and so reduce income. Similarly, rents could also be reduced but this would reduce income to the HRA Budget when it is needed.

7.2 Dwellings

7.3 The Council does have the discretion to decrease rents for existing tenants. However, following the negative impact of the four year fixed 1% rental income reduction any decreases would further reduce the level of income for the HRA, which in turn could impact upon the viability of future projects.

7.4 The Council does not have the discretion to change the rent schedule for existing shared ownership dwellings, which is determined by the existing terms of the lease.

8 Background

8.1 The Executive received a report on HRA budget setting at its meeting in December 2019, detailing Government and Council Policy that has driven the budget process.

8.2 However, rents for 2020/21 need to be considered and agreed before the final budgets can be set. The background to each of these items is summarised below.

8.3 These rents, along with any other changes that have arisen since the previous report, impact on the setting of the final HRA budget.

8.4 Housing Rents and Government Policy

8.4.1 In July 2015 the Government announced that with effect from April 2016, the rent charged by local authorities should be reduced by 1% per year for four years ceasing in 2019/20. The Government expects void properties to be re-let at Target Social Rent so in time bringing all social housing rents into line with the original aims of the 2002 convergence policy.

8.5 It was confirmed in October 2017 that from April 2020 HRA rental income will be able to be increased by CPI (at September) + 1% each year for a five-year period.

8.5.1 A summary of average target rents compared to the 2019/20 rents for current tenants recommended in this report is included in Appendix 1.

8.5.2 A comparison with market rents currently charged for properties with 1 to 4 bedrooms in the WDC area has been included in Appendix 2. For example, the current average weekly market rent for a 3-bedroom home in the area is £253, whilst the proposed average 2020/21 rent for current WDC tenants living in a 3-bedroom home is £98.65. Proposed 2020/21 rents are on average only 41% of the cost of equivalent current local market rents. This means that the Council's housing service reduces the cost of living for tenants, allowing more money to be spent in the wider economy and reducing the social security costs of helping lower income tenants afford their rent.

8.6 Housing Revenue Account (HRA)

8.6.1 Councils with housing stock are required to maintain a separate 'ring-fenced' Housing Revenue Account (HRA) for all expenditure and income related to council housing. By law councils cannot approve a budget that would lead to a deficit HRA balance.

8.6.2 2019/20 and 2020/21 budgets were last considered and approved in the December 2019 report 'Housing Revenue Account (HRA) base budgets 2019/20', which detailed the latest 2019/20 revised budget and base 2020/21 budget, identifying variances from the initial 2019/20 budget.

8.6.3 A summary of the latest 2019/20 and 2020/21 budgets can be found in Appendix 3.

8.6.4 The Capital works in the Housing Investment Programme (HIP) are presented as part of the separate February 2020 report 'General Fund 2020/21 Budgets and Council Tax'.

9 Sheltered Housing Heating, Lighting and Water Charges

- 9.1 Costs for electricity, gas, water and laundry facilities are provided at some sheltered housing schemes and are recovered as a weekly charge. These utility charges are not eligible for Housing Benefit. Tenants are notified of these charges at the same time as the annual rent increase. Appendix 4 contains the charges for 2020/21 which will commence on the 1st April 2020.
- 9.2 The agreement of heating lighting and water charges was delegated to the Head of Housing and Head of Finance in consultation with the relevant portfolio holders in the Executive report 'Heating, Lighting and Water Charges 2018/19 – Council Tenants' on 7th February 2018. A policy of full cost recovery is adopted.
- 9.3 Recharges are levied to recover costs of electricity, gas and water supply usage to individual properties within one of the sheltered and the 5 very sheltered housing schemes as noted in Appendix 4.
- 9.4 The costs of maintaining communal laundry facilities are also recharged at those sites benefitting from these facilities under the heading of miscellaneous charges. A new communal Laundry contract has been procured for 2020/21 which will provide tenants with new Laundry Equipment and an improved repair, service and maintenance contract.
- 9.5 The gas and electricity used to deliver communal heating and lighting is supplied under the provisions of the Council's energy supply contracts.
- 9.6 Photovoltaic cells (solar panels) were installed on James Court, Tannery Court and Yeomanry Court in April 2012. The electricity generated reduces consumption from the national grid.
- 9.7 A biomass heating system has been installed in Tannery Court, providing environmental benefits of using a more sustainable fuel. The capital cost of installation was partly repaid by the Government's Renewable Heat Incentive scheme.
- 9.8 The charges necessary to fully recover costs for electricity, gas, water and laundry facilities in 2020/21 are calculated annually from average consumption over the last three years, updated for current costs, average void levels and adjusted for one third of any over-recover or under-recovery in previous years. The use of an average ensures that seasonal and yearly variations are reflected in the calculation.
- 9.9 The total cost to the Council in 2020/21 has been calculated at a total of £197,860 which has been included in the Supporting People Service Charges budget in Appendix 3 and will be recovered by being recharged to the tenants of applicable Sheltered Housing Schemes in full.