Agenda Item 7

Executive
11th February 2021

**Title:** Housing Revenue Account (HRA) Budget 2020/21 and Housing Rents
**Lead Officer:** Lisa Barker & Victoria Bamber
**Portfolio Holder:** Councillor Matecki
**Public report**
**Wards of the District directly affected:** All

| | |
|---|---|
| Contrary to the policy framework: | No |
| Contrary to the budgetary framework: | No |
| Key Decision: | Yes |
| Included within the Forward Plan: | Yes |
| Equality Impact Assessment Undertaken: | No |
| Consultation & Community Engagement: | No |
| Final Decision: | Yes |
| Accessibility checked: | Yes |

**Officer/Councillor Approval**

| Officer Approval | Date | Name |
|---|---|---|
| Chief Executive/Deputy Chief Executive | 26/01/2021 | Bill Hunt |
| Head of Service | 26/01/2021 | Lisa Barker (Head of Housing) & Mike Snow (Finance) |
| CMT | 26/01/2021 | |
| Section 151 Officer | 25/01/2021 | Mike Snow |
| Monitoring Officer | 26/01/2021 | Andrew Jones |
| Finance | 25/01/2021 | Andrew Rollins |
| Portfolio Holder(s) | 26/01/2021 | Councillor Matecki |

## 1. Summary

1.1. This report presents the latest projections for the Housing Revenue Account (HRA) in respect of 2020/21 and 2021/22 based on current levels of service and previously agreed Executive decisions.

1.2. The information contained within this report makes the recommendations to Council in respect of council tenant housing rents, garage rents and other HRA charges for 2021/22.

## 2. Recommendation

2.1. That the Executive approves the rents for all tenanted dwellings (excluding shared ownership) be increased by 1.5% (CPI 0.5% +1%) for 2021/22 in line with National Rent Policy.

2.2. That the Executive notes the HRA Social dwelling rents for all new tenancies created in 2021/22 continue to be set at Target Social (Formula) Rent for Social rent properties.

2.3. That the Executive approves that the HRA Affordable dwelling rents for all new tenancies created in 2021/22 are set at the standard National Affordable rent level in place of the previously approved "Warwick Affordable Rent".

2.4. That the Executive notes that any new shared ownership tenancies will continue to adopt lease agreements based on the existing Housing & Communities Agency (HCA) template lease with rents increased by RPI + 0.5% annually. Existing tenancies 2021/22 rent increase equate to 1.4% (RPI 0.9 %+ 0.5%) in line with the lease agreement

2.5. That the Executive approves that garage rents for 2021/22 continue to be increased by 10% per year for a period of 5 years (Year 1 commenced in 2020/21).

2.6. That the latest 2020/21 and 2021/22 Housing Revenue Account (HRA) budgets are agreed (Appendix 3).

2.7. That the Executive notes the Sheltered Housing Heating, Water and Lighting full recovery recharges for 2021/22 (Appendix 4)

## 3. Reasons for the Recommendation

These 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.

3.1. From April 2020, a new national rent policy came into effect, with Councils allowed to increase rents by up to CPI (at September) + 1% per annum. The Council will increase rents for Social and Affordable rent dwellings by CPI at September 2020 which was 0.5% +1% with the total rent increase being 1.5% from April 2021.

3.1.1 The rent policy prior to this ensured rents charged for existing tenants by local authority housing landlords were reduced by 1% per year, for four years commencing April 2016. 2019/20 was the final year of this rent reduction. The 1% rent reduction per annum also applied to supported housing, with 2019/20 being the final year of this reduction.

3.1.2 Details of current rents and those proposed as a result of these recommendations are set out in Appendix 1. It is noted that from April 2016 Target Formula rents are applied when a dwelling becomes void and re-let, existing tenancies prior to this policy change continue under the historic rent regime with inflation linked in line with national rent policy. Appendix 1 contains the average rents for both Target Formula Rent and Historic Rent dwellings

3.1.3 A comparison of the Councils proposed 2021/22 rents to Local Market Rents, National Formula Rent Caps and Local Housing Allowance Rents is set out in Appendix 2. The Councils Social Rents are 41% lower than the Local Average Weekly Market Rent. 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.

3.2. From April 2016 landlords were permitted to set the base rent as the Target Social Rent (also known as Target Formula Rent) for new tenancies. In the Councils case this represented a small increase over the social rent charged for tenanted properties and was projected to increase rental income by around £6,000 in 2020/21. These tenancies are subject to agreed rental policy to comply with the Welfare Reform and Work Bill 2016.

3.2.1 The Council adopted the policy to introduce Target Formula Social Rents on new tenancies issued upon a dwelling becoming void and re-let. This phased approach equates to approximately 400 dwellings per year transferring from the social prior rent policy to Target Formula Rents. Existing tenancies commencing prior to April 2016 will remain on the prior rent policy with rents being inflated by CPI+1 in line with Target Social Rents Dwellings.

3.3. From April 2021 Rents on new Affordable Housing Tenancies within the HRA will be charged in line with the National Affordable Housing Rate which is 80% of the Local Market Rent in line with planning permission and grant approvals from Homes England.

3.3.1 The Council had previously agreed "Warwick Affordable" rents between 2014/15 and 2020/21 in relation to properties at Sayer Court Leamington, and Bremridge Close, Barford by adopting a model to charge "Warwick Affordable" rent levels which are a mid-point between 80% Local Market Rent and Social Rent.

3.3.2 The reason for this change results from the Council officially being awarded "Affordable Housing Investment Partner" status from Homes England in 2020 which enables the Council to apply for grant funding to assist with the cost of housing developments and charge affordable rents within these schemes. To ensure that all future acquisitions and developments linked with Homes England remain as financially robust as possible the rents will be set at the national standard of Affordable rents equating to 80% of local market rents.

3.3.3 Existing Affordable Housing tenancies will continue to pay "Warwick Affordable" rents for the remainder of their tenancy to ensure there are no negative financial implications for existing tenants.

3.3.4 Affordable rents and "Warwick Affordable" rents are inflated in line with national rent policy at CPI (at September) + 1%. CPI at September was 0.5% and so with the total rent increase is 1.5% from April 2021. This change was noted in the HRA Business Plan projections presented to Executive in December 2020.

3.4. The Council currently owns 18 Shared Ownership Dwellings at the time of writing this report. Shared owners purchase a % of the property from the

Council and are required to pay rent on the proportion of their home which they do not own.

3.4.1 The shared ownership properties' rent increases are not governed by national Policy but the Council adopted the Homes and Communities Agency (HCA) template lease agreement which includes a schedule on rent reviews. Schedule 4 of the lease agreement determines that the rent will be increased by RPI (at November) + 0.5% from April each financial year.

3.4.2 RPI at November 2020 was 0.9% and so the total rent increase being 1.4% from April 2021.

3.4.3 The Council will continue to use lease agreements based on the existing Housing & Communities Agency (HCA) template lease for all new shared ownership tenancies.

3.5. Garage rent increases are not governed by national guidance although in recent years' consideration has been made in regard to the level of increase applied to the garages. Unlike housing rents, there has been no requirement to reduce garage rents. In 2019/20 members approved a £4 rise in garage rents and in the 2020/21 HRA Rent Setting Report presented to Executive in February 2020 it was approved to adopt an increase of 10% per year over a 5-year period with following years being inflated by CPI. The Council does not have a formal policy for the setting of rents for garages but the points below contributed to the decision to increase the rents:

3.5.1 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.

3.5.2 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

3.5.3 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 £46.71.

3.5.4 The location of many of the 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.

3.5.5 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.

3.5.6 Alongside the rent increase, a review of garage voids has indicated that on average 26% of the total garage stock is void at the time of writing this report, worth approximately £266,650 in potential income in a 12-month period. Work to review each site to potentially reduce the level of voids and possibly attract additional income is in progress.

3.5.7 The Garage Rents will increase by 10% per year from April 2021. On average Tenants weekly charge will increase by £0.98 per week from £9.80 to £10.78. Non-tenants also pay VAT on the charge, so VAT inclusive rates will increase by £1.18 per week, from £11.76 to £12.94. There are a number of Garages of non-conventional size which are charged varying rates, these rents will also be increased by 10%.

3.6 The Council is required to set a balanced 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.

3.6.1 Appendix 3 summarises the adjustments from 2020/21 base budgets to the 2020/21 latest budgets and 2021/22 base budgets.

3.6.2 The Housing Investment Programme is presented as part of the separate February 2020 report 'General Fund 2021/22 Budget and Council Tax'. 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.

3.6.3 The dwelling rents have been adjusted to take account of the loss of rent resulting from actual and anticipated changes in property numbers and changes based on the number of actual and forecast Right-To-Buy sales and acquisitions.

3.6.4 The following table summarises how the latest 2020/21 HRA budget has been calculated and how the current latest budget has changed from the original 2020/21 approved budget:

| | **£** |
|---|---:|
| **Original Approved Net HRA Surplus 2020/21** | **7,207,400** |
| Net Increase in Expenditure | 129,700 |
| Net Increase in Income | 0 |
| **Latest Net HRA Surplus 2020/21** | **7,077,700** |

3.6.5 Key drivers of the increase in Expenditure budgets include:

- Increase in Housing Repairs Supervision Costs (+£46,300) following a review of the Housing restructure, a post was identified to have not been included in the original budgets.
- Increase in Rates (+£12,400)
- Increase in Supervision and Management Costs (+£71,000)

3.6.6 As a result of the above variations to the 2020/21 HRA budgets, the forecast contribution to the HRA Capital Investment Reserve for the year will be £2.565m, a reduction of £129,700 from the original £2.695m budget.

3.6.7 In determining the 2021/22 Base Budget, the over-riding principle is to budget for the continuation of services at the agreed level. The following adjustments need to be made to the 2020/21 Original Budgets:

- Removal of any one-off and temporary items
- Addition of inflation (contractual services and pay only)
- Addition of previously agreed growth items
- Addition of unavoidable growth items
- Inclusion of any identified savings

3.6.8 The table below summarises how the 2021/22 HRA base budget has been calculated.

| | **£** |
|---|---:|
| **Original Approved Net HRA Surplus 2020/21** | **7,207,400** |
| Net Decrease in Expenditure | 164,500 |
| Net Increase in Income | 390,700 |
| **Original Net HRA Surplus 2021/22** | **7,762,600** |

3.6.9 Key drivers of the change in Expenditure budgets include:

- A net reduction in Expenditure from General Supervision & Management of £164,500 consisting of:
  - Increase in Housing Repairs Supervision Costs (+£34,200) following a review of the Housing restructure, a post was identified to have not been included in the original budgets.
  - Increase in Rates (+£12,400)
  - Increased cost of Repairs and Maintenance (+£8,600)
  - Increase in bad debt provision (+£7,700)
  - Decrease in Supervision and Management Costs (-£227,400) due to a reduction in the cost of Housing Services
- A £390,700 increase of HRA dwelling and Garage rents as per Rent Policy and Inflation

3.7 A number of assumptions have been made in setting the budgets for 2020/21.

3.7.1 Inflation of 2% has been applied to general budgets. 2% has been used for most major contracts with the exception of the cleaning contract (2.6%). 2.4% has been used for Business rates. A 2% pay award has been applied to salaries.

3.7.2 Rents - The base rent budget in this report is a baseline calculated from the rental assumptions presented in the 2020 HRA Business Plan and as noted in paragraphs 2-2.7 above.

3.7.3 Growth / Income Reductions from Unavoidable and previously committed growth has been included in the Base Budget.

3.7.4 HRA Capital Investment Reserve - Any HRA surplus above that required to maintain the appropriate HRA working balance is transferred into the HRA Capital Investment Reserve to be used on future HRA capital projects. The 2021/22 Base Budget allows for a £3.250m contribution to the reserve.

3.7.5 Notional Interest has been charged to the HRA within the Capital Charges. This represents the cost of tying up resources in the asset. This has been charged against HRA garages and shops at their Existing Use Value (EUV). HRA housing has not been included in this calculation due to the assured nature of tenancies, restricting the council's ability to sell occupied housing assets.

3.8 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 2021/22 which will commence on the 1st April 2020.

3.8.1 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.

3.8.2 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.

3.8.3 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 was procured for 2020/21 which provides tenants with new Laundry Equipment and an improved repair, service and maintenance contract.

3.8.4 Utility costs are reviewed in line with Council contracts to ensure affordability. The gas and electricity used to deliver communal heating and lighting is supplied under the provisions of the Council's energy supply contracts. Other measures such as installing Photovoltaic cells (solar panels) at James Court, Tannery

Court and Yeomanry Court in April 2012 assist with reducing tenant's costs with the electricity generated reducing consumption from the national grid.

3.8.5 A biomass heating system has been installed in Tannery Court and Sayer 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.

3.8.6 The charges necessary to fully recover costs for electricity, gas, water and laundry facilities in 2021/22 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.

3.8.7 The total cost to the Council in 2020/21 has been calculated at £161,380 for Electricity, Heating, Lighting and Laundry and £33,070 for Water 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.

## 4. Policy Framework

### 4.1 Fit for the Future (FFF)

4.1.1. 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.

4.1.2. The FFF Strategy has 3 strands, People, Services and Money, and each has an external and internal element to it, the details of which can be found on the Council's website. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

### 4.2 FFF Strands

### 4.2.1 External impacts of proposal(s)

**People - Health, Homes, Communities** - Improved health for all Housing needs for all met Impressive cultural and sports activities. Cohesive and active communities. Ensure housing standards and services are suitable for tenants, leaseholders and shared owners, meeting their needs and contributing to their health and well-being.

**Services - Green, Clean, Safe -** Area has well looked after public spaces. All communities have access to decent open space. Improved air quality. Low levels of crime and ASB. Ensure HRA budgets are sufficient to maintain HRA owned open spaces and the neighbourhoods around Council owned homes.

**Money- Infrastructure, Enterprise, Employment -** Dynamic and diverse local economy. Increased employment and income levels. Vibrant town centres. Improved performance / productivity of local economy. Ensure rents are set in accordance with national 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.

**4.2.2 Internal impacts of the proposal(s)**

**People** - **Effective Staff** – 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. The HRA budgets provide the necessary resources to achieve these outcomes

**Services - Maintain or Improve Services -** Focusing on our customers' needs Continuously improve our processes. Increase the digital provision of services. Enable tenants' needs to be met, and support improvement of services relating to Council Housing Stock.

**Money - Firm Financial Footing over the Longer Term -** Better return/use of our assets. Full Cost accounting. Continued cost management. Maximise income earning opportunities. Seek best value for money. 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**

4.3.1. 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.

4.3.2. The budgets proposed are key to supporting the FFF strategy. They ensure the cost of providing services is covered, ensuring full cost recovery where appropriate and allowing the Council to continue to deliver and invest in services going forward. Improving housing standards in residents' homes directly and positively contributes to the Housing and Health-and-Wellbeing priorities within the Council's Sustainable Community Strategy. 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**

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

4.4.2 **Rents Policy**

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

4.4.4 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

4.4.5 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

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

## 4.5 Impact Assessments

4.5.1 The budgets proposed are in accordance with existing policies and do not require any new impact assessments

4.5.2 All budget managers have reviewed their budgets as part of the comprehensive budget setting process, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team. This is in addition to being reviewed on an ongoing basis. Changes incorporated into the latest and 2021/22 budgets based on previously approved Executive Reports have had their impacts set out within their own reports, and assessed as part of the Executive process accordingly.

4.5.3 The 50 year HRA Business Plan was presented to Executive in December 2020 and projects income and expenditure to demonstrate that the financial model remains robust, can maintain the housing stock and provide new homes. The base budget for 2021/22 is calculated from the projections contained in the latest version of the HRA Business Plan. The Business Plan and base budget will be reviewed on an ongoing basis as the service is developed, and new projects are agreed.

## 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. The overall increased income generated from inflating rents in line with Government Rent Setting Policy in 2020/21 in relation to, Social Rents, Affordable Rents, Shared Ownership Rents and Garage Rents is estimated as a total budget growth of £396,265.

5.1.1 Sheltered Housing Heating, Water and Lighting Recharges budget will be set at a Total of £194,450 which is a decrease of £3,350 in comparison to the previous financial year. This budget reflects a cost recovery recharge so is variable depending on actual usage each year.

5.1.2 The CPI+ 1% rent increase for Social and Affordable tenanted properties is budgeted for within the latest HRA Business Plan approved in December 2020 as is the RPI + 0.5% rent increase for Shared Ownership properties.

5.1.3 For the setting of base 2021/22 revenue budgets, a 2% pay award has been factored into staffing budgets alongside contract inflation with the same approach for General Fund Services. Other unavoidable approved changes will be funded through reduced contributions to the HRA Capital Investment Reserve, however these are offset by the increase in rental income in line with national rent policy.

5.1.4 Full details of the Housing Revenue Account Budget are provided in appendix 3 with key changes noted earlier in the report in sections 3.6 and 3.7

5.1.5 The recommended budgets maintain the minimum working balance on the HRA expected under current Council policy, increasing by inflation each year.

5.1.6 The HRA Business Plan will continue to be reviewed throughout 2021/22 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 Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available. The risks, and appropriate control mechanisms, for the 2021/22 HRA Budget and the rent increase process are considered below.

6.1.1 The main sources of income which may be subject to increases/decreases include:

- Rental income, including bad debts (and the impact from the introduction of Universal Credit), void rent loss and Sale of Council Houses (SOCH) through Right to Buy (RTB)
- Housing Related Support (tenant and private income)
- Fees and charges
- Investment interest
- Grants

6.1.2 Increased expenditure in service provision may be due to:

- Inflation and price increases for supplies and services;
- Increased demand for services increasing costs;
- Changes to taxation regime;
- Unplanned and unexpected responsive expenditure;
- Assumed savings in budgets not materialising;
- Changes in Government legislation.

6.1.3 When setting the HRA budget for 2021/22, a sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows: -

- The Covid-19 Pandemic impact on Central and Local Government finances is expected to affect the Economy for the next 3-5 years. There are several potential risks for instance in regard to the Government's ability to continue to support housing development with grants from Homes England and the ability to continue to fund Homelessness initiatives. Central Government's stance on these matters will have to be monitored closely as changes to current arrangements will impact this model negatively

- The level of CPI is lower than expected at 0.5% from April 2021 due to the impact of Covid-19 on the UK's economy with an expectation of 1.5%-17% being forecast prior to the pandemic occurring. A similar impact has been seen with RPI which is 0.9% in comparison to the rate being 2.2% in 2020/21. This reduction in inflation rates has resulted in a lesser level of rental income growth in 2021/22 budgets of approximately £312,000 less than was originally expected. If the impact of Covid-19 continues to affect the UK's Economy, then it is estimated that 3-5 years of reduced rental growth will be expected in comparison to prior pandemic interest levels. These pessimistic assumptions have been included in the overall Housing Business Plan

- Covid-19's ongoing negative financial impact on housing tenants is still unknown. Rent Arrears have increased nationally and it is expected this will result in bad debts being written off as a result in future financial years. A full financial impact assessment will be completed in the near future but as an interim measure the bad debt provision within the HRA Business Plan which was planned to reduce to 1.6% has been increased to 2% from April 2021/22. This will be re-assessed regularity and monitored as we progress through the pandemic.

- The Government's decision to protect tenants during the national restrictions and over the Christmas period has mitigated a lot of risk for the HRA. Measures such as no bailiff enforcement action being allowed over the period has ensured that the level of Homelessness resulting from private sector landlord evictions has remaining manageable and the Council has received Grant's to support the housing of the homeless during this period from the Ministry of Housing, Communities & Local Government (MCHLG). The Government issued guidance to tenants and landlords to outline expectations during the pandemic in which it was stressed that Tenants were expected to continue with the payment or rents. The Government has increased the levels of benefits and issued grants to businesses and the self-employed to ensure tenants are able to continue to pay rents during this period. These measures have shielded the negative impact to some extent for both public and private rental tenants but the future is unknown and the full impact of the pandemic will only become apparent in future months/years.

- The UK's Brexit transition period ended on the 31st December 2020 although Brexit is not expected to immediately impact rents and the Housing business plan there could be impacting circumstances that could affect the UK construction industry such as delays on imported construction supplies being received and European labour losses may result in higher construction labour costs. As these outcomes are very uncertain all housing development schemes will be re-appraised and checked for viability regularly.

- A 0.5% change in void housing rent loss = £128,470 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 in Councils General Fund. 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. An annual reoccurring budget of £300,000 has been included in the most recent version of the Housing Investment Plan presented to December 2020 Executive as part of the HRA Business Plan Report to enable a modest number of properties to be 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 of 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 Department for Work & Pensions' (DWP) 52-week calculation policy has been legally challenged but The High Court ruled on 23 September 2020 that "formulae for converting weekly rents to a monthly value for the purposes of calculating Universal Credit entitlement are neither irrational nor unlawful." The Judge found "that the Universal Credit Regulations were not intended or designed to reimburse a tenant for every penny spent on housing costs, but were only intended to provide a contribution towards them". A number of options have been explored to assess if the 52/53-week issue could be resolved but any change would require IT build requirements, additional expenditure and changes to regulations hence no decision has been made to make a change, although the matter remains under review as part of the 'test and learn' approach to Universal Credit. This ongoing issue will be monitored, the Local Government Association (LGA) are continuing to make representations to both DWP and MHCLG in regards to a long-term solution to this issue.

6.1.4 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 20121/22 and HRA Business Plan.

6.2 Many controls and mitigations are in place to help manage these risks. These include:

- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team.
- Financial Planning with the Housing Business Plan, bringing together all known/projected issues that will impact on HRA finances in the medium and long term.
- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- Project Management and associated controls.
- Trained staff and access to appropriate professional advice (e.g. WCC Legal, Local Government Futures for advice on local government funding and developments in housing).
- Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.
- Maintaining a HRA Capital Investment Reserve (CIR) to enable repayment of self-financing loan, fund capital investment, such as providing new homes, and to fund any unexpected HRA costs.
- In addition to Reserves, the HRA Balance stands at £1.5m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level, increased by RPI each year, and replenish any monies that are drawn down.
- The HRA follows the same Risk Management process as all Service Areas across the Council, including the on-going review and maintenance of risk registers.

- Specific causes of reductions to income or increased expenditure should continue to be managed by the Service Area as part of managing risks within the Service Risk Register. The Housing & Property Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.

**7. Alternative Option(s) considered**

7.1 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy, in line with current Council policies. Any alternative strategies will be the subject of separate reports.

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

7.1.2 **Dwellings** - 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 and the negative impact of the Covid-19 Pandemic on rental increases; any decreases would further reduce the level of income for the HRA, which in turn could impact upon the viability of future projects.

7.2.1 **Shared Ownership** - 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**

8.1.1 The HRA Budgets are also presented to Executive as they are incorporated with the Councils main Budget Setting Report in the February 2021 meeting. The Budget setting report contains the revenue and capital budgets for the HRA and details Government and Council Policy that has driven the budget process.

8.1.2 In prior years the HRA rents have been agreed separately to the Budget Setting Report with budgets being added in a separate exercise. Time restraints this year have caused the rents for 2021/22 to also be included in the HRA section of the Budget Setting Report. The same rents are also noted in this report to be considered and agreed.

8.1.3 These rents, along with any other changes that have arisen since the previous HRA Business Plan Report presented to Executive in December 2020, impact on the setting of the final HRA budget.

8.1.4 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.

8.1.5 A summary of the latest 2020/21 and 2021/22 budgets can be found in Appendix 3.

8.1.6 The Capital works in the Housing Investment Programme (HIP) are presented as part of the separate February 2020 report 'General Fund 2021/22 Budgets and Council Tax'.