

## CABINET

15 February 2021

<b>Title:</b> Housing Revenue Account: Estimates and Review of Rents and Other Charges 2021/22	
<b>Report of the Cabinet Member for Regeneration and Social Housing</b>	
<b>Open Report</b>	<b>For decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
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<b>Summary</b> <p>The Council as a stock-owning local authority has an obligation to maintain a Housing Revenue Account (HRA). This is the income and expenditure relating to the management of the Council's housing stock and the Council is obliged to set a balanced budget.</p> <p>This is the second year in which the Council is able to increase rents since the Government imposed the 1% rent reduction policy on all providers of social housing from April 2016 for four years. It is proposed that rents increase by CPI + 1% from April 2021. This means an average increase of £1.44 per week, increasing the average HRA rent from £95.76 per week to £97.20 per week.</p> <p>This report considers the available HRA resources within the context of the wider 30-year Business Plan and proposes the budgets for 2021/22 for both revenue and capital expenditure.</p>	

## Recommendation(s)

The Cabinet is recommended to:

- (i) Agree that rents for all general needs secure, affordable and sheltered housing accommodation be increased by the Consumer Price Index (CPI) (September 2019) of 0.5% + 1%, from the current average of £95.76 per week to £97.20 per week;
- (ii) Agree the following service charges for tenants:

Service	Weekly Charge 2021/22	Increase / reduction
Grounds Maintenance	£2.93	£0
Caretaking	£7.65	£0
Cleaning	£3.68	£0
Estate Lighting	£3.94	£0.02
Concierge	£10.06	£0
CCTV (SAMS)	£6.17	£0
Safer Neighbourhood Charge	£0.52	£0.02
TV aerials	£0.62	£0

- (iii) Agree that charges for heating and hot water increase by CPI (September 2020), as follows:

Property size	Weekly Charge 2020/21	Weekly Charge 2021/22
Bedsit	£13.34	£13.41
1 bedroom	£14.16	£14.23
2 bedroom	£16.99	£17.07
3 bedroom	£17.30	£17.39
4 bedroom	£17.75	£17.84

- (iv) Agree that the above charges take effect from 1 April 2021;
- (v) Agree the HRA Investment in Existing Stock Capital Programme of circa £30.494m for 2021/22, together with the commitment of circa £6.06m for 2022/23 to enable My Place to commence design and procurement arrangements, as detailed in Appendix 5 and paragraph 4.4 of the report.

## Reason(s)

The recommendations in this report align to the Inclusive Growth theme of the Corporate Plan, in particular relating to improving the quality and management of homes. The Housing Revenue Account provides the financial resources for the housing services provided to council tenants as well as investment in council homes and estates.

The Council annually reviews housing rents and other and must give prior notification to tenants of the charges for be applied from the new financial year.

## **1. Introduction and background**

### **Legislative context**

- 1.1 The Local Government and Housing Act 1989 requires the Council to manage its housing stock, and to balance its accounts for the housing stock as a ring-fenced account. This means that the Housing Revenue Account (HRA) does not receive any subsidy from the Government, or from Council Tax, and nor is it allowed to subsidise the General Fund. The legislation sets out those items that can be charged to the HRA.
- 1.2 The Localism Act 2011 introduced a new method of managing the HRA called self-financing whereby in return for taking on a share of the national housing debt, local authorities could retain any rental surpluses, and manage their HRAs over a 30-year period. It is good practice therefore to maintain a 30-year Business Plan which projects the income that will be received alongside the expenditure required to manage and maintain the properties.

### **Policy context**

- 1.3 There have been a number of changes in the external environment over the last five years which have had an impact on the HRA Business Plan. The most significant of these was the one per cent rent reduction policy which was imposed through the Welfare Reform and Work Act 2016. This forced all providers of social housing to reduce rents by one per cent for four years from April 2016. This replaced the previous national rent policy of an increase of CPI plus one per cent for ten years, which had itself only come into force in April 2015. The cumulative impact of the rent reduction policy was a loss of approximately £34m of anticipated income over these four years. The compound impact of the rent reduction policy on the 30-year Business Plan is much larger, with a significant effect on the level of resources available within the HRA compared to income assumptions made before the policy came into force.
- 1.4 More recently, in October 2018 the Housing Revenue Account debt cap was removed. This had set a limit on the amount that local authorities could borrow within their HRAs regardless of the capacity to borrow. The removal of the debt cap gives local authorities more flexibility to use prudential borrowing as part of how they finance their HRA Business Plans, though increased borrowing will increase the revenue cost of interest payments. Authorities will also need to have assurance that any eventual debt repayments are sufficiently provided for.
- 1.5 In the Queen's Speech following the December 2019 election, the government re-announced its intention to pass a Building Safety Bill in this Parliament. In August 2020 a draft of the Building Safety Bill was published. This is currently subject to pre-legislative scrutiny and is expected to go through the parliamentary process in 2021 with full implementation likely the following year. Among other things, the Bill proposes the establishment of a Building Safety Regulator. A Fire Safety Bill is also going through the parliamentary process and this is expected to achieve Royal Assent shortly. The Fire Safety Bill contains a narrower set of changes, principally around Fire Risk Assessments. Officers are assessing the implications of both Bills so that the Council is able to respond accordingly.

1.6 Finally, in November 2020 the government published a social housing white paper entitled ‘*Charter for Social Housing Residents*’. This white paper focused on reforming the Regulator of Social Housing (RSH), empowering the regulator to be more proactive in ensuring landlords adhere to consumer standards. This includes creating a new arm to proactively regulate on consumer standards including housing quality, repairs, and resident engagement. The white paper proposes inspections of housing providers (including local authorities) and a review of the Decent Homes Standard. It is not yet clear when these proposals will become legislation/regulation, and it is likely that the government will carry out further consultation as part of refining their plans. Implications for the Housing Revenue Account will be considered as details emerge and reported in future Cabinet reports as appropriate.

## 2. Rents and Service Charges

### Rents

2.1 Rent increases for social housing are determined by government regulation. In October 2017 the government announced a new five-year rent policy from 1 April 2020 which would allow rents to be increased by CPI plus one percentage point. CPI is defined as the rate published by the Office for National Statistics in September of the preceding year. This rent policy was confirmed by the Regulator in October 2019 and the new confirmed Rent Standard was published. A link to the new Rent Standard is contained at the end of this report.

2.2 An increase of CPI + 1% from April 2021 would represent the following average increases:

- Average rent in 20/21: £95.76
- Average rent in 21/22: £97.15 per week £97.20

2.3 Overall this would be an average increase of £1.44 per week or £75 per year. The average increase by bed size is shown in the table below:

No of Bedrooms	20/21 Avg. Rent p.w.	21/22 Avg. Rent p.w with CPI +1%	Rent increase p.w.
0 to 1	£80.89	£82.10	£1.21
2	£96.44	£97.89	£1.45
3	£105.05	£106.63	£1.58
4	£132.44	£134.43	£1.99
5	£127.77	£129.69	£1.92
6	£140.20	£142.30	£2.10

- 2.4 Rental income represents the most significant source of income for the HRA. As well as rent policy, the amount of income generated from rents is clearly also affected by the number of homes held in the HRA. When the initial self-financing settlement was made, the Council had 18,894 homes. However, shortly after the self-financing settlement was made, the Government increased the discount on Right to Buy properties, which caused the numbers of sales to significantly increase. In the year before the change, 97 homes were sold under the RTB in 2012/13 and then after the change, this rose to 226 sales in 2013/14, and sales have continued at around this level since that date. There were 202 sales in 2018/19 and 181 in 2019/20.
- 2.5 A number of HRA properties are also in the process of being decommissioned ahead of demolition as part of estate renewal schemes. There are around 140 HRA properties in estate renewal schemes where the tenants have been rehoused and which are currently being used as temporary accommodation. These properties provide an income to Community Solutions as a management fee for managing the temporary accommodation for homeless households. This is a temporary arrangement as the buildings are all due for ultimate demolition. The loss of temporary accommodation when buildings are prepared for demolition can be partially offset by other accommodation in estate renewal schemes becoming available for temporary accommodation. Around 180 new build units for temporary accommodation will also be delivered through the Be First programme which will help to stabilise the number of Council-owned temporary accommodation over the longer-term.
- 2.6 The impact of the rent uplift is forecast to be a net increase in rent of £0.905m once stock adjustments are taken into account.

### **Service charges**

- 2.7 Tenant service charges are specific charges for services that some tenants receive and others do not. The list of charges which are identified separately are set out below. Landlords may not charge more than the actual cost of the service, plus a reasonable management fee. Not all tenants pay service charges. Around 10,000 do not pay service charges at all, due to the type of property that they occupy. The current and proposed charges are set out below:

<b>Service</b>	<b>Charges for 20/21</b>	<b>Proposed charges for 21/22</b>	<b>Increase/reduction</b>
Grounds Maintenance	£2.93	£2.93	£0
Caretaking	£7.65	£7.65	£0
Cleaning	£3.68	£3.68	£0
Estate Lighting	£3.92	£3.94	£0.02
Concierge	£10.06	£10.06	£0
CCTV (SAMS)	£6.17	£6.17	£0
Safer Neighbourhood Charge	£0.50	£0.52	£0.02
TV aerials	£0.62	£0.62	£0

- 2.8 The Council has a programme in place which has been reviewing the effectiveness of our services to tenants including caretaking and estate management in order to improve standards. Following the conclusion of the programme and successful

implementation of improvements we will carry out a full review of the costs of delivering these services and whether the full cost is being recovered through service charges. Since under recovery of charges means a financial loss to the HRA which has to be cross subsidised by other tenants who do not receive services it is our intention to move towards full cost recovery. However this will not be done until after the conclusion of the programme. Service charges for Caretaking, Cleaning, Grounds Maintenance and concierge services will therefore be maintained at current levels in 2021-22

- 2.9 The Safer Neighbourhoods charge recovers the cost of additional support from the Metropolitan Police to certain HRA estates and neighbourhoods. The charge from the police has risen slightly and this will be passed on to tenants as an increase of £0.02 per week.
- 2.10 The TV aerials contract is currently being re-procured and so the charge is being maintained at the same level. Charges for estate lighting and heating/hot water will be increased by CPI.
- 2.11 These charge increases are offset by cost increases and so there is no net financial benefit to the HRA.

#### Heating and Hot water charge

<b>Property size</b>	<b>Weekly Charge 2020/21</b>	<b>Weekly Charge 2021/22</b>
Bedsit	£13.34	£13.41
1 bedroom	£14.16	£14.23
2 bedroom	£16.99	£17.07
3 bedroom	£17.30	£17.39
4 bedroom	£17.75	£17.84

- 2.12 The small increases to the charges outlined above are matched by increases in costs of delivery and have no net benefit to the HRA.

#### **Housing Revenue Account Budgets**

- 2.13 The Management and Maintenance of the Council's housing stock is split between a number of service delivery agents. My Place provide landlord services, while functions such as the Housing Register and tenancy support are managed by Community Solutions. My Place also manage and supervise the Repairs and Maintenance service (including void repairs), which is delivered by BDMS.
- 2.14 During the period of four year rent reduction the Council reduced the budget for repairs and maintenance and did not provide any pay inflation for operatives. At a time of high cost rising for construction and related services this was not sustainable and resulted in significant overspends. It is proposed that this budget is increased to take account of these pressures. This has been assessed as an

increase of £4.245m. The HRA Repairs and Maintenance budget is a My Place commissioning budget, with My Place responsible for ensuring value for money from the repairs contract and continuing to improve the repairs service. This is an area of particular focus for My Place in 2021/22.

- 2.15 The increase in the Repairs and Maintenance budget has been offset by a close review of budgets within supervision and management which has identified some areas where budgets can be reduced. This means a net reduction in Supervision and Management budgets of £1.432m.
- 2.16 In addition there have been cost increases for insurance, business rates and council tax on empty properties.
- 2.17 The impact of Covid-19 has increased current arrears, and therefore the risk of bad debt. It is likely that the full bad debt provision will be needed in 2020/21 to manage this risk, though the Council's income team will continue to recover as much of the arrears as possible. As the impact of Covid will continue into 2021/22, a similarly prudent bad debt provision is proposed.
- 2.18 The HRA was previously holding significant reserves and capital receipts on which it attracted interest. However these balances have been used to fund the capital programme so the interest received has reduced.
- 2.19 The proposed HRA Budgets for 2020/2021 are set out below:

	<b>Cabinet</b>		<b>Revised</b>
	<b><u>2020/21</u></b>	<b><u>Changes</u></b>	<b><u>2021/22</u></b>
<b><u>Income</u></b>			
Dwelling Rents	(84,985,000)	(905,000)	<b>(85,890,000)</b>
Non Dwelling Rents	(770,000)	0	<b>(770,000)</b>
Charges for Services & Facilities	(20,497,000)	(83,700)	<b>(20,580,700)</b>
Interest & Investment Income	(350,000)	300,000	<b>(50,000)</b>
<b>Total Income</b>	<b>(106,602,000)</b>	<b>(688,700)</b>	<b>(107,290,700)</b>
<b><u>Expenditure</u></b>			
Repairs & Maintenance	14,219,000	4,245,000	<b>18,464,000</b>
Supervision & Management	45,054,000	(1,431,744)	<b>43,622,256</b>
Rent, Rates, Taxes and Other	357,000	65,500	<b>422,500</b>
Provision for Bad Debt	3,309,000	0	<b>3,309,000</b>
Interest Charges	10,742,000	0	<b>10,742,000</b>
Corporate & Democratic Core	685,000	0	<b>685,000</b>
<b>Total Expenditure</b>	<b>74,366,000</b>	<b>2,878,756</b>	<b>77,244,756</b>
<b>NET REVENUE SURPLUS</b>	<b>(32,236,000)</b>	<b>2,190,056</b>	<b>(30,045,944)</b>
Used to Fund Capital Programme – as follows			
Depreciation	15,860,200	1,018,786	<b>16,878,986</b>
Revenue Contribution to Capital	16,375,800	(3,208,842)	<b>13,166,958</b>
	<b>32,236,000</b>	<b>(2,190,056)</b>	<b>30,045,944</b>

### 3. HRA Capital Programme

- 3.1 The HRA capital programme is largely funded from the rent income paid by tenants. The Council is required to set aside money every year for 'Major Repairs' and may make additional revenue contributions above this. In addition, the Council may use some kinds of capital receipts and following the lifting of the Indebtedness Determination (the 'borrowing cap') may borrow in order to invest in its housing.
- 3.2 The main focus of HRA capital spend is on investment in the housing stock and estates, including achieving and maintaining the Decent Homes Standard and also communal and estate environmental works. In addition, there are Estate Renewal and New Build/Acquisition programmes. More information about these three programmes is given in the sections below.
- 3.3 The proposed Capital Programme for 2020/21 is summarised below:

#### **Draft Capital Programme**

##### Investment in Stock Programme:

Slippage from 20/21	15,356
Approved 21/22 Prog	10,700
New 21/22 Prog	4,438
Total Investment in Stock Programme	30,494
Estate Renewal	4,800
New Build	1,500
<b>TOTAL PROGRAMME</b>	<b>36,794</b>
Funded by:	
Revenue Surplus	-30,046
RtB Receipts	-450
Borrowing	-6,298
Interest Cost @ 3%	188.9

- 3.4 The cost of borrowing is estimated to be in the region of £0.189 a year based on an interest rate of 3%. Approximately half of this will be incurred in the first year.

### 4. Investment in Existing Stock

- 4.1 The main focus of HRA capital spend is on investment on the housing stock and estates. The stock investment programme is focused on the following five groups of types of works:
1. Internals (kitchens, bathrooms, boilers and rewire etc)
  2. Externals (roofs, windows, doors, rainwater goods etc)



3. Communal / Compliance (fire doors, lifts, communal boilers, lateral mains, water tank replacement, asbestos removal, door entry systems etc)
  4. Landlord Works (disabled adaptations, capital voids, energy efficiency)
  5. Estate Environmental Works (road surfaces, footpaths, garages etc)
- 4.2 The delivery of the 2020/21 stock investment programme has been impacted by Covid-19, and is currently forecast at £19.8m spend from a budget of £38m. Slippage of £15.4m of committed spend will be incurred in 2021/22. The residual £4m of works not yet committed will effectively be included for new works as part of the new 21/22 programme.
- 4.3 Cabinet also approved £10.7m of works for 2021/22 as part of the April 2020 HRA budget setting. This means that spend of £30.494m on existing stock is expected in the next financial year. It is anticipated that delivery of the stock investment programme in 2021/22 will still be impacted to some extent by Covid, and the proposed £30.494m budget has been set based on an assessment of what is deliverable in that context at the time of budget setting.
- 4.4 Cabinet are also asked to agree a further £6m of committed budget as part of the programme for 2022/23. This approval will give authorisation to My Place to start the design and procurement of these works against the agreed budget. Further information about the programme is set out in Appendix 5.
- 4.5 The stock investment programme hit its target of fewer than 10% of properties not meeting the Decent Homes Standard. Continuing to reduce this figure to zero so that all council homes are decent is a major aim of the stock investment programme.
- 4.6 The £30m funding allocation is net of leaseholder contributions. Where works are carried out that benefit leasehold properties the Council may recover the relevant proportion of cost from the leaseholders. This will be used to offset the overall cost of the programme.

## **5. Estate Regeneration**

- 5.1 The council has an long-standing estate renewal programme. The HRA Estate Regeneration budget funds mainly the costs of tenants and leaseholders' home loss and disturbance payments for those tenants and leaseholders who have to move as a result of the demolition of their homes. In addition, it funds the buyback of homes from leaseholders where these homes are going to be demolished. It has also funded the actual costs of demolition in some locations.
- 5.2 The current phase of the Estate Regeneration Programme – including the later phases of Gascoigne and schemes such as Roxwell Road and Oxlow Lane – requires a significant number of tenants to be rehoused and leaseholders to be bought back to enable the demolition of the existing estates and construction of new homes. Work is also currently underway to assess estates which could form part of a future estate renewal programme. Any such schemes will be required to demonstrate through rigorous options appraisal that investment in them will be of financial benefit to the HRA.

## **6. New Build programme**

- 6.1 The main approach to new build for the Council is through General Fund borrowing, with the homes built by Be First and ultimately managed by Reside. The intention is to invest most future RtB receipts in this programme. However there is an intention to fund a small new build programme through the HRA, primarily for specialist housing to support vulnerable residents. In November 2020 Cabinet approved new HRA specialist housing for the Brocklebank site, and these homes are expected to start on site in late 2021/22. Provision has been made for these new homes in the HRA.
- 6.2 The Housing Capital Programme will be funded through a combination of capital receipts, Revenue Contributions to Capital Outlay (RCCO), the Leasehold Reserve and borrowing. Not all of these funding sources can be used for all these expenditure items, and the funding will be appropriately profiled to the projects.

## **7. Consultation**

- 7.1 Consultation on the proposals in this report has taken place with the Leader, the Cabinet Member for Regeneration and Social Housing, and the Cabinet Member for Finance, Performance & Core Services.

## **8. Financial Implications**

Implications completed by Katherine Heffernan, Group Manager, Service Finance

- 8.1 The Council is required to maintain a specific ringfenced Housing Revenue Account for the management of its social housing properties. All expenditure on Social Housing must be fully funded from rental income with no call on general Council funds. The Council is also required to have business planning processes in place to ensure that the HRA remains sustainable over the longer term (thirty years.)
- 8.2 In the period immediately following the introduction of Self Financing in 2012, HRA finances were relatively buoyant especially when considered over the thirty years of the business plan. However, the four-year rent reduction and the “revitalization” of Right to Buy have both reduced the income achievable from the HRA.
- 8.3 The requirement to reduce rents has now ended and this report proposes that Council rents should increase by the maximum amount permitted which is 1.5%. This brings in £0.9m additional income to the HRA. However the HRA has overspend in the last two years on Repairs and Maintenance and it is prudent to plan for this level of expenditure. Although this can be offset by efficiencies and improvements in Supervision and Management there is a net increase in costs of £3.6m. The net revenue surplus is therefore £28.604m. This is a lower surplus than last year’s budget and results in less funding being available for capital. Although the HRA is now allowed to borrow to meet its capital requirements this does reduce the funding available over the 30 year business plan period.
- 8.4 In previous years despite the constraints in rental income the use of the built-up reserve of capital receipts enabled the Council to continue to invest in its Social Housing. This historic reserve is now mostly used up. The Council is able to make use of borrowing to fund capital expenditure and will do so for some elements of this

year's programme. The Housing Capital Programme will be funded through a combination of capital receipts, Revenue Contributions to Capital Outlay (RCCO), the Leasehold Reserve and borrowing. Not all of these funding sources can be used for all these expenditure items, and the funding will be appropriately profiled to the projects.

## **9. Legal Issues**

Implications completed by Dr Paul Feild, Senior Governance Solicitor

- 9.1 The basis for setting rent is Section 24 of the Housing Act 1985 which provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses.
- 9.2 Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit.

## **10. Other Implications**

- 10.1 **Equality implications** – the report proposes that rents are increased in line with government regulations. HRA rents remain low compared to market rents even following the proposed increase, and in general are around 35% of the borough's market rents. Rents for HRA properties can be fully covered by housing benefit/Universal Credit if needed. The rental increase is considered to be proportionate because rent is the main source of HRA income, and funds the services to council tenants as well as maintenance/investment in council stock.
- 10.2 **Risk Management** – There are a number of risks associated with the delivery of estate renewal projects. The recommendations in this report are designed to help ensure delivery of these projects.
- 10.3 **Safeguarding Adults and Children** – None directly arising from this report. Specific estate renewal proposals and rehousing programmes will need to take into account safeguarding considerations.
- 10.4 **Property / Asset Issues** – None directly arising from this report – specific estate renewal proposals will need to take into account relevant asset issues.

### **Public Background Papers Used in the Preparation of the Report:**

Rent Standard from April 2020 (Annexe 2 of linked document):

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/847359/Decision\\_Statement\\_Consultation\\_on\\_the\\_Rent\\_Standard\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/847359/Decision_Statement_Consultation_on_the_Rent_Standard_FINAL.pdf)

### **List of appendices:**

- Appendix 1 - HRA Working Balances
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- Appendix 3 - Budget assumptions
- Appendix 4 - HRA Budget Summary 2020/21
- Appendix 5 - HRA Investment in Existing Stock – 2019/20 to 2021/22