CABINET

21 February 2022

Title: Housing Revenue Account: Estimates and Review of Rents and Other Charges 2022/23	
Report of the Cabinet Member for Community Leadership & Engagement and Cabinet Member for Finance, Performance & Core Services	
Open Report	**For Decision**
Wards Affected: All	**Key Decision:** Yes
Report Authors: Katherine Heffernan, Head of Service Finance	**Contact Details:** katherine.heffernan@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	

Summary

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.
It is also a requirement to review housing rents and other charges annually and to give tenants prior notification of changes for the new financial year.

This is the third 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 2022 which is 4.1%. This means an average increase of £3.97 per week, increasing the average HRA rent from £97.00 per week to £100.97 per week.

This report also considers the available HRA resources within the context of the wider 30-year Business Plan and proposes the budgets for 2022/23 for both revenue and capital expenditure.

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 2021) of 3.1% + 1% = 4.1%, from the current average of £97.00 per week to £100.97 per week;

(ii) Agree the following service charges for tenants:

Service	Weekly Charge 2022/23	Increase / reduction
Grounds Maintenance	£2.93	£0
Caretaking	£7.65	£0
Cleaning	£3.68	£0
Estate Lighting	£3.94	£0
Concierge	£10.06	£0
CCTV (SAMS)	£6.17	£0
Safer Neighbourhood Charge	£0.52	£0
TV aerials	£0.62	£0

(iii) Agree that charges for heating and hot water increase by 7.1% in anticipation of fuel cost increases, as follows:

Property size	Weekly Charge 2021/22	Weekly Charge 2022/23
Bedsit	£13.41	£14.36
1 bedroom	£14.23	£15.24
2 bedroom	£17.07	£18.28
3 bedroom	£17.39	£18.62
4 bedroom	£17.84	£19.11

(iv) Note that water and sewage charges will be increased by the provider by an average change of 10.2% for water and 3.1% for sewage, making a combined change of 8.9%;

(v) Agree that the above charges take effect from 1 April 2022;

(vi) Agree the proposed HRA budget for 2022-23 as set out in paragraphs 2.13 to 2.18 of the report, and

(vii) Agree the Investment in Existing Stock programme and the HRA Capital Programme for 2022/23, as set out in sections 3 to 6 of the report.

Reason(s)

The Council as a stock-owning local authority has an obligation to maintain a Housing Revenue Account (HRA) and to set a balanced budget for the management and maintenance of its housing stock.

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 The Building Safety Bill is currently progressing through Parliament, and is expected to become law later in 2022, with full implementation the following year. Among other things, the Bill will establish a new Building Safety Regulator, which will oversee building owners of high-rise buildings carrying out their building safety responsibilities. The Council has been assessing the implications of the Building Safety Bill since the first draft of the Bill was published. The financial implications of new requirements relating to Housing Revenue Account Spend will be assessed once more detail is known.

1.6 A Social Housing Regulation Bill is now expected to be published in the coming months. This is expected to bring forward measures that were initially set out in the November 2020 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. 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 2022 would represent the following average increases:

- Average rent in 21/22: £97.00 per week
- Average rent in 22/23: £100.97 per week

2.3 Overall this would be an average increase of £3.97 per week or £2,068.04 per year. The average increase by bed size is shown in the table below:

No of Bedrooms	21/22 Avg. Rent	22/23 Avg. Rent p.w with CPI +1%	Rent increase p.w.
0	£73.78	£76.80	£3.02
1	£81.54	£84.89	£3.34
2	£97.51	£101.50	£4.00
3	£106.83	£111.21	£4.38
4	£115.63	£120.37	£4.74
5	£116.78	£121.57	£4.79
6	£142.26	£148.09	£5.83

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 a higher rate since although the impact of Covid has led to a slowdown in the last two years. The estimated number of sales is now 150 to 180 a year.

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. In addition around 550 units of general stock have been demolished or removed from being available for rent.

2.6 The impact of the rent uplift is forecast to be a net increase in rent of £1.372m 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:

Service	Proposed charges for 22/23	Increase/ reduction
Grounds Maintenance	£2.93	£0
Caretaking	£7.65	£0
Cleaning	£3.68	£0
Estate Lighting	£3.94	£0
Concierge	£10.06	£0
CCTV (SAMS)	£6.17	£0
Safer Neighbourhood Charge	£0.52	£0
TV aerials	£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 2022-23. It should be noted that the reduction in stock will also reduce the total service charge income raised from tenants.

2.9 The Safer Neighbourhoods charge recovers the cost of additional support from the Metropolitan Police to certain HRA estates and neighbourhoods. The cost of the service is now £533k for nine staff and is recovered from tenants and leaseholders in those areas.

2.10 The TV aerials contract is currently being re-procured and so the charge is being maintained at the same level. Charges for heating/hot water will be increased by 7.1% in anticipation of expected increases in cost while water and sewage charges will be increased in line with the charges by the provider.

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

Property size	Weekly Charge 2021/22	Weekly Charge 2022/23
Bedsit	£13.41	£14.36
1 bedroom	£14.23	£15.24
2 bedroom	£17.07	£18.28
3 bedroom	£17.39	£18.62
4 bedroom	£17.84	£19.11

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. The budget was therefore significantly increased in 2021-22 and it is proposed that there should be a further increase of around 2% (£287k) to cover further cost increases including operatives' pay. 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 2022/23.

2.15 The increase in the Repairs and Maintenance budget has been offset by a close review of budgets within supervision and management. Last year this led to the identification of some areas where budgets could be reduced by £1.432m. This year it is proposed that cost increases should be partly offset by efficiencies and a reduced recharge from the General Fund resulting in a below inflation increase of £114k.

2.16 It is proposed to create an HRA contribution towards the assessment and administration of Disabled Adaptations for HRA tenants. 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 there is the risk of ongoing economic effects, and therefore the risk of bad debt. In addition, the "cost of living crisis" may make it more difficult for some tenants to manage their finances. It is likely that the full bad debt provision will be needed in 2022/23 to manage this risk, though the Council's income team will continue to recover as much of the arrears as possible.

2.18 The processes for charging leaseholders for major repairs have been strengthened and an income line for this has been built into the budget. This is offset by a transfer to reserves/capital programme so has no net impact on the overall position. The proposed HRA Budgets for 2022/23 are set out below. There is a net increase in the revenue surplus of £0.7m.

HOUSING REVENUE ACCOUNT BUDGET	CABINET 2021/22 BUDGET	CHANGE	PROPOSED 2022/23 BUDGET	% Change
Income				
Dwelling Rents	(£86,882,000)	(£1,372,553)	(£88,254,553)	2%
Non Dwelling Rents	(£770,000)	£0	(£770,000)	0%
Charges for Services & Facilities	(£20,580,700)	(£1,467,298)	(£22,047,998)	7%
Interest & Investment Income	(£50,000)	(£248,672)	(£298,672)	497%
Total Income	**(£108,282,700)**	**(£3,088,523)**	**(£111,371,223)**	**3%**
Expenditure				
Repairs & Maintenance	18,564,000	£287,284	£18,851,284	2%
Supervision & Management	44,514,256	£113,512	£44,627,768	0.3%
Rents, Rates, Taxes & Other	422,500	£527,178	£949,678	125%
Interest Charges	10,742,000	£201,624	£10,943,624	2%
Provision for Bad Debt	3,309,000	£0	£3,309,000	0%
Leaseholder Provision for Major Works	£0	£1,280,574	£1,280,574	100%
Corporate & Democratic Core	685,000	£0	£685,000	0%
Total Expenditure	**78,236,756**	**2,410,172**	**80,646,928**	**3%**
NET REVENUE SURPLUS	**(£30,045,944)**	**(£678,351)**	**(£30,724,295)**	**2.3%**
Used to Fund Capital Programme - as follows				
Depreciation	16,878,986	£209,042	£17,088,028	1%
Revenue Contribution to Capital Outlay (RCCO)	13,166,958	£469,309	£13,636,267	4%
	30,045,944	**678,351**	**30,724,295**	**2.3%**

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.

4. Investment in Existing Stock

4.1 The main focus of HRA capital spend is on investment on the housing stock and estates. It is proposed that a three year programme should be approved for 22/23 to 24/25 rather than just a one year approval. In term this would allow longer term contracts to be let to the Council's delivery agents and improve scheduling and reduce the risk of slippage and delays. A £60m investment programme is recommended as set out below. This includes all the major elements that our data tells us is required (with peaks and troughs smoothed out) and a contingency for in-year or new projects to emerge.

Stock Investment - Programme Headings	**Projects Elements**	**3-year funding (2022-2025)**
Internal works	Replacement kitchens, bathrooms & heating systems	£6.5m
External works	Replacement roofs, windows and external repairs (includes leaseholder consultation)	£22m
Communal / compliance works	Fire safety works, asbestos removals, lifts, communal boilers, communal area redecoration etc (includes leaseholder consultation)	£17.5m
Landlord works	Capital voids, disabled adaptations (led of Adult Social Care), in-year contingency	£10.5m
Estate Environmental works	Estate road resurfacing and footpaths	£3m

4.2 The delivery of the 2021/22 stock investment programme has been impacted by Covid-19 and is currently forecast at £24m spend from a budget of £35m. Some of these works may be rolled into the three-year programme but there may also be some slippage.

4.3 In addition, HRA contributions will be expected to the Energy Improvement programmes and also to the upgrade of the Careline system for the Sheltered HRA blocks and other properties occupied by vulnerable tenants. A £5m budget for Energy Improvement is initially requested but this will be subject to further refinement. The Careline upgrade will depend on the number of properties but will be in the region of £0.5m.

4.4 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 and New Build

5.1 The Council has a 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.

5.3 The budget in 2021-22 is £5.9m but accelerated spend has increased this to £8.8m. A further £8.8m is requested for 2022-23.

5.4 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. 2022/23 Capital Programme

6.1 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.

6.2 The proposed Capital Programme for 2022/23 is summarised below:

Draft Capital Programme	£000
Investment in Stock Programme:	
Estimated Slippage from 21/22	10,000
New Programme Year One (estimated)	20,000
Energy Improvements	5,000
Careline Upgrade	500
Total Investment in Stock Programme	35,500
Estate Renewal	8,800
New Build	2,200
TOTAL PROGRAMME	**46,500**

Funded by:	
Revenue Surplus	-30,724
Leaseholder Contributions (est)	-1,000
Borrowing	-14,776
Interest Cost @ 3%	-443.3

6.3 The cost of borrowing is estimated to be in the region of £0.443m a year based on an interest rate of 3%. Approximately half of this will be incurred in the first year.

7. Consultation

7.1 Consultation on the proposals in this report has taken place with the Leader, the Cabinet Member for Community Leadership & Engagement, and the Cabinet Member for Finance, Performance & Core Services.

8. Financial Implications

Implications completed by Katherine Heffernan, Head of 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. In addition, this Council has made decisions about estate renewal that have reduced the dwelling stock this year as some properties that no longer meet local needs have been or will shortly be demolished to allow new build and regeneration.

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 4.1%. This would bring in £3.4m additional income to the HRA if stock levels remained the same. Once demolitions and right to buy are taken into account there is a net increase of £1.37m. The expenditure budgets have been reviewed and increases have been kept as low as possible resulting in a net increase in HRA surpluses of £0.678m. This will be used to fund the capital programme.

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 the 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 As set out in the report the Local Government and Housing Act 1989 created a separate ringfenced financial regime for housing (the Housing Revenue Account - HRA) which required that the Council's General Fund should not be used to subsidise public housing. Funds should not be transferred from the General Fund to the HRA or vice versa, this is what is meant by "ringfencing". The implication being that the housing revenue fund should be self-financing and subsequent legislation is that it should be managed so as to be sustainable for 30 years.

9.2 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.

9.3 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 the capital programme and especially the 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

List of appendices: None