

9 February 2022		ITEM: 13 Decision: 110602
Cabinet		
Housing Revenue Account – Rent Setting and Budgets 2022/23		
Wards and communities affected: All	Key Decision: Key	
Report of: Cllr Luke Spillman – Portfolio Holder for Housing		
Accountable Assistant Directors: Ewelina Sorbjan – Assistant Director for Housing, Jonathan Wilson – Assistant Director for Finance		
Accountable Directors: Ian Wake – Corporate Director of Adults, Housing and Health, Sean Clark – Corporate Director of Resources and Place Delivery		
This report is public		

Executive Summary

This report sets out the base budget position for 2022/23 following the review and update of the 30 year Housing Revenue Account (HRA) Business Plan. The Business Plan is a statutory requirement used to assess the ongoing financial viability of the HRA and its ability to deliver the Council's housing priorities.

The Business Plan considers whether the revenue streams from all sources (principally rents and service charges) are sufficient to finance anticipated expenditure on housing stock (both revenue and capital), service delivery, debt management cost and recharges.

Local authorities and registered providers have the ability to increase social and affordable rents in line with the Governments policy statement on Rents for Social Housing 2018. This report sets out the proposed rent increase for 2022/23 and the impact on the HRA. In brief, this uses the formula of the September 2021 CPI rate of inflation (3.1 per cent) plus 1 per cent. This equates to a maximum level of increase applicable to a dwelling of 4.1 per cent. This provides the resources to meet the projected increase in cost demands in order maintain the service provision.

The Transforming Homes programme, which is intrinsically linked to the stock condition survey has identified the investment required annually across the life of the 30 year Business Plan. Delivery of these works will ensure properties reach and are maintained to the decent homes standard. Specific capital investment in certain types of dwellings is also needed, namely non-traditional properties. This encompasses internal and external features of residential units (general needs and

sheltered) as well as other assets such as communal hallways, parking areas, and garages. The medium term forecast is shown in Table 5 of this report.

Table 5 also shows the additional planned investment into the stock, as well as works needed to comply with carbon reduction legislation.

The Housing service is focussed on ensuring that the HRA remains financially sustainable, and that the right priorities are set for capital expenditure to ensure residents have safe and secure accommodation maintained to a good standard of repair.

The proposed changes to rents and service charges are essential to ensure the level of investment identified in the business plan can be fulfilled and the HRA properties are provided to a standard that primarily meets the needs of residents, whilst also delivering the statutory responsibilities of the Council.

1. Recommendation(s):

- 1.1 That Cabinet supports the proposed changes in the base budget for 2022/23 (as set out in Table 1).**
- 1.2 That the Cabinet supports, in line with the 30-year HRA business plan, the proposed increase in domestic rent of 4.1% with effect from 4 April 2022.**
- 1.3 That the Cabinet support the proposed increase in service charges to reflect the costs of running each service, in line with the budget estimate from 4 April 2022 (as detailed in Table 4).**
- 1.4 That the Cabinet supports the proposed increase in garage rents (para 3.9), to be implemented from 4 April 2022.**
- 1.5 That the Cabinet supports the proposed increase in Travellers sites rent (para 3.10) to be implemented from 4 April 2022.**

2. Introduction and Background

- 2.1** The proposed Housing Revenue Account budget for 2022/23 is summarised below, and has been set in accordance with the revised 30 Year HRA Business Plan. This takes into account the long term strategy and financial viability of the service. The Business Plan sets out how the Council will finance the delivery of services within HRA over the next 30 years.
- 2.2** Table 1 shows the main areas of service delivery within the HRA budget.

Table 1: Provisional 2022/23 budget summary

	2021/22 Revised Budget	Rent Income	Inflation	Bad Debt Provision	Disabled Adaptations	Capital Financing	2022/23 Base Budget	Budget Movement
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Rent and Income	(50,272)	(1,845)	0	100	0	0	(52,017)	(1,745)
Development	228	0	26	0	0	0	254	26
Financing and Recharges	24,188	0	3	0	100	167	24,458	270
Operational Activities	13,566	0	847	0	0	0	14,412	847
Repairs and Maintenance	12,291	0	602	0	0	0	12,893	602
Grand Total	0	(1,845)	1,478	100	100	167	0	0

- 2.3 Income raised through tenants' rents and service charges is ring-fenced, and cannot be used to fund expenditure outside of the HRA.
- 2.4 By applying the full 4.1% rent increase, the HRA will generate additional revenue of £1.845m. This additional resource is required to finance increased costs in the existing level of services, and to provide further mitigation against bad debt and tenants rent arrears. This will also allow the service to maintain its investment commitment to the HRA Capital Programme and ensure the Council complies with all of its statutory duties. Further investment will be made in disabled adaptations to assist tenants to remain living independently within their own home
- 2.5 Allowance for inflation in external contracts (including increases in national insurance and the national living wage), utilities and supplies and services has been set at 4.9% in line with inflation (RPI). An allowance has also been made for pay inflation, based on the Council's current estimate and changes in national insurance legislation coming into effect next financial year.

3. Issues, Options and Analysis of Options

Rent and Service Charges

- 3.1 The proposed rent increase has been carefully considered, and a significant factor is the need for the HRA business plan to be financially sustainable and recover its level of resources following rent reductions between 2016/17 and 2019/20. In order to maintain financial viability, the full level of rent increase, in line with guidance, will need to be applied.
- 3.2 The majority of properties within the HRA are charged at social rent. However, there are also a small proportion of newly developed units which are based on an affordable rent level (meaning it cannot exceed 80% of the equivalent market rent). This ensures these properties generate sufficient revenue to offset their ongoing associated costs without a wider impact financial on the HRA.

- 3.3 Based on the overall average of the stock, the impact on properties based on the average rent per number of bedrooms this is shown in Table 2 below:

Table 2: Social Rent properties

Number of Dwellings by Bedroom	Number of Properties	Average 2021/22 Actual Rent	Average CPI +1% uplift 2022/23	Average 2022/23 Actual Rent	2022/23 Annual Rent Yield £000's
0	240	£ 61.78	£ 2.53	£ 64.31	£ 802.55
1	2768	£ 74.17	£ 3.03	£ 77.21	£ 11,112.83
2	2169	£ 81.17	£ 3.32	£ 84.49	£ 9,529.54
3	4114	£ 100.82	£ 4.13	£ 104.95	£ 22,452.35
4	239	£ 113.11	£ 4.61	£ 117.71	£ 1,462.95
5	11	£ 130.15	£ 5.09	£ 135.24	£ 77.36
6	2	£ 123.13	£ 5.05	£ 128.18	£ 13.33
Total / Average	9,543	£ 87.99	£ 3.60	£ 91.59	£ 45,450.90

Affordable Rents

- 3.4 The rent setting process for the existing affordable rent properties will follow the same guidance as applied to the properties within the HRA that are charged a social rent. The Council has ensured that no rent exceeds the Local Housing Allowance level. The impact of a CPI + 1% rent increase is shown in Table 3 below:

Table 3: Affordable Rent properties

Number of Dwellings by Bedroom	Number of Properties	Average 2021/22 Actual Rent	Average CPI +1% uplift 2022/23	Average 2022/23 Actual Rent	2022/23 Annual Rent Yield £000's
1	49	£133.61	£ 5.48	£139.09	£ 354.39
2	92	£157.72	£ 6.47	£164.19	£ 785.47
3	31	£193.93	£ 7.95	£201.89	£ 325.44
Total / Average	172	£157.38	£ 6.45	£163.83	£ 1,465.30

- 3.5 The definition of rent for affordable housing (inclusive of service charges) must not exceed 80% of gross market rent. Gross market rent means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.

Service Charges

- 3.6 In order to ensure that the HRA recovers the cost of providing services to tenants which are specific to their tenancies, an increase to the current charge will need to be applied in accordance with Table 4 below.

Table 4: Increases to service charges in line with increased costs

Service	2021/22 Weekly Charge (50 Weeks)		2022/23 Weekly Charge (50 weeks)	
	£		£	
Lift Maintenance	£	3.31	£	3.47
Door Entry	£	3.49	£	3.66
Communal Electricity	£	1.55	£	1.63
Bruyns Court Electricity	£	3.49	£	3.66
Caretaking	£	0.62	£	0.66
Caretaking	£	2.86	£	3.05
Caretaking	£	8.11	£	8.64
Caretaking	£	9.51	£	10.13
Caretaking	£	12.46	£	13.27
Caretaking	£	13.51	£	14.39
Caretaking	£	14.92	£	15.89
Caretaking - Bruyns court	£	14.72	£	15.67
Caretaking - Heathlyn Close	£	7.81	£	8.64
Concierge	£	34.25	£	36.37
Concierge - Piggs Corner	£	36.93	£	39.22
Sheltered Housing Service	£	10.35	£	11.04
Heating - Sheltered Complex	£	6.04	£	6.34
Heating - Helford Court	£	9.63	£	10.10
SCH	£	28.59	£	30.00
Emergency Lighting	£	0.19	£	0.20
Enhanced Tenancy Management	£	42.61	£	44.70

- 3.7 Service charges are not subject to the prescribed rental increase of CPI + 1%, but are based on full cost recovery. For 2022/23, service charge costs will increase in line with the overall cost of inflation (as stated in para 2.5). The estimates, shown in Table 4, are based on the projected budgeted costs for 2022/23.

Furthermore, following a review of the charges, there is a disparity between the level of the current charge and the cost of the service provision. This will need to be taken into account in future service charge considerations in order to ensure that the costs are fully recovered. As the forecast inflationary costs pressures are currently at the level they are, it has been decided to defer any additional increases until future years.

The charges proposed for 2022/23 will ensure that the increase in costs for the next financial year are addressed but does not make the services cost neutral.

Tenants Engagement

- 3.8 An online engagement platform was provided for tenants to illustrate what any rent increase may mean for each tenant, and the impact for the Housing service overall. The platform also provided an opportunity for tenants to highlight their priorities for service delivery for the 2022/23 financial year.

In addition, a series of face-to-face engagement sessions were held between 6 and 9 December in locations across the borough.

A total of 145 visits were made to the online portal. Of those which completed the survey, 55% agreed with the Council increasing rent levels in 2022/23

When asked to prioritise the areas which tenants feel the Housing department should focus on providing in the 2022/23 financial year, the highest priority areas were delivering planned maintenance and responsive repairs to properties, followed by delivering major works to homes through new kitchens, bathrooms and windows. These priorities were also reflected in the additional comments which were left by respondents. This will be addressed through the additional resources generated by a rent increase, allowing the service to continue to investment through both the revenue repairs and maintenance contracts, as well as the delivery of the 5 year capital programme set out in Table 5.

Garage Rents

- 3.9 The current weekly charges for garage rent for council residents is £10.70 per week. It is recommended that these charges are increased in 2022/23 to £11.10, to ensure that there is a sufficient level of income to support the provision of garages within the HRA.

Travellers' sites

- 3.10 The current weekly charge for rent on travellers' sites plots is £88.01 per week. In order to meet the cost of price inflation, it is proposed to increase this charges in line with dwelling rents by 4.10% to £91.62.

Capital Programme and Priorities

- 3.11 The medium term (next five years) review of the capital investment requirement into existing stock is shown in Table 5 below:

Table 5 – Five Year HRA Capital Programme

Investment in Existing Stock	2022/23	2023/24	2024/25	2025/26	2026/27
	Base Budget	Base Budget	Base Budget	Base Budget	Base Budget
	£'000	£'000	£'000	£'000	£'000
Transforming Homes	10,300	10,300	10,300	10,300	10,300
Major Adaptations	200	200	200	200	200
Fire Safety Works	1,000	1,000	1,000	1,000	1,000
Tower Block Refurbishment	8,137	-	-	-	-
Carbon Reduction Requirements (Tower blocks)	4,700	-	2,250	2,750	5,500
Non Traditional Refurbishment	3,500	-	-	-	-
HRA Garages	500	500	500	500	500
Heating Replacement Programme	600	600	600	600	600
Lifts Refurbishment	190	190	190	190	190
Door Entry Installation	500	500	500	500	500
Water Mains	160	160	160	160	160
Staffing Costs Capital Programme	160	160	160	160	160
Highways and Lighting	400	400	300	300	300
Carbon Reduction Requirements External	300	2,000	2,000	2,000	1,954
Electrical infrastructure Testing - Check Revenue implications	500	250	250	0	0
Total Capital Programme	31,147	16,260	18,410	18,660	21,364
<i>Financed By:</i>					
RCCO	(10,790)	(11,046)	(11,307)	(11,574)	(11,847)
Borrowing Requirement	20,357	5,214	7,103	7,086	9,517
Borrowing Cost @ 2.2% interest	448	115	156	156	209
Cumulative Interest Cost	840	955	1,111	1,267	1,476

3.12 Through the use of prudential borrowing and revenue contributions, the HRA is able to finance the cost of the proposed five year capital programme. This will ensure that the Council is able meet the cost of existing statutory compliance works, continue with the transforming homes programme as well as implementing the regulations set out in the Building Safety bill.

3.13 As shown in the Table 1, £0.167m of the additional borrowing generated through a proposed rent increase will be used to support the borrowing requirement. The inflationary cost impact of any capital works remains a significant risk to delivery at present, and this will be closely monitored throughout the year.

3.14 It is essential the identified works are completed within the medium term, and the funding identified within the budget is used to finance the prudential borrowing costs, and is not used to mitigate any other cost pressures, or subsidise rents. The maximum number of tenants will receive a tangible benefit from investment to the existing HRA dwellings, as well as there being a financial benefit to the business plan by reducing the level of voids, re-let times, and increased long term sustainability.

- 3.15 A strategic decision has been taken to address the carbon reduction need as part of the medium term capital programme. This will ensure a greater financial viability benefit in the long, as well as contributing to a safer environment for residents. External government grant funding is being sought to support the implementation of these initiatives.

4 HRA – Increases to stock provision

- 4.1 The housing developments at Tops Club, Claudian Way and Calcutta Road have been completed. This has provided essential additional dwelling capacity to the HRA.
- 4.2 In addition, the HRA is forecast to acquire 113 additional properties through the utilisation of its retained right to buy receipts in 2021/22. This has meant that the Council has fully utilised its RTB receipts which would otherwise have expired at the end of 2022/23, and would have been returned to central government and incur associated interest premiums. This has been a successfully delivered targeted project, and has ensured that the HRA maximised the resources available.
- 4.3 The Council has a clear ambition to deliver new, quality social housing. Through a combination of prudential borrowing, the application of Right to buy one for one capital receipts and Homes England grant funding, construction of new housing is financially viable and achievable while also capping rents at an upper limit equal to the Local Housing Allowance. Further development sites continue to be identified, and will come forward to Housing Overview and Scrutiny Committee through the Housing Development Update reports and the new approach to engage with Councillors through a Project Review Group involving the Portfolio Holder for Housing, the Chair of the Housing Overview and Scrutiny Committee and Ward Councillors.
- 4.4 The proposal is that rents on new build and acquired properties will be set at a level using the formula of 70% of the LHA rate + £1,000 per annum. This, therefore, is lower than 80% of market rent upper limit that the HRA can apply under the definition of affordable housing.

5 Reserves

- 5.1 The estimated level of useable reserve for 2022/23 are detailed in Table 6 below. Funding within the development reserve is earmarked against the cost of the HRA new building programme, and the housing zones funding supports the development of identified sites for regeneration of additional housing.
- 5.2 The HRA is required to maintain a level of general balances, which currently amounts to £2.175m. This balance will be maintained in the current financial year, and will be assessed on an annual basis to ensure that it remains sufficient. In addition, there is £1.659m within the financial contingency reserve. As the HRA moves toward a more ambitious capital and

development programme, it is essential that this is maintained to add further resilience to the business plan.

Table 6: Reserves

	2022/23 Projected Opening Balance
<u>General Reserves</u>	
HRA Minimum Balances	(2,175,000)
Financial Contingency Reserve	(1,659,280)
HRA De-cant Reserve	(2,588,868)
<u>Ear-marked reserves to support capital</u>	
Housing Zones Funding (HRA)	(1,274,363)
Capital Reserve - Existing Stock (HRA)	(743,691)
Development Reserve	(2,746,389)

6. Reasons for Recommendation

- 6.1 The report sets out the 2022/23 HRA budget implications following the update of the HRA business plan. The proposals put forward have been calculated and assessed in terms of affordability. It is a legal and operational requirement that a balanced budget is set for the HRA.

7. Consultation

- 7.1 The engagement with tenants is set out in Para 3.8.
- 7.2 The Housing Overview and Scrutiny Committee were presented with the report on 11 January 2022.

8. Impact on corporate policies, priorities, performance and community impact

- 8.1 The management and operation of the HRA strives to support vulnerable residents. The 30 year business plan sets out to ensure there is value for money within the Housing Service. The service is committed to the delivery of decent homes for its tenants, and compliance with legislation.

9. Implications

- 9.1 **Financial**

Implications verified by: **Jonathan Wilson**
Assistant Director - Corporate Finance

Financial implications are set out in the body of the report.

9.2 **Legal**

Implications verified by: **Gina Clarke**
**Corporate Governance Lawyer & Deputy
Monitoring Officer**

Section 76 of the Local Government and Housing Act 1989 imposes a duty on local housing authorities to prevent debit balances arising in their Housing Revenue Account (“the HRA”). The HRA is a record of revenue expenditure and income in relation to an authority’s own housing stock.

The principal statutory provision governing the fixing of rent for Council property is contained in section 24 of the Housing Act 1985, which provides that authorities may “make such reasonable charges...as they may determine.” Further, it requires the local authority, from time to time, to review rents and other charges and make such changes, as circumstances may require.

In exercising its functions under this section, the Council is required to have regard to any relevant standards issued under section 197 of the Housing and Regeneration Act 2008. The Council is required to set and increase rent in accordance with the Rent Standard 2020 issued by the Social Housing Regulator.

The 2020 Standard sets out the formula to be applied to social and affordable rents for existing tenants, to fair rents and for tenants moving between different types of rent. To ensure that providers of social housing use the correct annual percentage increase to set rent, the government has issued a limit on annual rent increases for 2022/23 of 4.1%.

The Council’s duties in relation to the consultation of tenants on matters of housing management, as set out in section 105 of the Act, do not apply to rent setting, nor to charges for services or facilities provided by the Council. However the Council has consulted with the tenants before seeking to change rent and other charges. The main body of the report indicates that tenants been consulted.

Section 103 of the Housing Act 1985 require the Council to serve a notice of variation on its tenants if it wishes to vary the terms of tenancies. The notice of variation must be served at least four weeks before it is to take effect. Section 103(2) requires a preliminary notice to be served on tenants which gives tenants the opportunity to comment. However, this requirement does not apply to a variation of the rent, or of payments in respect of services or facilities provided by the landlord. Further to the extent that the variation of the

terms of tenancies relates to rent or to payments in respect of services provided by the council as landlord; the variation must be in accordance with any provision in the agreement creating the tenancy.

In considering whether to agree the recommendations set out in the report the Cabinet must ensure that it has due regard to the council's equalities duties set out in the Equalities Act 2010. In particular whether the proposed increase in rent and charges will have a negative impact of any of the equality groups protected by the 2010 Act and what steps can be taken to mitigate any disadvantage.

9.3 **Diversity and Equality**

Implications verified by: **Roxanne Scanlon**
Community Engagement and Project
Monitoring Officer

The Council's Housing Revenue Account works to reflect the Council's policy in relation to the provision of social housing with particular regard to the use of its own stock. In addition to the provision of general housing, it incorporates a number of budgetary provisions aimed at providing assistance to disadvantaged groups. This included adaptations to the stock for residents with disabilities.

9.4 **Other implications** (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, Impact on Looked After Children

None

10. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

None

11. **Appendices to the report:**

None

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