

**Name of meeting:** CABINET  
**Date:** 17 January 2017

**Title of report:** Housing Revenue Account (HRA) rent and service charge setting report and key housing challenges

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Is it in the <a href="#">Council's Forward Plan</a> ?	Yes
Is it eligible for "call in" by <a href="#">Scrutiny</a> ?	Yes
Date signed off by <u>Director</u> & name	Jacqui Gedman – 9 January 2017
Is it signed off by the Director of Resources?	Debbie Hogg – 5 January 2017
Is it signed off by the Assistant Director - Legal Governance and Monitoring	Julie Muscroft – 6 January 2017
Cabinet member <a href="#">portfolio</a>	Cllr Naheed Mather Housing and Enforcement Management

Electoral [wards](#) affected: All

Ward councillors consulted: None

Public or private: PUBLIC

## 1. Purpose of report

- 1.1 To seek Member approval for a 1% reduction in dwellings rents in 2017/18 and for the proposed garage rents annual uplift of 2% in 2017/18 and similar for service and other charges with the exception of Extra Care services which have a proposed annual uplift of 2.58%.
- 1.2 To provide context in terms of the key challenges facing housing including the 1% rent reduction.
- 1.3 To set out the full schedule of proposed weekly dwelling rent, service and other charge increases to Council tenants for 2017/18, noting that these will be calculated on a basis that matches the billing periods to the number of weeks in the year (i.e. 52 weeks for 2017/18) - Appendix 1.

## 2. Context

- 2.1 This report provides the financial context and basis for the annual setting of rents and service charges as well as for the HRA budget which will be considered by Council in February 2017.
- 2.2 The Government has confirmed it has clear expectations of a revised national rent setting policy. The expectation is that Councils will implement a 1% reduction in rents for 4 years from April 2016.
- 2.3 HRA self-financing was implemented in April 2012. National government rent policy at that time allowed for annual rent uplifts at Consumer Price Index +1%; longer term outlook for tenants was a financially viable HRA which would enable the Council and its key ALMO partner to :
- Service HRA debt
  - Maintain current stock at decency standard over the long term
  - Provide a high quality housing management & housing repair service
  - Explore opportunities for additional strategic investment e.g. New Build.
- 2.4 In July 2015 the government introduced new rent setting measures under the Welfare Reform and Work Act 2016, for social housing landlords to reduce the rent payable by tenants by 1% each year between April 2016 and April 2019. As a result a fundamental review of the HRA commenced last year with HRA planning now focussing on year two of the 4 year reduction. The implications for the HRA linked to the 4 year rent reduction policy are summarised below.
- The HRA is a ring-fenced account. It has to live within its means. Its main income source is rents.
  - Future year HRA rental income forecasts prior to the July 2015 government announcement had assumed annual rent uplifts based on CPI +1%. These forecasts have now been re-cast in light of the 1% rent reduction announcement.
  - This change in government rent policy has significant financial implications for the HRA. This is set out in a simple table below :

Financial year	Annual rent forecasts before the 1% rent reduction announcement	Annual rent forecasts after the 1% rent reduction announcement	Annual HRA rental income loss
2016-17	£84.4m	£82.8m	-£1.6m
2017-18	£85.9m	£81.7m	-£4.2m
2018-19	£87.8m	£80.6m	-£7.1m
2019-20	£90.0m	£79.5m	-£10.5m

- 2.5 In addition to the rent reduction policy a number of key policy announcements have been made following the enactment of the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. The implications of the new legislation have been included within the 30 year financial modelling for the HRA and are summarised below in section 3. A key objective is to deliver a balanced 30 year HRA business plan. The budget proposals for 2017-21 result from a joint review of the HRA with Kirklees Council and KNH. The initial target, as reported in the 2016/2017 report to Tenants and Residents Committees, identified a savings gap of approximately £6m but to ensure that additional pressures are considered this has been revised to £12m. This target saving is in line with current information available on national policy changes and welfare reform.

- 2.6 Rental Income will reflect the 1% rent reduction (as in the above table) until 2019/2020 when we assume that inflation (currently CPI) will be applied.

### **3. Housing challenges and context**

#### **Housing and Planning Act 2016**

- 3.1 The Housing and Planning Act confirmed a number of measures that will have an impact on the HRA, policies and Kirklees approach. These include:
- i. The sale of high value vacant local authority homes to fund right to buy for housing association tenants, likely to be from 2020/21. (High cost levy)
  - ii. The ending of 'life time tenancies' for council tenants and the introduction of fixed term tenancies, likely to be between 2 and 10 years.
  - iii. The opportunity for Council's to implement a voluntary 'Pay to Stay' rent policy for high income households, the additional rent collected by local authorities, minus an administration fee, to be paid to central government.

#### **Universal Credit and Welfare Reform and Work Act 2016**

- 3.2 The impact of the move towards Universal Credit has not been fully felt yet in Kirklees, although recent announcements have confirmed that the rollout of Universal Credit to all new claimants will commence in November 2017. There will be a significant resource implication to deal with the new claimants receiving Universal Credit. Due to the waiting period of around 6 weeks before the first payment is made it is inevitable that those people in receipt of Universal Credit will have rent arrears. There will be major strategic and operational challenges in dealing with the estimated total of 10,000 claimants in Kirklees Council tenancies as Universal Credit continues to be rolled out in Kirklees over the next 4 years. The rollout of UC increases the risks associated with managing HRA cash flow and income collection rates.
- 3.3 The Welfare Reform and Work Act 2016 confirmed a number of measures that will have an impact on the HRA, policies and Kirklees approach. These include:
- i. The 1% reduction in rent referred to above.
  - ii. The capping of Housing Benefit to cover rent and service charge payments in council housing to Local Housing Allowance rates.
  - iii. The reduction to £20,000 of the annual benefit cap limit for those out of work.
  - iv. The freezing for 4 tax years of some social security benefit.

### **4. Proposed Rent & Service Charge**

- 4.1 The new average weekly HRA dwellings rent for 2017/18 is £69.89, based on a 52 week billing period, and incorporating the compulsory 1% rent reduction.
- 4.2 It is proposed that the annual increases to average weekly garage rent and service and other charges for 2017/18, as attached at Appendix 1, continue to be uplifted in line with the same Retail Price Index (RPI) figure (September snapshot) used to inform the annual rent restructure calculation, which for 2017/18 is 2%; again calculated over a 52 week billing period, and charges for Extra Care Services are uplifted by 2.58%.
- 4.3 The proposed changes to rent and service charges for 2017/18, as set out above, will be effective from 3<sup>rd</sup> April 2017.

## **5. Implications for the Council**

- 5.1 The rent reduction and wider key housing challenges set the broader financial context for the HRA budget discussions in February 2017.
- 5.2 The proposed 1% rent reduction for 2017/18 will directly impact on around 30% of Council tenants not in receipt of housing benefit.
- 5.3 As part of HRA self-financing, central government's debt settlement allocation to Kirklees was £216 million. This was based on a nationally modelled assumption that Kirklees HRA would have sufficient future rental income streams to be able to service this level of debt, provided it continued to uplift rents annually in line with national rent guidelines.
- 5.4 The current HRA business plan is based on a prudent servicing of the £216 million debt settlement figure, and the fact that future rental income streams need to be sufficient to enable the Council to build up resources to be able to maintain existing housing stock at a level of decency over the longer term.
- 5.5 The impact of the 1% rent reduction on the 30 year business plan represents a significant business risk to the Council.
- 5.6 By year 2019/20, there will be an annual reduction of £10.5m in rental income. The amount lost over the next 4 years = £23.4m.
- 5.7 Initial proposals for dealing with the forecast deficit on the HRA include:
  - By 2019/2020 the revised KNH management fee (reflecting the new financial structure) is to be reviewed following the successful merger of Building Services and KNH.
  - Income streams will be reviewed to propose that full cost recovery is achieved.
  - There will be a detailed review of the stock condition survey data that will inform investment costs requirement to maintain future levels of decency.
- 5.8 The Equality Act 2010 (Section 149) requires the Council to have due regard to the need to:
  - a) eliminate discrimination; harassment, victimisation, and any other conduct that is prohibited by or under the Act;

b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.

It is believed that the proposals to change rents and other charges set out in this report will not have an unduly adverse impact on any persons in any of the 7 protected characteristics namely, age, disability, gender reassignment, pregnancy and maternity, race, religion, or belief, sex and sexual orientation. All tenants affected by any approved changes to rents and other charges will be notified of the specific changes to their charges and be provided with information and guidance on how to access information and guidance on housing and other benefits.

Equality Impact Assessments in relation to the initial proposals for dealing with the forecast deficit outlined above are being developed and will as appropriate be considered as part of the budget setting discussions during February 2017.

## **6. Consultees and their opinions**

- 6.1 Awareness of the 1% rent reduction has been raised through a dialogue with Tenants and Residents Committee (TRC) briefings during November and December 2016 on the proposals contained in this report. TRC were supportive of the HRA budget proposals set out in light of the financial challenges facing the HRA as a result of the 1% annual rent reductions to 2020 and other national policy changes, and as well, acknowledging of the opportunities from the recent Building Services / KNH merger. Individual tenants will be formally notified of the approved changes by letter and in accordance with the statutory 4 week notice period.
- 6.2 It is intended that there will be further member, senior officer and other key stakeholder briefings through 2017 to continue to assess the future opportunities for the HRA and key sensitivities impacting on longer term HRA business plan forecasts.

## **7. Next steps**

- 7.1 In order to comply with the requirements of the Local Government and Housing Act 1989 to have a balanced HRA and the Welfare Reform and Work Act 2016 to reduce rents payable for social housing by at least 1% from April 2016 and subject to Cabinet approval, Council & KNH officers will prepare for the implementation of rents and service charge changes from 3<sup>rd</sup> April 2017 as set out in Appendix 1 and the issuing of prior notification letters to individual tenants in accordance with the statutory 4 weeks notice period.

## **8. Officer recommendations and reasons**

- 8.1 That Members, in order to comply with the requirements of the Local Government and Housing Act 1989 to have a balanced HRA and the Welfare Reform and Work Act 2016 to reduce rents payable for social housing by at least 1% from April 2016, approve the proposed rent and service charge changes from 3<sup>rd</sup> April 2017 for 2017/18 which are contained within this report.
- 8.2 That Members note that the national and local financial challenges outlined above in preparation for HRA budget discussions in February 2017.

## **9. Cabinet portfolio holder recommendation**

- 9.1 That the proposed dwelling rent and garage rent and service and other charges set out in the report be approved and be effective from 3<sup>rd</sup> April 2017.
- 9.2 That the national and local financial challenges outlined in the report are noted in preparation for the HRA budget discussions in February 2017.

## **10. Contact officer and relevant papers**

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## **11. Assistant director responsible**

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## **Appendix 1 - Schedule of Weekly Rent and Service Charges for 2017/18**

	Schedule as at 4 <sup>th</sup> April 2016 £		Schedule as at 3 <sup>rd</sup> April 2017 £		Increase %
<b>RENTS</b>					
Average Dwelling Rent Split:	70.60		69.89		-1.0
Average 1 Bedroom Rent	61.99		61.37		-1.0
Average 2 Bedroom Rent	73.31		72.58		-1.0
Average 3 Bedroom Rent	82.52		81.69		-1.0
Average 4 and Over Bedroom Rent	87.14		86.27		-1.0
Garage Rents (Excl VAT)	4.67		4.76		2.0
<b>Housing Benefitable Service Charges</b>					
Concierge	1.98 to 12.89*		2.02 to 13.15*		2.0
Door Entry Systems	0.35		0.36		2.0
Communal Cleaning	0.80 to 6.19*		0.82 to 6.31*		2.0
Communal Cleaning (contract extension)	1.37		1.40		2.0
Window Cleaning	0.17 to 2.06*		0.17 to 2.10*		2.0
<u>Sheltered Housing:</u>					
Scheme Management	11.34		11.57		2.0
Scheme Coordinator	4.18		4.26		2.0
<u>Furnished Tenancies:</u>					
1 bed property	15.58		15.89		2.0
2 bed property	21.15		21.57		2.0
Single Person (old charge)	12.25		12.50		2.0
Family charge (old charge)	15.58		15.89		2.0
<b>PFI Service Charges</b>					
Communal Cleaning	8.75 to 11.93*		8.93 to 12.17*		2.0
Communal Utilities	1.80 to 9.56*		1.84 to 9.75*		2.0
External Lighting (General Needs Only)	1.40 to 2.09*		1.43 to 2.13*		2.0
Grounds Maintenance	2.36 to 6.14*		2.41 to 6.26*		2.0
Intensive Housing Management (Extra Care Only) Range	20.36 to 51.96*		20.89 to 53.30*		2.58
Management and Admin	1.06 to 1.07*		1.08 to 1.09*		2.0
Night Time Security (Extra Care Only)	13.57		13.92		2.58
Property Management (Extra Care Only)	17.85		18.21		2.0
Extra Care Communal Maintenance	4.19 to 9.58*		4.27 to 9.77*		2.0
<b>Other Charges</b>					
Parking Spaces	4.02		4.10		2.0
Older People Support	6.95, 17.11		6.95, 17.45		2.0
<b>Sheltered heating :</b>					
Bedsit	8.43		8.60		2.0
1 bed	9.67		9.86		2.0
2 bed	10.84		11.06		2.0
3 bed	11.91		12.15		2.0

\* Indicates the range of different charges for the service in different locations that will be changed by the set %.