

**Name of meeting:** Cabinet  
**Date:** 14th January 2020  
**Title of report:** Housing Revenue Account (HRA) rent and service charge setting report and key housing challenges

### Purpose of report

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 cabinet on 14th January 2020.

Key Decision - 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
Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports?)</a>	Yes
The Decision - Is it eligible for call in by Scrutiny?	Yes
Date signed off by Strategic Director & name	Karl Battersby - 24.12.2019
Is it also signed off by the Service Director - Finance?	Eamonn Croston - 03.01.2020
Is it also signed off by the Service Director - Legal, Governance and Commissioning?	Julie Muscroft - 06.01.2020
Cabinet member <a href="#">portfolio</a>	Cllr Cathy Scott

**Electoral wards affected:** All

**Ward councillors consulted:** None

**Public or private:** Public

GDPR has been considered when preparing this report and there are no implications.

An integrated impact assessment has been carried out.

## 1. Summary

- 1.1 The report is seeking Member approval for a CPI + 1% increase in dwelling rents in 2020/21 and for the proposed garage rents and other service charges an annual uplift of 2.7% in 2020/21 with the exception of Extra Care services - Intensive Housing Management which has a proposed annual uplift of 2% and Extra Care services - Night Time Security, which has a proposed annual uplift of CPI +1%.

- 1.2 The report proposes that Kirklees Council continue to charge a target rent on all properties let to new tenants.
- 1.3 The report aims to provide context in terms of the key challenges for the Housing Revenue Account including the CPI + 1% rent increase.
- 1.4 The appendix to the report sets out the full schedule of proposed weekly dwelling rent, service and other charge increases to Council tenants for 2020/21, noting that these will be calculated on a basis that matches the billing period to the number of weeks in the year (i.e. 52 weeks for 2020/21) Appendix 1.

## **2. Information required to take a decision**

- 2.1 The Government has confirmed it has clear expectations of a revised national rent setting policy. The expectation is that following the 1% reduction in rents for 4 years from April 2016 to March 2020 (For Kirklees, cumulative £24.3m) Councils will increase rents by CPI + 1% from April 2020 for five years. The lost rental income from the 4 year reduction cannot be recouped fully during the lifetime of the HRA Business Plan, but was partially recouped from the MTFP savings achieved
- 2.2 Post Grenfell there has been the Hackett review which has meant a refocus on areas of compliance, especially in relation to fire regulations, but also asbestos, water hygiene, electrical testing, gas and other safety related services. This has meant a tightening of regulations and if all recommendations are implemented, this will provide reasonable assurance that tenants can remain safe in their own homes. In addition to the rent increase, the removal of the borrowing cap will provide for additional borrowing, so that resources can be directed to areas where statutory and regulatory requirements must be met, but also it will provide for additional investment into existing Council houses and to invest in building and acquiring new houses. The Government are committed to increasing the number of houses built and to improving the quality of homes available to let and to buy, which will reduce homelessness and improve living conditions for existing and future tenants and residents. There is also an increased focus to engage with tenants to ensure that the tenants' voice is heard.
- 2.3 Rent convergence was introduced from April 2002 and the key objective of this was to achieve convergence of actual property rents with a calculated formula (sometimes referred to as a "target") based on size, value, location and local earnings levels over the restructuring period (April 2002 – March 2012, extended to March 2016). This formula rent is calculated for each property and as a general principle it was intended that by the end of the restructuring period (2015/16) this would equal the actual rent charged. Kirklees Council intend to continue to charge a target rent on all properties re-let to new tenants, as currently rents charged for council properties are below target.
- 2.4 The HRA is a ring fenced account and has to live within its means. Its main income source is rents. Future year HRA 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% reduction for four years and the future CPI + 1% increases from April 2020 onwards for 5 years and then CPI thereafter. Forecast income must be provided to:
  - a) Service HRA Debt.
  - b) Maintain current stock at a decency standard over the longer term.
  - c) Provide a high quality housing management and housing repair service.
  - d) Explore opportunities for additional strategic investment e.g. New Build.

- 2.5 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 4. The budget proposals for 2020-2023 result from a joint review of the HRA with Kirklees Council and KNH with the key objective to deliver a balanced 30 year HRA business plan.
- 2.6 Rental Income will reflect the increase of CPI + 1% which will be applied for five years as per the Government announcement in October 2017.

## **Housing Challenges and Context**

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

- 2.7 The impact of the introduction of Universal Credit (UC) in Kirklees has not been fully felt yet. The rollout of UC started in June 2015 with new, single claimants and the second full digital rollout stage commenced in November 2017 and initially involved all new claimants and existing Housing Benefit claimants with a change of circumstances.
- 2.8 KNH Income Management resources are being made available and targeted towards new and transitioning UC claimants to ensure that they receive the support that they need to successfully make the change and keep in control of their rent accounts. Due to the waiting period of around 5 weeks before the first payment is received it is inevitable that most tenants in receipt of UC will accrue some rent arrears during this waiting period. There are significant strategic and operational challenges in dealing with the estimated total of 10,000 claimants in Kirklees Council tenancies, as UC continues to be rolled out in Kirklees over the next 4 years, with increased risks associated with managing the HRA, cashflow and income collection rates. A KNH Universal Credit Programme Board is in place to oversee the delivery of a set of action plans designed to directly mitigate the impact of welfare reform changes such as UC on tenants and the HRA.

## **Proposed Rent and Service Charge**

- 2.9 The new average weekly HRA dwellings rent for 2020/2021 is £70.16, based on a 52 week billing period and incorporating the CPI + 1% increase.
- 2.10 It is proposed that the annual increases to average weekly garage rent and other service charges for 2020/21, as attached at Appendix 1, continue to be uplifted in line with the same Consumer Price Index (CPI) figure (September snapshot) which for 2020/21 is 1.7% plus 1%, calculated over a 52 week billing period. It is proposed that charges for Extra Care Services – Intensive Housing Management are uplifted by 2% and Extra Care Services – Night Care Service by 2.7% (CPI + 1%), this is because there is no local flexibility, as uplift rates are explicitly tied into the contract terms agreed to deliver the service.
- 2.11 The proposed changes to rent and service charges for 2020/21, as set out above, will be effective from 6th April 2020.
- 2.12 It is proposed that Charges for properties let to new tenants continue to be charged at a target rent. This is closely linked to the Kirklees Council lettable standard, which was reviewed and updated in 2018. The standard provides for flooring to kitchens and bathrooms and extractor fans where required. The standard has recently been reviewed and an enhanced lettable standard is being piloted for twelve months from January 2020. This will be targeted primarily at care leavers, existing tenants that are

downsizing, those moving into retirement living accommodation, those moving from Kirklees Council temporary accommodation and those moving from a domestic violence refuge. The enhanced lettable standard will provide for carpets and underlay, blinds, decorated throughout, fully plastered where required. It will also include an additional switched fused spur fitted at either the top or bottom of the stairs, which could be used as power for a stair lift and tenants will be provided with a home starter fund to assist certain new tenants who may struggle to set up a new home.

- 2.13 The target rent is based on size, value, location and local earnings levels and will generate around £90k additional income during the first three years based on 5% of stock re-let and based on an average increase of 52p per property per annum in the first year. This would generate additional income of £900k over the 30 year life of the HRA business plan. Kirklees Council currently charge one of the lowest average rents per week across the country (Limit rents 2018-19 England, letter dated 9<sup>th</sup> March 2018).

### **3. Implications for the Council**

#### **3.1 Working with people**

N/A

#### **3.2 Working with partners**

N/A

#### **3.3 Place based working**

N/A

#### **3.4 Climate change and air quality**

N/A

#### **3.5 Improving outcomes for children**

N/A

#### **Other (e.g. Legal/Financial or Human Resources)**

- 3.6 The rent increase and wider key housing challenges set the broader financial context for the HRA budget discussions in February 2020.
- 3.7 The proposed CPI + 1% rent increase for 2020/21 will directly impact on around 35% of Council tenants not in receipt of housing benefit. Those in receipt of Universal Credit will see their housing cost element increase in line with the rent increase (once the claimant notifies DWP of the change).
- 3.8 As part of HRA self-financing settlement, central government's debt 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. The debt cap has now been removed but 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.
- 3.9 The cumulative impact of the four year 1% rent reduction on the 30 year business plan was previously identified as a business risk to the Council. This has been and is being managed by

- a) Savings to the management fee

- b) Reviewing Income streams, following the successful merger of Building Services and KNH. A new charging model will be in place from April 2020, which will focus on service delivery and better management of costs, leading to the service becoming more efficient.
  - c) Continuation of interventions which mitigate the impact of welfare reform on the HRA.
- 3.10 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.
- 3.11 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 nine protected characteristics namely, age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, 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.
- 3.12 During 2019 the council reviewed the cost of two extra care services which are included in the service charge; grounds maintenance and cleaning with its contractor. Both of these charges are eligible for housing benefit and currently the service charge is set to ensure the costs are recovered in full. Following the review the total costs of these two services need to increase by more than an inflationary amount if costs are to be covered in full. Options have been considered for setting the service charge in 2020/21 and discussed with the Lead Member for Housing. Support has been received for officers proposals to increase these service charge elements by CPI +1% with the resultant shortfall being met by the HRA.
- 3.13 One extra care service charge Night Time Security provides services which are commissioned by the council by Adult Social Care. Night Time Security provides a staff presence in the extra care schemes overnight every day and to respond to any emergency calls made by tenants during the night. The charge that tenants pay for this service amounts to 50% of the total cost and this is also eligible for housing benefit. The total cost of this service also needs to increase by more than an inflationary amount if costs are to be covered. Options have been considered for setting the service charge in 2020/21 and discussed with the Lead Member for Housing. Support has been received for officers' proposals to increase this service charge element by CPI +1% with the resultant shortfall being met by the HRA.
- 3.14 On 6th March 2018, Cabinet approved a proposal to introduce a new service charge in extra care to cover the costs of providing an on-site bistro at each scheme. Officers progressed the proposal however current housing benefit rules as applied to meals and meals services will negatively impact on tenant income. Options were considered and discussed with the Lead Member for Housing. Support has been received for the new charge not to be implemented; however officers will continue to identify additional sources of income for the bistros and to develop and evaluate other delivery options.

#### **4. Consultees and their opinions**

- 4.1 Awareness of the CPI + 1% rent increase has been communicated to Tenant and Resident Associations through a briefing note sent out in November 2019 and it was communicated at the Tenants conference which was held on 24<sup>th</sup> October, where comments and feedback were requested on the proposals contained in this report. TRA's are supporting the rent and service charge increase proposals set out in this report based on the information communicated to them as part of the proposed budget for 2020/21. Individual tenants will be formally notified of the approved changes by letter and in accordance with the statutory 4 week notice period.
- 4.2 It is intended that there will be further Member, Portfolio Holder, Senior Officer and other key stakeholder briefings through 2020 to continue to assess the future opportunities for the HRA and key sensitivities impacting on longer term HRA business plan forecasts.

#### **5. Next steps and timelines**

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 and the rent standard which requires registered providers to comply with specified rules about their levels of rent set under section 194(2A) of the Housing and Regeneration Act 2008; to implement the increase of CPI + 1% subject to Cabinet approval, Council and KNH officers will prepare for the implementation of rents and service charge changes from 6<sup>th</sup> April 2020 as set out in Appendix 1 and the issuing of prior notification letters to individual tenants in accordance with the statutory 4 week notice period.

#### **6. Officer recommendations and reasons**

- 6.1 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 and the rent standard, increase the proposed rents and service charges payable for social housing by CPI + 1% from April 2020 which are contained within this report.
- 6.2 That Members approve the charges for Extra Care Services – Intensive Housing Management uplifted by 2% and Extra Care Services – Night Care Service uplifted by 2.7% (CPI + 1%) in line with other increases.
- 6.3 That Members agree to continue to charge a target rent on all properties let to new tenants.

The approval of the above recommendations will ensure that a balanced HRA is achieved which means the Council is compliant with the Local Government and Housing Act 1989.

- 6.4 That Members note the national and local financial challenges outlined above in preparation for HRA budget discussions in February 2020.

#### **7. Cabinet portfolio holder's recommendations**

- 7.1 That the proposed dwelling rent, garage rent, service and other charges set out in the report be approved and be effective from 6<sup>th</sup> April 2020.
- 7.2 That the national and local financial challenges outlined in the report are noted in preparation for the HRA budget discussions in February 2020.

**8. Contact officers**

Helen Geldart  
Head of Housing Services – Kirklees Council  
Tel 01484 221000  
Email - [helen.geldart@kirklees.gov.uk](mailto:helen.geldart@kirklees.gov.uk)

Jacqui Fieldhouse  
Head of Finance – Kirklees Neighbourhood Housing  
Tel 01484 221000  
Email - [jacqui.fieldhouse@knh.org.uk](mailto:jacqui.fieldhouse@knh.org.uk)

**9. Background Papers and History of Decisions**

Annual rent and service charge setting report 2019/20  
Consultation letter sent to Tenant & RA's week commencing 11<sup>th</sup> November 2019  
Presentation slides from the tenants' conference held on 24<sup>th</sup> October 2019.

**10. Service Director responsible**

Naz Parkar - Service Director, Growth and Housing  
Tel 01484 221000  
Email - [naz.parkar@kirklees.gov.uk](mailto:naz.parkar@kirklees.gov.uk)

**Schedule of Weekly Rent and Service Charges for 2020/21**

	Schedule as at 1 April 2019 £	Schedule as at 6 April 2020 £	Increase %
<b>RENTS</b>			
Average Dwelling Rent	68.32	70.16	2.7
Split:			
Average 1 Bedroom Rent	60.22	61.85	2.7
Average 2 Bedroom Rent	71.13	73.05	2.7
Average 3 Bedroom Rent	80.06	82.22	2.7
Average 4 and Over Bedroom Rent	84.87	87.16	2.7
Garage Rents (Excluding VAT)	5.11	5.25	2.7
<b>Housing Benefitable Service Charges</b>			
Concierge	2.17 to 14.11	2.23 to 14.49	2.7
Door Entry Systems	0.38	0.39	2.7
Communal Cleaning	0.88 to 6.78	0.90 to 6.96	2.7
Communal Cleaning (contract extension)	1.50	1.54	2.7
Window Cleaning	0.19 to 2.25	0.20 to 2.31	2.7
Sheltered Housing:			
Scheme Management	12.42	12.76	2.7
Scheme Coordinator	4.58	4.70	2.7
Furnishings	16.00, 17.05	16.43, 17.51	2.7
<b>PFI Service Charges</b>			
Communal Cleaning	9.59 to 13.06	9.85 to 13.41	2.7
Communal Utilities	1.97 to 10.46	2.02 to 10.74	2.7
External Lighting (General Needs Only)	1.54 to 2.28	1.58 to 2.34	2.7
Grounds Maintenance	2.58 to 6.71	2.65 to 6.89	2.7
Intensive Housing Management (Extra Care Only)	22.78 to 58.12	23.24 to 59.28	2.0
Management and Admin	1.16 to 1.17	1.19 to 1.20	2.7
Night Time Security (Extra Care Only)	17.18	17.64	2.7
Property Management (Extra Care Only)	19.54	20.07	2.7
R&M Com fac&ut cost	4.59 to 10.48	4.71 to 10.76	2.7
<b>Other Charges</b>			
Parking Spaces	4.40	4.52	2.7
Other Utilities charges	13.00, 18.16	13.35, 18.65	2.7
Older People Support	6.95, 18.73	6.95, 19.24	2.7
Council Tax	4.41, 6.92	4.59, 7.20	3.99
Gardening	2.93	3.01	2.7
<b>Sheltered heating :</b>			
Bedsit	9.24	9.49	2.7
1 bed	10.58	10.87	2.7
2 bed	11.87	12.19	2.7
3 bed	13.03	13.38	2.7