

Name of meeting: Cabinet
Date: 19th January 2021
Title of report: Housing Revenue Account (HRA) rent and service charge setting report and key housing challenges

1. Purpose of report

- 1.1 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 cabinet on 19th January 2021.

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 Council's Forward Plan (key decisions and private reports?)	Yes
The Decision - Is it eligible for call in by Scrutiny?	Yes
Date signed off by Strategic Director & name	David Shepherd - 11.01.21
Is it also signed off by the Service Director - Finance?	Eamonn Croston - 11.01.21
Is it also signed off by the Service Director for Legal Governance and Commissioning?	Julie Muscroft - 7.01.21
Cabinet member portfolio	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.

2. Summary

- 2.1 The report is seeking Member approval for a 1.5% (CPI + 1%) increase in dwelling rents in 2021/22 and for the proposed garage rents and other service charges an annual uplift of 1.5% in 2021/22 with the exception of Extra Care services - Intensive Housing Management which has a proposed annual uplift of 2.75% and Extra Care services - Night Time Security, which has a proposed annual uplift of 2.2%.
- 2.2 The report proposes that Kirklees Council continue to charge a target rent on all properties let to new tenants.
- 2.3 The report aims to provide context in terms of the key challenges for the Housing Revenue Account including the CPI + 1% rent increase.
- 2.4 The appendix to the report sets out the full schedule of proposed weekly dwelling rent, service and other charge increases to Council tenants for 2021/22, 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 2021/22) Appendix 1.

3. Information required to take a decision

- 3.1 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.
- 3.2 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.
- 3.3 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.
- 3.4 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.

3.5 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 2021/22-2024/25 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.

3.6 Rental Income will reflect the increase of CPI + 1% which will be applied for five years as per the Government announcement in October 2017.

4. Housing Challenges and Context

Universal Credit and Welfare Reform and Work Act 2016

4.1 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.

4.2 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. The waiting period is around 5 weeks before the first payment is received, so it is inevitable that most tenants in receipt of UC will accrue some rent arrears during this waiting period, although tenants can now claim an advance payment. 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 3 years, with increased risks associated with managing the HRA, cashflow and income collection rates. The KNH Income Management team 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.

4.3 Due to the COVID 19 pandemic there have been additional costs and losses associated with the delivery of Housing and Property services, which are not recoverable and current forecasts are estimated to be around £2m. This is being mitigated by earmarked HRA (business) risk reserves. Councils with HRA's are currently exploring with MHCLG, whether any potential COVID funding compensation specifically for HRA's is available, as previous COVID funding received to date has been purely general fund related.

5. Proposed Rent and Service Charge

5.1 The new average weekly HRA dwellings rent for 2020/2021 is £71.18, based on a 52-week billing period and incorporating the CPI + 1% increase.

5.2 It is proposed that the annual increases to average weekly garage rent and other service charges for 2021/22, as attached at Appendix 1, continue to be uplifted in line with the

same Consumer Price Index (CPI) figure (September snapshot) which for 2021/22 is 0.5%% plus 1%, calculated over a 52-week billing period. It is proposed that charges for Extra Care Services – Intensive Housing Management are uplifted by 2.75% and Extra Care Services – Night Care Service by 2.2%, this is because there is no local flexibility, as uplift rates are explicitly tied into the contract terms agreed to deliver the service.

- 5.3 The proposed changes to rent and service charges for 2021/22, as set out above, will be effective from 5th April 2021.
- 5.4 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 been further reviewed and a new enhanced lettable standard has and is being piloted since 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.
- 5.5 The target rent is based on size, value, location and local earnings levels and will generate around £114k 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 £1.1m 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 data 2019 -20, S3/2019: Rent Rebate Subsidy Limitation information 2019-20)

6. Implications for the Council

- 6.1 The rent increase and wider key housing challenges set the broader financial context for the HRA budget discussions in February 2021.
- 6.2 The proposed CPI + 1% rent increase for 2021/22 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).
- 6.3 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.
- 6.4 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) Putting in place a new charging model from April 2020, which is focussed 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.
- 6.5 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.
- 6.6 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.
- 6.7 There are two service charges which are commissioned by the Council's Adult Social Care. Night time Security service charge provides a staff presence in the extra care schemes overnight and to respond to emergency calls made by tenants during the night. The charge that tenants pay for this service amounts to 50% of the total cost and the service charge is eligible for housing benefit. The total cost of this service needs to increase by more than an inflationary amount as costs are increasing due to an uplift to the National Living Wage. An increase of 2.2% is proposed.
- 6.8 The Intensive Housing Management service charge provides a manager presence in the extra care schemes and the provision of a housing related support service to tenants to help them maintain their tenancies. The cost of this service needs to increase by 2.75% to cover increments to staff delivering these services. Of the total cost of this service tenants pay for 80% and the charge is also eligible for housing benefit.

7. Consultees and their opinions

- 7.1 Awareness of the CPI + 1% rent increase has been communicated to Tenant and Resident Associations through a briefing note sent out on 24th November 2020 and will be discussed at the Tenant and Leaseholder Panel on 9th December. TRA's were notified of the proposed changes and based on the information communicated to them as part of the proposed budget for 2021/22 we have not received any feedback opposing the rent increase. Individual tenants will be formally notified of the approved changes by letter and in accordance with the statutory 4-week notice period.
- 7.2 Feedback from the consultation carried out over the summer of 2020 will be taken into account when setting priorities for budgets and it is intended that there will be further Member, Portfolio Holder, Senior Officer and other key stakeholder briefings through 2020/21 to continue to assess the future opportunities for the HRA and key sensitivities impacting on longer term HRA business plan forecasts.

8. 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 5th April 2021 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.

9. Officer recommendations and reasons

- 9.1 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 2021 which are contained within this report.
- 9.2 That Members approve the charges for Extra Care Services – Intensive Housing Management uplifted by 4% and Extra Care Services – Night Care Service uplifted by 2.2% (CPI + 1%) in line with other increases.
- 9.3 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.

- 9.4 That Members note the national and local financial challenges outlined above in preparation for HRA budget discussions in February 2021.

10. Cabinet portfolio holder's recommendations

- 10.1 That the proposed dwelling rent, garage rent, service and other charges set out in the report be approved and be effective from 5th April 2021.
- 10.2 That the national and local financial challenges outlined in the report are noted in preparation for the HRA budget discussions in February 2021.

11. Contact officers

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12. Background Papers and History of Decisions

Consultation letter sent to TRA's week commencing 23rd November 2020.

13. Service Director responsible

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Schedule of Weekly Rent and Service Charges for 2021/22

	Schedule as at 6 April 2020 £		Schedule as at 5 April 2021 £		Increase %
RENTS					
Average Dwelling Rent	70.13		71.18		1.5
Split:					
Average 1 Bedroom Rent	61.85		62.78		1.5
Average 2 Bedroom Rent	73.04		74.14		1.5
Average 3 Bedroom Rent	82.22		83.45		1.5
Average 4 and Over Bedroom Rent	87.21		88.52		1.5
Garage Rents (Excl VAT)	5.25		5.33		1.5
Housing Benefitable Service Charges					
Concierge	2.23 to 14.49		2.26 to 14.71		1.5
Door Entry Systems	0.39		0.40		1.5
Communal Cleaning	0.90 to 6.96		0.91 to 7.06		1.5
Communal Cleaning (contract extension)	1.54		1.56		1.5
Window Cleaning	0.20 to 2.31		0.20 to 2.34		1.5
Sheltered Housing:					
Scheme Management	12.76		12.95		1.5
Scheme Coordinator	4.70		4.87		1.5
Furnishings	16.43, 17.51		16.68, 17.77		1.5
PFI Service Charges					
Communal Cleaning	9.85 to 13.41		10.00 to 13.61		1.5
Communal Utilities	2.02 to 10.74		2.05 to 10.90		1.5
External Lighting (General Needs Only)	1.58 to 2.34		1.60 to 2.38		1.5
Grounds Maintenance	2.65 to 6.89		2.69 to 6.99		1.5
Intensive Housing Management (Extra Care Only)	23.24 to 59.28		23.88 to 60.91		2.75
Management and Admin	1.19 to 1.20		1.21 to 1.22		1.5
Night Time Security (Extra Care Only)	17.64		18.03		2.2
Property Management (Extra Care Only)	20.07		20.37		1.5
R&M Com fac&ut cost	4.71 to 10.76		4.78 to 10.92		1.5
Other Charges					
Parking Spaces	4.52		4.59		1.5
Other Utilities charges	13.35, 18.65		13.55, 18.93		1.5
Older People Support	6.95, 19.24		6.95, 19.53		1.5
Council Tax	4.59, 7.20		4.59, 7.20		TBC
Gardening	3.01		3.06		1.5
Sheltered heating :					
Bedsit	9.49		9.63		1.5
1 bed	10.87		11.03		1.5
2 bed	12.19		12.37		1.5
3 bed	13.38		13.58		1.5