

Name of meeting: **CABINET**
 Date: **12 January 2016**

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 Council's Forward Plan ?	Yes
Is it eligible for "call in" by Scrutiny ?	Yes
Date signed off by <u>Director</u> & name	Jacqui Gedman - 22.12.15 <i>Paul Kemp for and on behalf of</i>
Is it signed off by the Director of Resources?	David Smith - 31.12.15
Is it signed off by the Assistant Director - Legal Governance and Monitoring	Julie Muscroft - 29.12.15
Cabinet member portfolio	Councillor Cathy Scott Housing and the Relief of Poverty

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 2016/17 and for the proposed garage rents annual uplift of 0.8% in 2016/17 and similar for service and other charges.
- 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 2016/17, 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 2016/17) - 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 2016.

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 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 :

- i) Service HRA debt
- ii) Maintain current stock at decency standard over the long term
- iii) Provide a high quality housing management & housing repair service
- iv) Explore opportunities for additional investment e.g. New Build.

2.4 The July 2015 government budget announcement of a required 1% annual rent reduction each year for the next 4 years, has meant a more fundamental review of the financial viability of the HRA. Implications for this budget round and future years, 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
2015-16	£83.9m	£83.9m	-
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

3. Housing challenges and context

Housing and Planning Bill

3.1 The Housing and Planning Bill has confirmed a number of areas that will impact on policies and Kirklees approach.

3.2 There is a clear and fundamental policy shift by government to promote home ownership and such products are prioritised over social rent and affordable rent.

3.3 National Government have set a housing “target” of 200,000 homes per annum over this parliament’s lifetime which equates to 1m new homes. For Kirklees, this equates to 1,200 new homes over the next 4 years.

3.4 Starter Homes are now defined as affordable housing and this means a reducing provision of social rented homes.

- 3.5 There are increased delivery of options for home ownership (includes Starter Homes) and also Government initiatives including :-
- a. Right to Buy - extended to Housing Association tenants. It is likely that this will be funded through the disposal of "most expensive" Council homes (this could be the actual sale or a formula approach) this will have a direct impact on the HRA.
 - b. Pay to Stay - where the household income of social housing tenants is over £30,000 per annum (outside of London) a "near market" rent will be charged. It is proposed that the additional income generated be paid into a national central pot. This could have major local resource implications as additional checks will be needed on proof of earnings and subsequent changes to individual charging will need to be in place.

3.6 The Government has tabled an amendment to the Housing and Planning Bill that will see lifetime tenancies phased out and replaced with fixed tenancies of between 2 and 5 years. The fixed tenancies will only apply to new tenants, and also when an existing tenancy is passed onto a family member.

Universal Credit and Welfare System Reform

3.7 The impact of the move towards Universal Credit has not been fully felt yet in Kirklees. There has however been a significant resource implication to deal with the 100 or so council tenants so far 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. The rollout of UC increases the risks associated with managing HRA cash flow and income collection rates.

3.8 The benefit cap has fundamentally changed. The cap is no longer made with reference to average earnings but includes a cap of £20,000 for those out of work. The new benefit cap will affect much smaller families in less expensive areas. This could increase the risk of homelessness.

3.9 The amount of rent that Housing Benefit (HB) will cover in the social sector is likely to be capped to the relevant Local Housing Allowance (LHA). This will apply to tenancies signed after 1 April 2016, with Housing Benefit entitlement changing from 1 April 2018 onwards. This will affect all unprotected (those that are either care leavers under 21, nor severely disabled) single people under 35 without children. Their HB will be limited to £55 per week at today's values. Kirklees Council rents might typically be £70 per week so those affected by the measure might typically lose £15 per week in HB potentially having a negative impact on rent collection rates and income to the HRA.

The LHA for each area and size of household need is set at the 30th percentile of the private rented market as determined by the Valuation Office Agency. Based on current Kirklees LHA rates and Kirklees Council rents it is unlikely that other household groups will be affected to the same degree but it is inevitable that some will, particularly those in specialised, more expensive accommodation.

3.10 Freezing LHA will mean more private renters will also face challenges in paying their housing costs as rents outstrip wage growth. In 2 years it is estimated that LHA will not cover the bottom third of rents in almost all local authorities.

3.11 Removal of the family premium will lead to reduced housing benefit for working families, potentially leading to shortfalls as the value of LHA falls.

3.12 Support for mortgage interest benefit payments for homeowners will be replaced by a loan. Further detail is expected to follow.

4. Proposed Rent & Service Charge

- 4.1 The new average weekly HRA dwellings rent for 2016/17 is £70.60, based on a 52 week billing period, and incorporate 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 2016/17, 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 2016/17 is 0.8%; again calculated over a 52 week billing period.
- 4.3 The proposed changes to rent and service charges for 2016/17, as set out above, will be effective from 1 April 2016.

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 2016.
- 5.2 The proposed 1% rent reduction for 2016/17 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.

6. Consultees and their opinions

- 6.1 Awareness of the 1% rent reduction has been raised through a dialogue with Tenants and Residents Committee briefings during December 2015 on the proposals contained in this report.
- 6.2 It is intended that there will be further member, senior officer and other key stakeholder briefings through 2016 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 Subject to Cabinet approval, Council & KNH officers will prepare for the implementation of rents and service charge changes from 1 April 2016 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 approve the proposed rent and service charge changes for 2016/17 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 2016.

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 1st April 2016.

9.2 That the national and local financial challenges outlined in the report are noted in preparation for the HRA budget discussions in February 2016.

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 2016/17

	Schedule as at 6 April 2015 £		Schedule as at 4 April 2016 £		Increase %
RENTS					
Average Dwelling Rent	71.32		70.60		-1.0
Split:					
Average 1 Bedroom Rent	62.62		61.99		-1.0
Average 2 Bedroom Rent	74.05		73.31		-1.0
Average 3 Bedroom Rent	83.35		82.52		-1.0
Average 4 and Over Bedroom Rent	88.02		87.14		-1.0
Garage Rents (Exc VAT)	4.63		4.67		0.8
Housing Benefitable Service Charges					
Concierge	1.96 to 12.79		1.98 to 12.89		0.8
Door Entry Systems	0.35		0.35		0.8
Communal Cleaning	0.79 to 6.14		0.80 to 6.19		0.8
Communal Cleaning (contract extension)	1.36		1.37		0.8
Window Cleaning	0.17 to 2.04		0.17 to 2.06		0.8
Sheltered Housing:					
Scheme Management	11.25		11.34		0.8
Scheme Coordinator	4.15		4.18		0.8
Furnished Tenancies:					
1 bed property	15.46		15.58		0.8
2 bed property	20.98		21.15		0.8
Single Person (old charge)	12.15		12.25		0.8
Family charge (old charge)	15.46		15.58		0.8
PFI Service Charges					
Communal Cleaning	8.68 to 11.84		8.75 to 11.93		0.8
Communal Utilities	1.79 to 9.48		1.80 to 9.56		0.8
External Lighting (General Needs Only)	1.39 to 2.07		1.40 to 2.09		0.8
Grounds Maintenance	2.34 to 6.09		2.36 to 6.14		0.8
Intensive Housing Management (Extra Care Only)	20.20 to 51.55		20.36 to 51.96		0.8
Management and Admin	1.05 to 1.06		1.06 to 1.07		0.8
Night Time Security (Extra Care Only)	13.46		13.57		0.8
Property Management (Extra Care Only)	17.71		17.85		0.8
R&M Com fac&ut cost	4.16 to 9.50		4.19 to 9.58		0.8
Other Charges					
Parking Spaces	3.99		4.02		0.8
Older People Support	6.95, 16.97		6.95, 17.11		0.8
Sheltered heating :					
Bedsit	8.36		8.43		0.8
1 bed	9.59		9.67		0.8
2 bed	10.75		10.84		0.8
3 bed	11.82		11.91		0.8