

Name of meeting: Cabinet
Date: 29th January 2019
Title of report: Housing Revenue Account (HRA) rent and service charge setting report and key housing challenges

1. Purpose of report

- 1.1 To seek Member approval for a 1% reduction in dwellings rents in 2019/20 and for the proposed garage rents and other service charges an annual uplift of 3.3% in 2019/20 with the exception of Extra Care services - Intensive Housing Management which has a proposed annual uplift of 6.00% and Extra Care services - Night Time Security, which has a proposed annual uplift of 20.5%.
- 1.2 To propose that a target rent is charged on all properties let to new tenants from 1st April 2019 onwards.
- 1.3 To provide context in terms of the key challenges facing the Housing Revenue Account including the 1% rent reduction.
- 1.4 To set out the full schedule of proposed weekly dwelling rent, service and other charge increases to Council tenants for 2019/20, noting that these will be calculated on a basis that matches the billing period to the number of weeks in the year (i.e. 53 weeks for 2019/20) Appendix 1.

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 The reduction of -1% equates to around £24m, four year period from April 2016 to March 2020.
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	Karl Battersby - 15.01.2019
Is it also signed off by the Service Director - (Finance)?	Eamonn Croston - 18.01.2019
Is it also signed off by the Service Director - Legal Governance and Commissioning?	Julie Muscroft - 21.01.2019
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.

2. Summary

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 29th January 2019.

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 Councils will implement a 1% reduction in rents for 4 years from April 2016 to March 2020 and then increase rents by CPI + 1% from April 2020 for five years.
- 3.2 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 charge a target rent on all properties re-let to new tenants, as currently rents charged for council properties are below target.
- 3.3 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% and the longer term outlook was a financially viable HRA which would enable the Council and its ALMO partner KNH 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.
- 3.4 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 in 2016 with HRA planning now focussing on the last year of the 4 year reduction. The implications for the HRA linked to the 4 year rent reduction policy are summarised below:
- a) The HRA is a ring fenced account and has to live within its means. Its main income source is rents
 - b) 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 announcement and the future CPI + 1% increases from April 2020 onwards.
 - c) The change in government rent policy has meant 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	£81.4m	(£4.5m)
2018-19	£87.8m	£79.7m	(£8.1m)
2019-20	£90.0m	£79.9m	(£10.1m)

- 3.5 The cumulative £10.1m of lost rental income cannot be recouped during the lifetime of the HRA Business Plan and continues to impact on future years well past 2019/20. In addition, whilst rents have reduced, ongoing costs in the HRA Business Plan have not reduced accordingly (for example 2018/19 saw a nationally agreed inflation salary increase). Additional pressure comes from the costs of services that are not all recouped via service charges to tenants and residents that are also subject to change beyond the council control (for example increases in gas and electricity costs). These variables continue to be modelled through the HRA Business Plan.
- 3.6 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 4. The budget proposals for 2019-2022 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. The target, as reported in the 2017/18 report to Tenants and Residents Associations, identified a shortfall of approximately £8m, this target saving is in line with current information available on national policy changes and welfare reform.
- 3.7 Rental Income will reflect the 1% rent reduction (as in the above table) in 2019/2020, and then we assume 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. 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.

5. Proposed Rent and Service Charge

- 5.1 The new average weekly HRA dwellings rent for 2019-2020 is £68.35 (2018 average rent = £69.04), based on a 53 week billing period and incorporating the compulsory 1% rent reduction.
- 5.2 It is proposed that the annual increases to average weekly garage rent and other service charges for 2019/20, as attached at Appendix 1, continue to be uplifted in line with the same Retail Price Index (RPI) figure (September snapshot) which for 2019/20 is 3.3%, calculated over a 53 week billing period. It is proposed that charges for Extra Care Services – Intensive Housing Management are uplifted by 6% (between £1.29 and £3.29 a week) and Extra Care Services – Night Care Service by 20.5% (£2.94 a week), this is because we are tied into external contracts to deliver the service.
- 5.3 The proposed changes to rent and service charges for 2019/20, as set out above, will be effective from 1st April 2019.
- 5.4 It is proposed that charges for properties let to new tenants with effect from 1st April 2019 will be at a target rent. This is tied to an enhancement of the Kirklees Council lettable standard, which is being reviewed and will further improve the quality of council homes offered to residents as they become new council tenants. The current standard provides for example for flooring to kitchens and bathrooms and extractor fans where required. Additional enhancements are being considered and following approval will be implemented. An indicative £1m annual allocation to cover the costs of the improved standards from 2019-20 has been proposed in the ‘Council Budget Report 2019-22; incorporating Capital, Treasury Management, General Fund and Housing Revenue Account’ being considered by Cabinet on 29.1.19.
- 5.5 The target rent is based on size, value, location and local earnings levels and will generate around £8k 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 £627k over the 30 year life of the HRA business plan. Kirklees Council currently charge the 4th lowest average rent per week across the country (Limit rents 2018-19 England, letter dated 9th March 2018).

6. Implications for the Council

6.1 Working with People

- 6.1.1 The Council’s housing tenants will continue under these proposals to benefit from social housing rent levels which are set in accordance with Government requirements and limits and are lower than other forms of rented ‘affordable housing’. All tenants are notified of the changes in their housing charges and are provided with advice on how to access information and support in relation to covering their housing costs.
- 6.1.2 The proposed 1% rent reduction for 2019/20 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 reduce in line with the rent reduction (once the claimant notifies DWP of the change).
- 6.1.3 Two extra care services charges Intensive Housing Management (“IHM”) and Night Time Security (“NTS”) provide services which are commissioned by the council by Adult

Social Care. IHM provides scheme management and housing related support and the service charge covers 80% of the total cost. NTS provides a staff presence in the extra care schemes overnight every day to make checks on the building and respond to any emergency calls made by tenants during the night. The NTS element of service charge should cover 50% of the total cost. Both of these charges are eligible for Housing Benefit. Annually these service charges are uplifted by an estimated amount; however in 2017/18 and 2018/19 the actual increases in contract costs exceeded the budgeted provisions, leaving a shortfall to be met by the HRA. Options have been considered to address the shortfall and discussed with the Lead Member for Housing. Support has been received for officers' proposals to increase these service charge elements in 2019/20 to recover the shortfall in full on the basis that:

- a. The most financially vulnerable tenants (65% of the current cohort are in receipt of housing benefit) will be protected from the increases. There are in total 140 Extra Care flats.
- b. Retendering of the current contracts providing these services is due shortly and there is a risk that contract prices will increase creating a further gap between costs and service charges which may be difficult for people on fixed incomes to manage.
- c. The HRA has a lot of calls on it already and these are likely to increase in the future.

Therefore the proposed uplift for 2019/20 for IHM is 6% (between £1.29 and £3.29) a week and for NTS is 20.5% (£2.94) a week.

In recognition of the fact that the uplift may affect some of our most vulnerable residents it is proposed that a 'Discretionary Hardship Fund' be established. This would help those not on housing benefit but struggling to pay the increased service charge transition to the new charge over a set period of time. It is estimated that resources of £10k (funded from the HRA) would provide more than sufficient funds to support 50 tenants over a period of 6 months transition to the new charges. (Based on $£3.29 + £2.94 \times 50 \times 26 = £8,099$)

6.2 Working with Partners

- 6.2.1 Kirklees Neighbourhood Housing and Pinnacle PSG housing management staff play a key role in advising council tenants about the support available to help pay rent and services charges due. This includes working with the Department of Works and Pensions (DWP) to support tenants with their housing benefit and universal credit claims and debt management services.

6.3 Place Based Working

- 6.3.1 Rent and service charge account payment records are used to identify tenants and areas where people are struggling to pay. This intelligence allows support to be targeted at those tenants most in need of assistance and for other more general activity aimed at maximising household incomes to be directed to some of our most deprived areas.

6.4 Improving outcomes for children

- 6.4.1 Households with children and on low incomes but who are not entitled to housing benefit will benefit from the reduction in rent.

6.5 Other (Legal/Financial or Human Resources)

- 6.5.1 The rent reduction and wider key housing challenges set the broader financial context for the HRA budget discussions in February 2019.
- 6.5.2 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.
- 6.5.3 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.
- 6.5.4 The cumulative impact of the four year 1% rent reduction on the 30 year business plan represents a business risk to the Council.

This is being managed by:

- a) Implementing the new KNH staffing structure which has and will achieve savings to the management fee
 - b) Reviewing Income streams, following the successful merger of Building Services and KNH
 - c) Reviewing the improved delivery model for asset management to ensure efficiencies
 - d) Continuation of interventions which mitigate the impact of welfare reform on the HRA.
- 6.5.5 A technical issue has been raised at a national level regarding the 2016 Welfare Reform Act. This relates to the interpretation of the Act as to what a rent year is and the application of the statutory HRA 1% rent reduction in 2019-20, for the purposes of calculating housing benefit. For example, we are one of a number of Councils that have 52 week rent years, with an occasional 'catch up' 53 week rent year, which this time happens to be 2019-20 financial year.

This issue has arisen now because this is the final year of the 4 year statutory HRA 1% rent reduction, as set out in 2016 Welfare Reform Act, and a strict interpretation of the Act suggests that Councils should calculate Housing Benefit for the purposes of applying the 1% reduction in 2019-20, over 52 weeks only. This could mean that the Council will pay housing benefits over 53 weeks factoring in the 1% reduction, but the Ministry of Housing Communities and Local Government (MHCLG) considers only 52 weeks should be charged, based on a 1% rent reduction. That could lead to Department for Work and Pensions (DWP) to say that housing benefit should be allowable on 52 weeks only, notwithstanding that the Housing Benefit regulations do allow Housing Benefit to be paid for 53 weeks in such a year.

The LGA issued a briefing dated 4th January 2019 that sets out some of the implications. It is worth noting that the issue of whether a 1% reduction can be achieved in 53 weeks whilst charging for 53 weeks formed part of that briefing, which states:

“However a number of LAs and partners have investigated this issue and have reached a consensus that the definition within the legislation could be interpreted so that rent payable ‘in respect of that relevant year’ should be calculated – as it is for accounting purposes at the year-end - on a daily basis, though still charged on a weekly basis. This would allow 53 weeks’ worth of rent to be charged as normal, and still be in compliance with the Welfare Reform and Work Act requirements to reduce rents by 1%.”

Councils with Housing Revenue Accounts have, in conjunction with Local Government Association (LGA), National Housing Federation and others, raised awareness of this issue with Government and sought urgent clarification.

Ruth George, Member of Parliament (MP), raised this issue at the Work and Pensions Select Committee on 19 December 2018. The Work and Pensions Secretary, Amber Rudd, said "I agree [that paying 52 instead of 53 weeks when it is a 53-week year will put people into rent arrears] and we will address it and I will come back to you on it."

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/introductory-session-with-the-new-secretary-of-state/oral/94562.html>

In light of the Minister’s minuted statement in Parliament as above, Council officers consider this to offer sufficient assurance as to Government’s commitment to address the issue.

6.5.6 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 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.

6.5.7 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 in February 2019.

7. Consultees and their opinions

7.1 Awareness of the 1% rent reduction has been communicated to Tenant and Resident Associations through a briefing sent out in December 2018, where comments and feedback was requested on the proposals contained in this report. TRA’s are supporting 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. Individual tenants will be formally notified of the approved changes by letter and in accordance with the statutory 4 week notice period.

- 7.2 It is intended that there will be further Member, Portfolio Holder, Senior Officer and other key stakeholder briefings through 2019 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 to reduce rents payable for social housing by at least 1% from April 2016 and subject to Cabinet approval, Council and KNH officers will prepare for the implementation of rents and service charge changes from 1st April 2019 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 to reduce rents payable for social housing by at least 1% from April 2016, approve the proposed rent and service charge changes from April 2019 for 2019/20, which are contained within this report.
- 9.2 That Members approve the charges for Extra Care Services – Intensive Housing Management uplifted by 6% (between £1.29 and £3.29 a week) and Extra Care Services – Night Care Service uplifted by 20.5% (£2.94 a week). Members note the proposal to establish a ‘Discretionary Hardship Fund’ for those vulnerable tenants struggling to pay the increased service charge.
- 9.3 That Members agree to charge a target rent on all properties let to new tenants from 1st April 2019 onwards. That members also note that enhancements to the Council’s lettable standard are to be made and that budget provisions are being considered as part of the ‘Council Budget Report 2019-22; incorporating Capital, Treasury Management, General Fund and Housing Revenue Account’ being considered by Cabinet on 29.1.19.
- 9.4 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.
- 9.5 That Members note the national and local financial challenges outlined above in preparation for HRA budget discussions in February 2019.

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 1st April 2019.
- 10.2 That the proposals to establish a ‘Discretionary Housing Fund’ to support Extra Care residents not in receipt of housing benefit struggling to pay the increased IHM and NTS service charges are welcomed and approved.

10.3 That the national and local financial challenges outlined in the report are noted in preparation for the HRA budget discussions in February 2019.

11. Contact officers

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12. Background Papers and History of Decisions

Consultation with TRA's week commencing 3rd December 2018.

13. Service Director responsible

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Schedule of Weekly Rent and Service Charges for 2019/20

	Schedule as at 2 April 2018 £	Schedule as at 1 April 2019 £	Increase %
RENTS			
Average Dwelling Rent Split:	69.04	68.35	-1.0
Average 1 Bedroom Rent	60.80	60.19	-1.0
Average 2 Bedroom Rent	71.84	71.12	-1.0
Average 3 Bedroom Rent	80.86	80.05	-1.0
Average 4 and Over Bedroom Rent	85.67	84.81	-1.0
Garage Rents (Excl VAT)	4.95	5.11	3.3
Housing Benefitable Service Charges			
Concierge	2.10 to 13.66	2.17 to 14.11	3.3
Door Entry Systems	0.37	0.38	3.3
Communal Cleaning	0.85 to 6.56	0.88 to 6.78	3.3
Communal Cleaning (contract extension)	1.45	1.50	3.3
Window Cleaning	0.18 to 2.18	0.19 to 2.25	3.3
<u>Sheltered Housing:</u>			
Scheme Management	12.02	12.42	3.3
Scheme Coordinator	4.43	4.58	3.3
PFI Service Charges			
Communal Cleaning	9.28 to 12.64	9.59 to 13.06	3.3
Communal Utilities	1.91 to 10.13	1.97 to 10.46	3.3
External Lighting (General Needs Only)	1.49 to 2.21	1.54 to 2.28	3.3
Grounds Maintenance	2.50 to 6.50	2.58 to 6.71	3.3
Intensive Housing Management (Extra Care Only)	21.49 to 54.83	22.78 to 58.12	6.0
Management and Admin	1.12 to 1.13	1.16 to 1.17	3.3
Night Time Security (Extra Care Only)	14.32	17.26	20.5
Property Management (Extra Care Only)	18.92	19.54	3.3
R&M Com fac & ut cost	4.44 to 10.15	4.59 to 10.48	3.3
Other Charges			
Parking Spaces	4.26	4.40	3.3
Older People Support	6.95, 18.13	6.95, 18.73	3.3
Sheltered heating :			
Bedsit	8.94	9.24	3.3
1 bed	10.24	10.58	3.3
2 bed	11.49	11.87	3.3
3 bed	12.61	13.03	3.3