

# Southend-on-Sea Borough Council

Report of Deputy Chief Executive - People  
and Strategic Director (Finance and Resources)

to  
**Cabinet**  
on  
**12 February 2019**

Agenda  
Item No.

Report prepared by: Ian Ambrose  
Head of Corporate Finance

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**Housing Revenue Account Budget 2019/20 and Rent Setting  
Policy and Resources Scrutiny Committee  
Cabinet Member: Councillor Tony Cox  
*A Part 1 Public Agenda Item***

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## **1 Purpose of Report**

This report sets out the Housing Revenue Account (HRA) budget for 2019/20, together with the information necessary to set a balanced budget as required by legislation.

## **2 Recommendations**

Cabinet are asked to recommend to Council

- 2.1 A rent reduction of 1% on secure tenancies, as required by the Welfare Reform and Work Act 2016;
- 2.2 An average rent increase of 4.86% on shared ownership properties;
- 2.3 That the proposed rent changes in 2.1 and 2.2 be effective from 1 April 2019;
- 2.4 That garage rents increase by 2.5% to £11.70 per week for tenants (£14.04, being £11.70 plus VAT for non-tenants), with all variants on a standard garage receiving a proportionate increase;
- 2.5 That the South Essex Homes core management fee be agreed at £5,738,000 for 2019/20, with additional one-off funding also being made available of
  - £10,000 for the data cleansing, training and embedding of new data protection practices in compliance with General Data Protection Regulations (GDPR);

- £140,000 to undertake a project to achieve better integration between the various ICT systems that the company uses, with the aim to achieve efficiencies going forward;
- 2.6 That the South Essex Homes proposals for average changes of 4% in service charges and 17% in heating charges be agreed;
- 2.7 That the following appropriations be agreed
- £60,000 to the Repairs Contract Pensions earmarked reserve;
  - £1,397,000 to the Major Repairs earmarked reserve; and
  - £272,000 from the Capital Investment earmarked reserve;
- 2.8 Subject to 2.1 through to 2.7 above, the HRA budget as set out in Appendix 1 be agreed; and
- 2.9 The value of the Council's capital allowance for 2019/20 be declared as £49.601M, as determined in accordance with regulation 16 of the Local Authorities (Capital Finance and Accounting) (England) Regulations.

### **3 Background**

- 3.1 The Housing Revenue Account (HRA) is the statutory "landlord" account for the authority. For Southend therefore this expresses in financial terms the level of housing service provided within agreed policy guidelines.
- 3.2 The Council is obliged by law to set rents and other charges at a level to avoid a deficit on the HRA balance (i.e. the legal minimum balance at any time during the financial year must be greater than zero). This report proposes an HRA budget that avoids a deficit balance.
- 3.3 The estimates have been prepared alongside South Essex Homes, and incorporate their proposed management fee.
- 3.4 Summary estimates for the HRA are at **Appendix 1**.

### **4 Rent Levels**

- 4.1 The average weekly rent charged on HRA secure general needs tenancies is currently £87.88 and for sheltered accommodation £76.51.
- 4.2 Under changes introduced by the Government in the Welfare Reform and Work Act 2016, the Council continues to be obliged to reduce secure tenancy rents by 1%. This applies to both formula and affordable rents. The Council will be able to continue with its policy to move rents to formula level on change of tenancy, although the formula rent will similarly need to fall by 1% as well. As 2019/20 is a 53 week rent year (most years are only 52), careful consideration is required to ensure the reduction is applied in compliance with the legislation.

- 4.3 Where a property is let at affordable rent, that rent will also be required to fall by 1%. Currently the Council has 36 properties subject to affordable rent. All new properties brought into the HRA will be at affordable rent levels.
- 4.4 2019/20 is the last year of operation of this enforced reduction in rents. From 2020/21, the Government have signalled that the Council will be able to return to an inflation based CPI + 1% increase. The medium term financial strategy for the HRA will assume the adoption of this approach for future years. The formal outcome of the Government's consultation is pending.
- 4.5 The rent reduction requirement does not apply to rents on shared ownership properties or temporary accommodation.
- 4.6 The rents for the Council's 13 shared ownership properties have traditionally been set on the same basis as a full Council dwelling, pro-rata'd to the Council's ownership. As these properties are not covered by the Government's reduction policy, it is recommended that these rents continue to increase as would be normal by September CPI +1%, plus a move towards final convergence. Across the 13 properties, the Council's ownership ranges from 10% up to 75%. On average rents would increase by 4.86%, although individual rent rises will vary depending upon how near to rent convergence a particular rent is.
- 4.7 Rents in the Council's hostels are set with reference to the national formula which is applied to managing temporary accommodation of the Local Housing Allowance (LHA) rate, minus 10% plus £60 per week, equivalent to £164.87. This charge is inclusive of service charges, but is subject to additional charges for heating and water. These temporary tenancies are not subject to the Government's rent reduction policy.
- 4.8 The government has however frozen LHA rates up to and including 2019/20, so there is no practical scope to increase hostel rents, and none is proposed.
- 4.9 Notwithstanding the welfare reforms being brought in by the government, those whose rent is currently met through housing benefit should continue to receive the same degree of financial assistance. Clearly where rents are being reduced, any associated housing benefit will reduce pound for pound, leaving the tenant no better or worse off.
- 4.10 Members are however reminded that a proportion of tenants will be impacted by other welfare reforms regardless of the decrease in rent. Where working age tenants are in under occupation of their home, any housing benefit payable will be reduced by 14% for one extra bedroom or 25% for two or more extra bedrooms. Some tenants may also be affected by the benefit cap, which limits the totality of all benefits to a maximum of £20,000 per year for a couple or a single person with children. Where total benefits, including housing benefit, exceed the cap, the housing benefit will have to be reduced to bring the total package back down to £20,000. Single people with no dependent children are capped at £13,400.
- 4.11 The effective date of any change in rent will be 1 April 2019, being the first Monday of the new rent year.

## 5 Other Fees and Charges

- 5.1 The HRA benefits from a number of income streams other than dwelling rents, the majority of which are set by the Council and therefore need a resolution for any increases.

### Garages

- 5.2 Standard garages are currently charged at £11.40 per week for tenants (£13.68 being £11.40 plus VAT for non-tenants). It is recommended that these charges be increased to £11.70 per week for tenants (£14.04, being £11.70 plus VAT for non-tenants), being a 2.5% rise, being consistent with the standard approach taken across the Council's fees and charges. All variants on a standard garage will receive a proportionate increase.

### Water Charges

- 5.3 The Council collects the water rates on behalf of Northumbrian Water Company (trading locally as Essex & Suffolk Water) in respect of all unmetered Council houses and remits this to the water company in full including void properties. The Council is compensated separately by the water company for collecting these water rates including a void loss allowance. The Council renewed this arrangement with Northumbrian Water Company with effect from 1 April 2017.

## 6 Management Fee to South Essex Homes

- 6.1 A management fee bid by the Board of South Essex Homes has been received by the Deputy Chief Executive - People, which following negotiations has been agreed. The proposed fee has been set mindful of the financial pressures within the HRA. The bid is summarised in the table below.

	<b>2017/18 Budget £000</b>	<b>2017/18 Forecast £000</b>
Management Fee	5,532	5,532
Inflationary Pressures		196
Fibre Connectivity to Sheltered		58
Increase in Hostel Places		62
GDPR Support from the Council		39
Less:		
Inflation Absorbed		(149)
<b>Total Management Fee</b>	<b>5,532</b>	<b>5,738</b>

- 6.2 The inflationary pressures for South Essex Homes are in respect of primarily employee related increased costs.
- 6.3 South Essex Homes have also requested one-off financial support of £10,000 to complete the data cleansing, training and embedding of new data protection practices in compliance with General Data Protection Regulations (GDPR).

- 6.4 They have also requested £140,000 to undertake a project to achieve better integration between the various ICT systems that the company uses, with the aim to achieve efficiencies going forward. Whilst the bid is supported, it is suggested that any monies only be released on submission of a full business case to the Council's Housing Client team.
- 6.5 Following decisions made as part of last budget setting, South Essex Homes also receive a significant proportion of their income from service and heating charges levied directly on tenants and leaseholder. It is beholden on South Essex Homes and the Council to ensure that service charges to tenants are reasonable, and as near as possible are set on a cost recovery basis. South Essex Homes has therefore proposed increases in these charges as set out below for Members endorsement.

### **Service Charges (SEH Charge)**

- 6.6 2010/11 saw the completion of the current round of service charge unpooling from the main rent. This was the process where previous "all-in" rent payment was split between the rent element and the service charge element. There are no proposals as part of this budget to unpool further costs from the main dwelling rental. There is therefore only the need to consider the uplift of the existing service charges currently levied. Over the past year, there has been a detailed review of the cost-recovery of service charges, which has confirmed that the overall income derived covers the cost of provision. South Essex Homes are therefore recommending an average 4.0% inflationary increase in service charges. As service charges are based on actual costs for each block, and actual services provided, individual charges could change by more or less than the average rise. This will enable service charges to be kept in line with the cost of providing the service. Service charges are generally covered by housing benefit where applicable.

### **Heating Charges (SEH Charge)**

- 6.7 Heating charges for sheltered housing and hostel tenants are monitored on a scheme by scheme basis, with the aim that each scheme broadly covers its costs.
- 6.8 Based on costs associated with heating, South Essex Homes are proposing that there is an average 17% increase in heating charges in 2019/20. The increase is based on the actual costs incurred over the year ending October 2018 and is reflective of utility price increases over that period. Energy prices are volatile, as evidenced by the previous reduction in heating charges in 2018/19.
- 6.9 The actual charge for 2019/20 will be the actual costs associated with each individual scheme.

## **7 Higher Value Voids**

- 7.1 Members will recall that the Housing and Planning Act 2016 introduced a duty on councils to consider selling higher value vacant social housing when it becomes vacant. The Act also empowers the Secretary of State to require an upfront levy payment from the Council, to fund the extension of the Right to Buy to Housing Association tenants. That levy will be calculated by reference to the market value of the Council's "higher value" housing stock, rather than just paying over the proceeds of the actual sales, raising the possibility that should insufficient properties be sold, the HRA will have to fund the levy through other resources.
- 7.2 The Government has signalled through its Housing Green Paper issued 14 August 2018, that it will not invoke any higher value void levy going forward, and that it will repeal the relevant legislation when Parliamentary time allows. Consultation on the Green Paper closed 6 November 2018.

## **8 Options to Balance the HRA**

- 8.1 The HRA budget has been constructed using realistic estimates wherever possible, however as indicated in the report there are a number of areas where legislation is pending that has the potential to significantly alter the proposed budget.
- 8.2 The budget, based on the recommendations above, is shown at Appendix 1. The budget shows an operating surplus of £3.328M. On that basis the HRA is clearly in balance and Members can choose to take no further action. However that surplus is less than it otherwise would have been had the Government not required the Council to reduce rents, and therefore the HRA has less resource for future investment into its stock than it otherwise would have done. Had the Government not forced reductions in secure tenancy rental levels, the annual surplus would have been an estimated £3.300M higher.
- 8.3 £2.143M of the surplus will fund a revenue contribution towards the completion of the current new build programme and the commencement of the next. It is recommended that £60,000 of the remaining surplus be diverted to the Repairs Contract Pensions Reserve under the on-going arrangement put in place when the repairs contract was last let, £1.397M to the Major Repairs Reserve for future reinvestment into the existing stock. Finally to balance the budget, it will be necessary to draw down £0.272M from the HRA Capital Investment Reserve where any revenue surpluses are being accumulated for use in support of future capital investment.
- 8.4 General HRA balances will still remain above the target of £3M at £3.502M.

## **9 HRA Medium Term Financial Plan and Strategy**

- 9.1 The HRA Medium Term Financial Plan is shown at Appendix 2. The forward forecast of the HRA is based on a general assumption of an underlying 2.0% CPI, consistent with the Bank of England's latest forecasts.

9.2 For expenditure, the variations from the 2% assumption are:

- Provision for Bad & Doubtful Debts, where in recognition of the heightened risks of rent arrears arising from the governments welfare reforms, especially now that universal credit is being rolled out in Southend
- South Essex Homes management fee, where a real terms increase of £50,000 per annum is provided for, before efficiency savings
- Depreciation and Interest Charges are based on the underlying business plan and treasury management strategy. The plan allows for borrowings to rollover on maturity.

9.3 For income, it is assumed that rent will increase by CPI + 1% from 2020/21 as indicated by the Government. Other income rises will be limited to an assumption of 2%, in line with the Council's MTFs assumptions for the General Fund. The recharge to capital varies in line with the agreed HRA capital programme.

9.4 Members will be aware of the proposed regeneration of Queensway. The HRA MTFs assumes this to be broadly revenue neutral at this stage, on the basis that lost rental income will be largely offset by a reduced need for management and maintenance. Some basic allowance has been made for a net loss in future years. Clearly much will depend on the final nature of the redevelopment proposal, including how any decant process works. The MTFs will be updated once a better understanding of the timing of any impact is known.

9.5 The Medium Term Financial Strategy demonstrates that the HRA is currently financially robust. Each year of the HRA MTFs an operational surplus is forecast, which will be appropriated to HRA earmarked reserves. HRA reserves are shown at Appendix 3.

## **10 HRA Capital Allowance and Housing Strategy**

10.1 The HRA capital investment programme is reported elsewhere on this agenda. This proposes an indicative programme of works over the next 5 years totalling £49.601M. At the same time, capital receipts generated by the sale of HRA assets continue to be subject to pooling arrangements with up to 75% of proceeds being paid over to government. The Council can take action to preserve the full value of its non-right to buy capital receipts however by declaring a capital allowance under regulation 16 of the Local Authorities (Capital Finance And Accounting) (England) Regulations. This equates to the value of investment back into affordable housing, and as such is equal to the value of the HRA capital programme.

<b>Council Housing and New Build Programme</b>						
Bathroom Refurbishment	263	42	59	52	96	512
Central Heating	951	374	197	161	771	2,454
Common Areas Improvement	3,364	864	864	864	864	6,820
Environmental - H&S works	698	1,080	1,080	1,080	1,080	5,018
Kitchen Refurbishments	691	984	1,002	875	1,107	4,659
Rewiring	221	342	501	739	411	2,214
Roofs	419	1,184	1,335	1,145	1,187	5,270
Windows and Doors	247	1,110	862	944	344	3,507
Future Programme (MRA & Decent Homes)	-	-	-	-	-	-
HRA Disabled Adaptations - Major Adaptations	650	650	650	650	650	3,250
HRA Disabled Adaptations - Minor Adaptations	50	50	50	50	50	250
Sheltered Housing DDA works	345					345
S106 HRA Land Review	1,450					1,450
Construction of New Housing on HRA Land	2,892	7,697	3,094			13,683
Acquisition of leasehold property						-
Acquisition of tower block leaseholds - Queensway	169					169
<b>Total Council Housing and New Build Programme</b>	<b>12,410</b>	<b>14,377</b>	<b>9,694</b>	<b>6,560</b>	<b>6,560</b>	<b>49,601</b>

10.2 Members will be aware that the Housing, Homelessness and Rough Sleeping Strategy has been recently adopted. The HRA will play its full part in the implementation and delivery of the strategy through the use of its capital and revenue resources, which following the Government's decision to lift the HRA debt capital, could include the HRA borrowing to build new affordable homes. Any proposals would be subject to a full business case in the usual manner.

## 11 Other Options

11.1 Given the statutory nature of the required reduction in rents, Members have limited scope to alter the budget.

## 12 Reasons for Recommendations

Part of the process of maintaining a balanced budget for the HRA is to consider and set a rent rise (and associated increases in other income streams). Full Council need to approve the HRA budget prior to the start of the financial year.

## 13 Corporate Implications

13.1 Contribution to the Southend 2050 Road Map  
The recommendations in this report, by providing the resources to maintain and enhance the Council's owed social housing stock, contribute directly to the Southend 2050 Ambition that we are well on our way to ensuring that everyone has a home that meets their needs.

13.2 Financial Implications  
As set out in the report

13.3 Legal Implications  
None at this stage

13.4 People Implications  
None at this stage

13.5 Property Implications  
The recommendations in this report assist in the proper management of the Council's housing stock



- 13.6 Consultation  
Appropriate notice of proposed increases in rents and charges has been factored into the timetable for implementing the recommendations of this report.

Policy and Resources Scrutiny Committee requested that an Equalities Assessment be undertaken in respect of the increases in service and heating charges. This has now been undertaken.

- 13.7 Equalities and Diversity Implications  
An equality impact assessment has been carried out in respect of the proposals contained within this report in respect of the proposed changes in service and heating charge levels. Notwithstanding these are applied equally and consistently across all groups as appropriate to the accommodation they occupy, there is evidence that those not in receipt of housing benefit may be negatively affected by the change in service charges, and that all groups may be negatively affected by the change in heating charges.

Mitigation across all groups will be through South Essex Homes Tenancy Services working with residents to sustain their tenancies and to provide advice and signposting on money management.

- 13.8 Risk Assessment  
The financial risks associated with these proposals have been considered throughout this report, and in particular have been factored into the development of the self-financing business plan, and will be incorporated into the report on the robustness of the budget and the reserves policy to be presented to the February Cabinet.

- 13.9 Value for Money  
The proposals within this report are consistent with the Council's plans to continue to improve value for money within the services it offers.

- 13.10 Community Safety Implications  
None at this stage

- 13.11 Environmental Impact  
None at this stage

## **14 Background Papers**

Equalities Assessment into the impact of the increase in service and heating charges

## **15 Appendices**

Appendix 1 – HRA Budget 2019/20  
Appendix 2 – HRA Medium Term Financial Plan 2019/20 to 2023/24  
Appendix 3 – HRA Reserves 2019/20 to 2023/24