

Southend-on-Sea Borough Council

Joint Report of Executive Director
(Finance and Resources)
and Deputy Chief Executive and Executive Director
(Housing & Growth)

to
Cabinet

on
16 January 2020

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Draft Housing Revenue Account (HRA) Budget and Rent Setting Report 2020/21
Policy and Resources Scrutiny Committee
Cabinet Member: Councillor Ian Gilbert
A Part 1 Public Agenda Item

1 Purpose of Report

- 1.1 To highlight how investment from the Housing Revenue Account (HRA) will contribute towards meeting housing needs in Southend-on-Sea. The planned investment programme and effective management of the Council's housing stock will also contribute to our Southend 2050 ambition for everyone to feel safe and well and for everyone to have a home that meets their needs.
- 1.2 To present the outcome of Southend-on-Sea Borough Council's annual rent review and associated rent setting proposal for all council dwellings within the HRA for 2020/21. This report also sets out the HRA budget for 2020/21 – 2024/25, together with the information necessary to set a balanced budget as required by legislation.
- 1.3 To present proposals to increase service and facilities charges to recover actual costs, together with a review of rental charges for garages.

2 Recommendations

That Cabinet recommends to Council that, as part of the budget setting process, it approves the following increases with effect from 6th April 2020:-

- 2.1 An average increase on secure tenancy rents of 2.7%;**
- 2.2 An average rent increase of 2.7% on shared ownership properties;**

2.3 An increase of 2.7% for garage rents to £12.02 per week for tenants and £14.42 for non-tenants (being £12.02 plus VAT), a rise consistent with the proposal for the main rent increase. All variants on a standard garage will receive a proportionate increase.

That Cabinet recommends to Council that, as part of the budget setting process, it approves:-

2.4 South Essex Homes core management fee be agreed at £5,971,000 for 2020/21;

2.5 South Essex Homes proposals for average increases of 6.36% in service charges and 16.69% in heating charges to reflect the actual costs incurred be agreed;

2.6 The following appropriations be agreed;

- **£60,000 to the Repairs Contract Pensions Reserve;**
- **£5,319,000 to the Capital Investment Reserve; and**
- **£8,708,000 from the Capital Investment Reserve**

2.7 Subject to item 2.1 through to 2.6 above, the HRA budget for 2020/21 as set out in Appendix 1 be agreed; and

2.8 The value of the Council's capital allowance for 2020/21 be declared as £57,261,000, 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-on Sea Borough Council, 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 for 2020/21.

3.4 The HRA Budget for 2020/21 is summarised at **Appendix 1.**

4 Southend 2050 Housing Ambition

4.1 South Essex Homes has a vital role to play in helping to deliver the Council's Local Housing Strategy and our ambition, developed together with our local community, to ensure that 'everyone has a home that meets their needs'. The three key aims of South Essex Homes are:-

- 1) To support the delivery of quality housing, including affordable housing to meet local needs and promote a sustainable and balanced housing market.
- 2) To support improvement in the quality of the existing housing stock to achieve decent, healthy and environmentally sustainable homes across all tenures.
- 3) To support greater accessibility to different types of housing and promote independent living for our (most) vulnerable residents and continue to work to prevent homelessness.

4.2 This aspiration is being achieved through several initiatives including major investment via the HRA Capital programme of £57,261,000 over the next 5 years. This will ensure that we maintain decent homes and improve those that need it. The types of works will include electrical rewiring, bathroom installations, new roofs, new kitchens, new windows and doors replacements and installation of new more economical and energy efficient boilers.

4.3 The provision of a range of temporary accommodation services provides assistance and support to some of Southend-on-Sea's most vulnerable residents. Our Housing, Homelessness & Rough Sleeping Strategy aims to encourage good quality housing design, management and maintenance, and this directly relates and supports a lot of the day to day work that South Essex Homes undertake.

5 Rent Levels

5.1 The Council reviews and sets all council house rents in line with national policy, guidance and legislation. The average weekly rent charged for 2019/20 on HRA secure general needs tenancies was £86.83 and for sheltered accommodation £75.64.



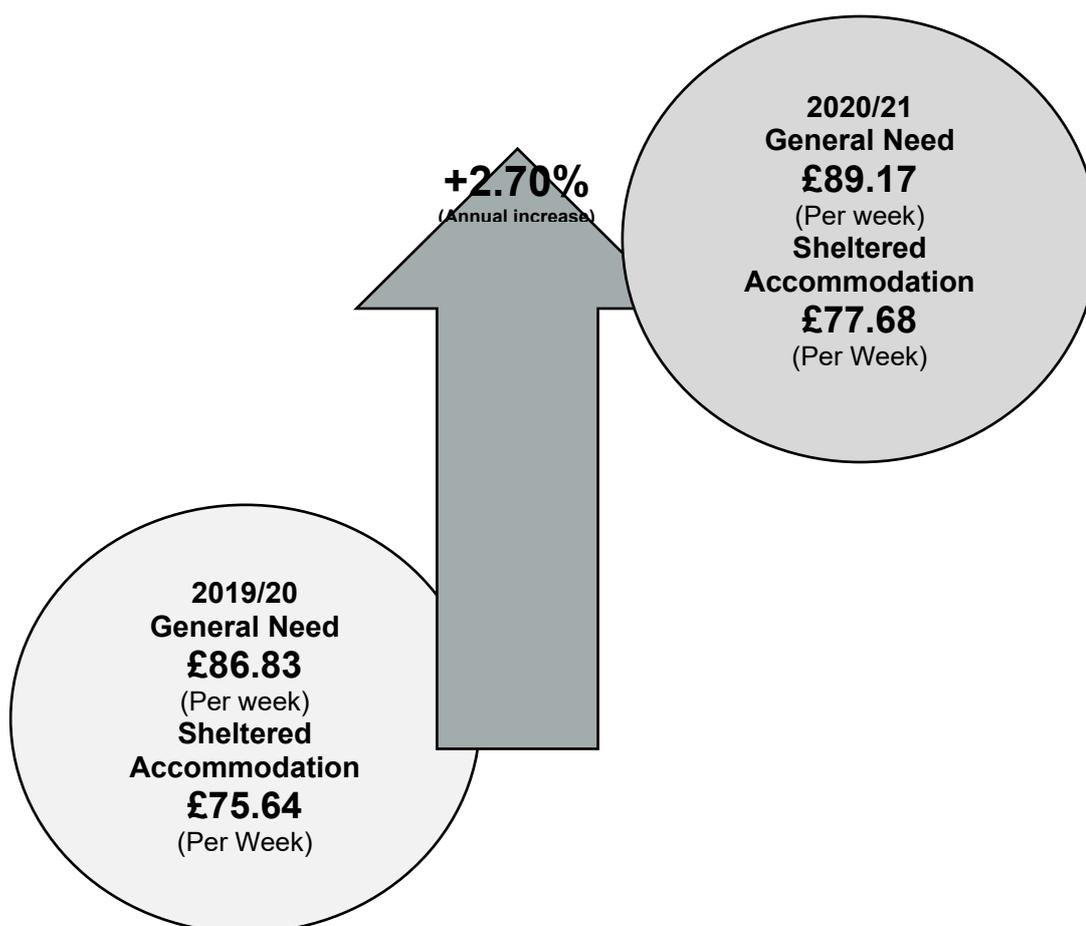
5.2 Since 2001, rents for social housing properties have been set based on a formula set by Central Government, which was calculated based on the relative value of the property, relative local income levels and the size of the property. This created a 'formula rent'. The aim of this approach was to ensure that similar rents are charged for similar type of properties. In Southend, we have about 800 properties that are yet to convert to formula rents.

- 5.3 In 2011, Central Government introduced a new regime for defining affordable rents, which permitted rents (inclusive of service charges) to be set at up to 80% of market rent for a local area. Only new properties (or new social housing) can be let at this new affordable rent level. In Southend, our affordable rent level equates to the Local Housing Allowance (LHA) rates which is lower than the 80% level of market rents. The council currently has 56 properties on the LHA rate, and all new HRA properties will be set at LHA levels and calculated on this basis.
- 5.4 In October 2017, the government announced its intention to set a long term rent deal for both local authority landlords and housing associations. This would allow annual rent increases on both social rent and affordable rent properties of up to CPI at September each year plus 1 percentage point from the financial year 2020, for a period of at least five years ('the new policy'). This equates to a 2.70% increase for 2020/21. The new policy, which comes into effect from April 2020, recognises the need for a stable financial environment to support the delivery of new homes and to enable registered providers to plan ahead and have a viable future financial investment programme.
- 5.5 The Council will be able to continue with its policy to move rents to formula level on change of tenancy. The rent increase for general needs and sheltered tenancies is summarised by number of bedrooms in the table below.

No. of bedrooms	No. of tenancies	Average Rent 2019/20 (£)	Average Rent 2020/21 (£)	Average weekly increase (£)	Average percentage increase
0	537	69.29	71.16	1.87	2.70%
1	2,456	75.92	77.97	2.05	2.70%
2	1,242	84.92	87.21	2.28	2.70%
3	1,554	101.76	104.51	2.75	2.70%
4	91	109.17	112.12	2.95	2.70%
5	1	116.28	119.42	3.14	2.70%
Total Tenancies	5,881				

- 5.6 The rents for the Council's 13 shared ownership properties have traditionally been set on the same basis as a full Council dwelling, on a pro-rata basis to the Council's ownership. It is recommended that these rents continue to increase by the prevailing September CPI rate +1%, being consistent with the proposal for the main rent increase. Across the 13 properties, the Council's ownership ranges from 10% up to 75%.

- 5.7 Rents in the Council's hostels are set with reference to the national formula. This is applied to managing Temporary Accommodation (TA) 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.
- 5.8 Councillors are reminded that a proportion of tenants will be impacted by other welfare reforms. 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. Around 55% of all tenancies also receive housing benefit support that will be funded by Central Government. The majority of these will receive 100% support.
- 5.9 The effective date of any change in rent will be 6 April 2020, being the first Monday of the new rent year. The illustration below shows the average rent increase for both general needs tenancies and for sheltered accommodation proposed for 2020/21.

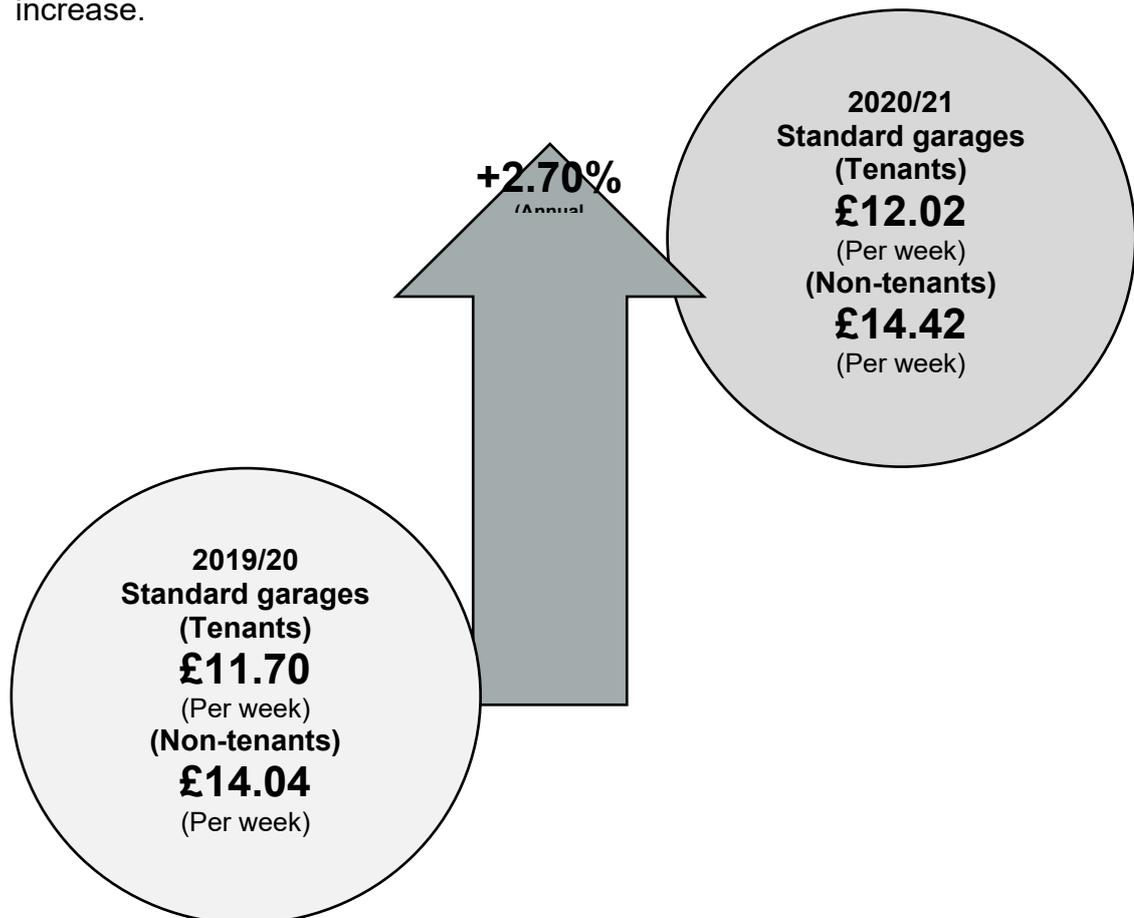


6 Other Fees and Charges

6.1 The HRA has 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 changes.

Garages

6.2 Standard garages are currently charged at £11.70 per week for tenants and £14.04 for non-tenants (being £11.70 plus VAT). It is proposed that both these charges be increased by 2.7%, to be consistent with the proposal for the main rent increase. All variants on a standard garage will receive a proportionate increase.



Water Charges

6.3 The Council (acting as an agent) 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 an appropriate void loss allowance. The Council renewed this arrangement with Northumbrian Water Company with effect from 1 April 2017, which will run until March 2022.

7 Management Fee to South Essex Homes

- 7.1 On an annual basis a management fee bid for the following financial year is sent to the Deputy Chief Executive by the Board of South Essex Homes. Following negotiations the proposed fee has been agreed and has been set mindful of the financial pressures within the HRA. The agreed bid is summarised in the following table.

	2019/20 Budget £000	2020/21 Forecast £000
Management Fee	5,738	5,738
Inflationary Pressures		176
Support for increased Hostel Provision		90*
Professional Support for Residents		23*
Less:		
Inflation Absorbed		(56)
Total Management Fee	5,738	5,971

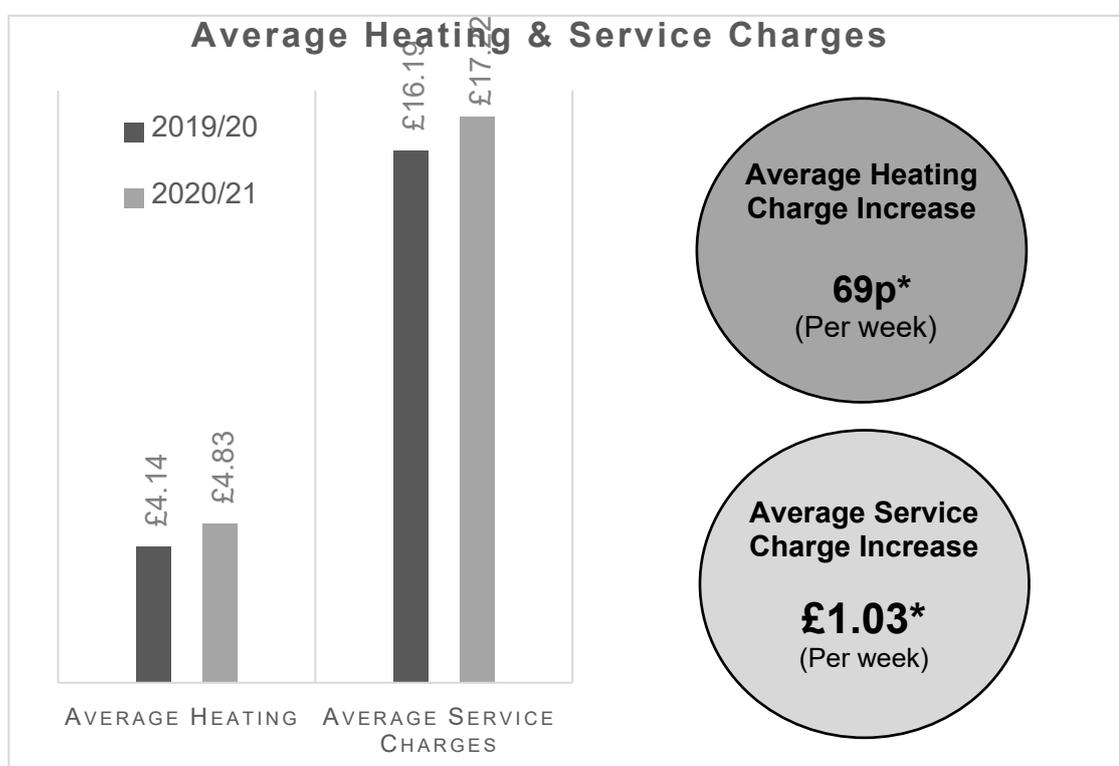
*Pilot extended into 2020/21 – evaluation to be completed by March 2021.

- 7.2 The inflationary pressures for South Essex Homes are primarily in respect of employee related increased costs.
- 7.3 South Essex Homes have also made a number of one-off requests for financial support for 2020/21. Whilst all these requests were valid it has been agreed that South Essex Homes will now review their relative priorities, and also reconsider the potential use of the £150,000 approved as ‘one-off’ for 2019/20. This amount currently remains uncommitted.
- 7.4 This agreement provides some flexibility for South Essex Homes whilst also recognising the financial pressures and challenges within the HRA. This arrangement is fully supported but any monies will only be released on the submission of a clear evidenced business case to the Council’s Housing Client Team.
- 7.5 Following decisions made as part of previous budget setting rounds, South Essex Homes also receive a significant proportion of their income from service and heating charges levied directly on tenants and leaseholders. It is beholden on South Essex Homes and the Council to ensure that service charges to tenants are reasonable, and that they are set as near as possible on an actual cost recovery basis. South Essex Homes has therefore proposed increases in these charges as set out below for Councillors endorsement.

Service Charges and Heating Charges (South Essex Homes Charge)

- 7.6 Over the past year, there has been a detailed review of the cost-recovery of all service charges, to ensure that the overall income received covers the cost of service provision. Based on this analysis South Essex Homes are proposing an average 6.36% increase in service charges.

- 7.7 As service charges are based on both the actual costs for each block and actual costs of services provided, individual charges could change by more or less than the average proposed increase. This will ensure that service charges are kept in line with the cost of providing the service. Service charges are generally covered by housing benefit where applicable.
- 7.8 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.
- 7.9 Based on costs associated with heating, South Essex Homes are proposing that there is an average 16.69% increase in heating charges in 2020/21. The increase is based on the actual costs incurred over the year ending October 2019, and is a combination of utility price increases and tenant usage over that period.
- 7.10 The actual charge for 2020/21 will be the actual costs associated with each individual scheme.



*indicates an estimate (this could go up or down)

8 Options to Balance the HRA

- 8.1 The HRA budget has been constructed using realistic and reasonable estimates based on the best information currently available. The budget, based on the proposals outlined in this report, is shown at **Appendix 1**. The budget shows an operating surplus of £5,379,000 and on that basis the HRA is clearly viable.

- 8.2 The surplus will be primarily used to fund a revenue contribution towards the completion of the current new build programme, and the commencement of the next phase. This means that £5,319,000 is proposed to be appropriated to the Capital Investment Reserve. The remaining £60,000 of the surplus is proposed to be appropriated to the Repairs Contract Pensions Reserve under the on-going arrangement put in place when the repairs contract was last let.
- 8.3 Finally to finance these ambitious plans it will also be necessary to appropriate £8,708,000 from the HRA Capital Investment Reserve. The net overall impact is an appropriation from earmarked reserves of £3,329,000 in 2020/21.
- 8.4 General HRA balances will still remain above the target of £3,000,000 at £3,502,000.

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% CPI, consistent with the Bank of England's latest forecasts.
- 9.2 For expenditure, the variations from the 2% assumption are depreciation and interest charges which are based on the Council's 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 at September + 1% from 2020/21 as indicated by the Government. Other income increases will be limited to 2%, in line with the Council's Medium Term Financial Strategy assumptions for the General Fund. The value of the proposed Capital Investment Programme includes an agreed 8% recharge for facilitation of the capital works and will clearly vary in line with the size of the Programme.
- 9.4 Councillors will be aware of the proposed regeneration of the Queensway Estate. The HRA Medium Term Financial Strategy assumes that this development would 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 liabilities. Some basic allowance has been made for a net loss in future years. Further work will be undertaken to understand the exact implications when the redevelopment proposal is finalised and phased, including how any decant process will work. The Medium Term Financial Strategy will be updated as soon as a better understanding of the exact timing of any impact is known.
- 9.5 The Medium Term Financial Strategy demonstrates that the HRA is currently financially robust and sustainable. From 2021/22 to 2024/25 an operational surplus is forecast, which will be appropriated to HRA earmarked reserves and be available for future investment priorities to continue to deliver improved housing outcomes for Southend-on-Sea tenants. The HRA reserves position are shown at **Appendix 3**.

- 9.6 The Major Repairs Allowance is used to support improvements to existing stock and maintain decent homes standards. The Medium Term Financial Strategy currently assumes around £6,600,000 capital expenditure on the decent homes programme per annum from 2021/22. It is proposed that some of the future HRA surplus be diverted to the Major Repairs Allowance to support and enhance the level of capital investment to maintain and improve the quality of our housing stock.

10 HRA Capital Allowance and Housing Strategy

- 10.1 South Essex Homes supports our ambition that 'everyone has a home that meets their needs'. This will be achieved through a combination of the revenue repairs investment and the HRA capital investment programme, which is included within the main 'Prioritising Resources to Deliver Better Outcomes – 2020/21 to 2024/25' budget report, elsewhere on the agenda. This proposes an indicative programme of works over the next 5 years totalling £57,261,000.

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 at risk of being paid over to Central Government. The Council is taking action to minimise the value that is paid over to Central Government, 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 going back into affordable housing, and as such is equal to the value of the HRA capital programme.

Proposed Capital Investment Programme 2020/21 to 2024/25							
Scheme	Project code	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	Total Budget (all years)
		£000	£000	£000	£000	£000	£000
Council Housing and New Build Programme							
Bathroom Refurbishment	C10161	119	59	52	96		326
Central Heating	C10162	161	197	161	771		1,290
Common Areas Improvement	C10168	927	864	864	864		3,519
Environmental - H&S works	C10163	981	1,080	1,080	1,080		4,221
Kitchen Refurbishments	C10164	1,515	1,002	875	1,107		4,499
Rewiring	C10165	53	501	739	411		1,704
Roofs	C10166	1,037	1,335	1,145	1,187		4,704
Windows and Doors	C10167	1,127	862	944	344		3,277
Future Programme (MRA & Decent Homes)	C10298	-	-	-	-	6,600	6,600
HRA Disabled Adaptations - Major Adaptations	C10015	650	650	650	650		2,600
HRA Disabled Adaptations - Minor Adaptations	C10257	50	50	50	50		200
Sheltered Housing DDA works	C10177	345					345
Housing Construction Scheme - Phase 3	C10684	3,922	654				4,576
Housing Construction Scheme - Phase 4	C10684	2,406	3,782				6,188
Housing Construction Scheme - Modern Methods of Construction (MMC)	C10684	1,112	-				1,112
HRA Affordable Housing Acquisitions Programme	C11044	5,000	3,000	1,500			9,500
Acquisition of tower block leaseholds - Queensway	C10614	800	1,800				2,600
Total Council Housing and New Build Programme		20,205	15,836	8,060	6,560	6,600	57,261

- 10.2 The HRA will also continue to play its full part in the delivery of the Housing, Homelessness and Rough Sleeping strategy through the appropriate use of its capital and revenue resources. Following the Government's decision to lift the HRA debt capital ceiling, it could be possible to use HRA borrowing to build new affordable homes. Any proposals would be subject to a full commercial business case.

- 10.3 The council is continuing with its plans for the housing development pipeline. A number of sites are currently progressing which will form the first phase of the pipeline and the project will soon undertake site feasibility, a due diligence survey and design work to provide more detailed assessments on future sites.
- 10.4 A Regeneration Framework site pipeline will also be produced which will oversee this work. This work is augmented by other approaches to housing supply being progressed, including the use of HRA capital and Right-to-Buy receipts to purchase properties on the open market and bring these into use as affordable housing in the borough. As at the end of December 2019 (Month 9), there had been 18 completed purchases, with a further 9 properties in the pipeline awaiting completion.
- 10.5 The HRA Affordable Housing Acquisitions Programme is 30% financed by retained 'Right to Buy' capital receipts. To ensure all these receipts can be used within the timeframes set by Central Government the total amount of £9,500,000 needs to be spent during the next three financial years with targets in each quarter. The profile has been programmed as £5,000,000 in 2020/21, £3,000,000 in 2021/22 and £1,500,000 in 2022/23. The balance of 70% is financed from the HRA capital investment reserve.
- 10.6 If the Council exceeds any of the quarterly targets that have been programmed then the excess will count towards the next quarter. As conveyancing timeframes cannot be guaranteed the timing of the proposed investment plan is to exceed the targets rather than to just meet them, in case any of the planned property purchases do not proceed.

11 Other Options

- 11.1 There are other options available to councillors in relation to the proposed rent and other services and facilities increases.
- 11.2 The rent standard policy statement published by Central Government in February 2019, allows the council to apply a lower increase or to freeze, or to reduce the rents if they wish to do so but also limits the increase to CPI at September +1%. Setting a rent increase lower than what is proposed in this report would eventually have a detrimental impact on the viability and sustainability of the HRA.
- 11.3 If the HRA does not recover the full costs of services and facilities provided to tenants and leaseholders, there will be a negative impact in terms of the Council's ability through South Essex Homes to continue to manage, maintain and invest in its housing stock and services. The level of income collected is all invested back into the housing stock and range of tenant services. Any reduction in income will clearly have a detrimental impact on the investment plans in 2020/21 and the future.

12 Reasons for Recommendations

Part of the process of maintaining a balanced budget for the HRA is to undertake an annual rent review and assessment of other service and facilities charges. Full Council will need to approve the HRA budget and any changes to rent and other services prior to the start of the financial year.

13 Corporate Implications

13.1 Contribution to the Southend 2050 Road Map

The recommendations that are contained in this report, provide the resources to maintain and enhance the quality of the Council owned social housing stock. This will contribute directly to the Southend 2050 ambition, and outcome 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

The Council is under a duty to maintain a Housing Revenue Account and prevent a debit balance, in accordance with Part VI of the Local Government and Housing Act 1989. Part VI requires the council to prepare proposals relating to the income generated through the collection of rents and other charges, expenditure in respect of repairs, maintenance, supervision and management of Housing Revenue Account property and other prescribed matters. The proposals should be based on the best assumptions and estimates available and should be designed to secure that the Housing Revenue Account for the coming year does not show a debit balance.

The Council has a power to make reasonable charges (rent) for the tenancy or occupation of its dwelling-houses pursuant to section 24 of the Housing Act 1985 and is required to keep under review, the rent it charges. The Council may increase the rent it charges, in accordance with the current tenancy agreement, by giving its tenants a minimum of 28 days prior written notice as permitted by section 102(1)(b) of the Housing Act 1985.

A service charge is an amount payable (directly or indirectly) by a tenant of a dwelling as part of or in addition to the rent. Costs for service charges must be reasonable and reflect the service being provided and must be identified separately to the rent charge. Rent setting is part of good financial planning and important for the forthcoming financial year. The proposals recommended demonstrate that the Council is complying with its statutory duty and government guidance and is in line with the self-financing regime.

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.

13.7 Equalities and Diversity Implications

An equality impact assessment has been carried out in respect of the proposed changes to rent, 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 rent and 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 Cabinet and Council in February 2020.

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 rents, service and heating charges have been carried out.

15 Appendices

Appendix 1 – HRA Budget 2020/21

Appendix 2 – HRA Medium Term Financial Plan 2020/21 to 2024/25

Appendix 3 – HRA Reserves 2020/21 to 2024/25