

<b>COUNCIL</b>	<b>DATE</b> 26 February 2020	<b>ITEM NO</b> 15
<b>TITLE</b> Housing Revenue Account 2020/21 Budget and Rent Setting	<b>WARD(S)</b> All	
<b>CHIEF OFFICER</b> Director of Housing and Safer Communities	<b>CABINET MEMBER</b> Housing	
<b>DECISION CLASSIFICATION</b> - Key decision - Non-Exempt	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b> Yes	

## **I. Decisions Required**

Council is requested:

- I.1 To approve the Housing Revenue Account (HRA) budget proposals for 2020/21 detailed in the report.
- I.2 To agree growth items totalling £4.615 (Section 4).
- I.3 To agree financing measures valued at £4.615m (Section 5), including the following specific items:
  - I.3.1 in line with the Government's rent policy, the decision to increase rents by CPI (Consumer Price Index) plus 1% up to 2025 commencing from April 2020 (Section 5.2).
  - I.3.2 the overall increase in the average weekly charge by £2.37 per week to an average rent per week of £90.30 (CPI +1%) (Section 5.2).
  - I.3.3 the overall increase in the average weekly charge by £0.37 per week to £14.15 per week (CPI +1%) on Tenant Service Charges (Section 5.3).
- I.4 To note the resulting 2020/21 HRA balanced budget position (Section 6.1).
- I.5 To note, with effect from 1 April 2020, the resulting average weekly rent of £104.45, including the separation of a service charge as agreed by the Cabinet in December 2016 (Section 5.4).

## **2. Reasons for Decisions**

- 2.1 This report identifies the rent and budget proposals for the HRA for 2020/21. There is a statutory duty to notify residents 28 days in advance of proposed changes in rents and charges which means decisions need to be taken in sufficient time for implementation effective from 1 April 2020.
- 2.2 It also details how a £4.615m budget gap has been met through various proposals as detailed in sections 4-5 of the report.

## **3. Background**

- 3.1 The HRA is a ring-fenced account relating to the activities of the Council as a landlord of its dwelling stock and contains all income and expenditure from the provision and management of the housing stock. The Council is required by law to avoid budgeting for a deficit on the HRA by virtue of s76 Local Government and Housing Act 1989.
- 3.2 The Council has a set of budget principles as part of the Medium Term Financial Strategy (MTFS) to guide future budget setting for the general fund, which are equally applicable to the HRA:
- a Fairer Greenwich
  - maintaining the highest possible quality and efficient services commensurate with the cuts imposed by central government
  - recognition of front line service pressures
  - maintenance of reserves at a prudent level
  - investing in and delivering the Growth Strategy
  - deepening financial resilience
  - effective governance in the context of diminishing resources.

## **4. Budget Position**

- 4.1 The HRA, along with the rest of council services, faces significant annual pressures.
- 4.2 Although a pay award is yet to be finalised, local government employers have offered a deal worth 2% - the budget therefore includes an allowance for pay alongside other inflationary pressures.

- 4.3 A recent court case challenged the arrangements between councils and Thames Water for collecting water charges on their behalf. Whilst this decision is being appealed, Thames Water have issued notice that they no longer require the borough to collect water charges within the rent bill from 2020/21. The immediate effect of this is to reduce the amount of income available to the HRA via this route.
- 4.4 A calculation is undertaken each year to determine the level of depreciation that should be charged to the HRA. The change year on year will reflect stock changes and inflationary pressures. The total sum available is transferred to the Major Repairs Reserve to help finance stock improvements as part of the council's extensive housing capital investment programme.
- 4.5 The council is looking to expand its capacity to deliver a high quality repairs and capital investment service and as such is investing in this service.
- 4.6 A review of the terms and conditions for our valued caretaking staff has been undertaken.
- 4.7 The effects of other issues such as stock loss and void property management have both positive and negative impacts upon the budget – the overall effect of which is a net cost. Following a change in accounting rules, £31k of the sum lost to revenue, will be available as a capital receipt instead.
- 4.8 The combination of these factors, leads to a gap of £4.615m (Table 1).

*Table 1 – HRA Budget Gap 2020/21*

<b>Growth Pressures</b>	<b>£m</b>
Inflation (pay, materials and contracts)	1.800
Loss of Commissions	1.303
Major Repairs Reserve (stock improvements)	0.544
Repairs and Investment (Phase I) Growth	0.363
Caretaking IVA payments	0.350
Net effect of stock loss, voids etc	0.255
<b>Deficit / (Surplus)</b>	<b>4.615</b>

## **5. Financing the Growth Pressures**

- 5.1 In July 2015, the Government introduced the Welfare and Reform Act 2016 which saw the imposition of a four-year 1% reduction for each year for the financial years 2016-17 to 2019-20. This reinforced the gap between rents in the Royal Borough of Greenwich and other London Boroughs, as shown in

Chart I, which shows the average council rents across London Boroughs in 2017/18. As can be seen, the Royal Borough of Greenwich has the lowest rents in London by some margin.

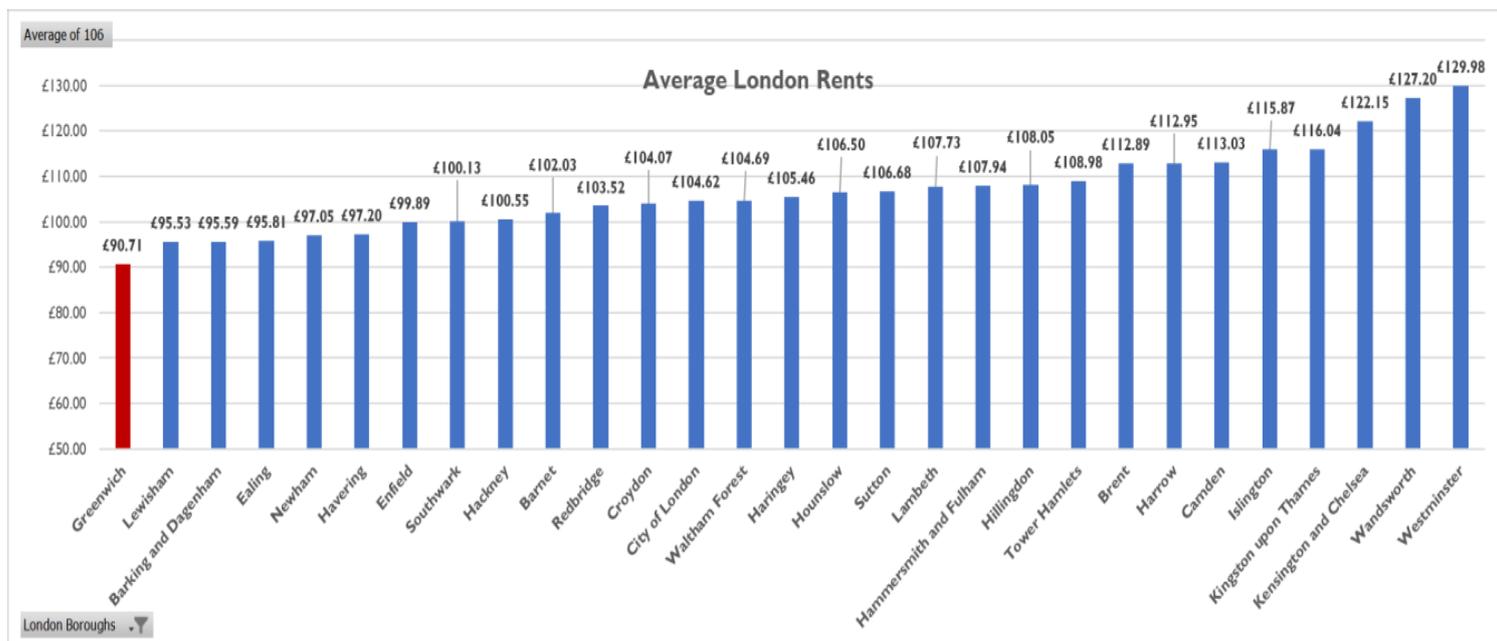


Chart I: Average London Council rents, 2017/18

5.2 In October 2017, the Government announced that at the end of the Welfare and Reform and Work Act 2016 it would return to annual increases of up to CPI plus 1% (2.7% for 2020/21) for a period of five years from 2020-21 to 2024-25 implemented through the Regulator’s Rent Standard 2020, rather than through legislation. The direction also, for the first time, brought local authority registered providers within the scope of the Regulator’s Rent Standard. The Royal Borough of Greenwich is proposing to apply this rent standard and increase its rents by 2.7% effective from 1 April 2020 (Table 2).

Table 2 - Indicative Average Rent 2020/21

Rent	2020/21
Current Average Rent per week	£87.93
2.7% increase	£2.37
<b>Assumed Average Rent per week</b>	<b>£90.30</b>

5.3 The Cabinet at its meeting in December 2016 agreed to the introduction of Service Charges in 2016/17 and this has resulted in the separation of this element from the average rent breakdown. It is also proposed to increase service charges by 2.7% in line with the rent policy (Table 3).

Table 3 - Indicative Service Charge 2020/21

<b>Service Charge</b>	<b>2020/21</b>
Current Service Charge per Week	£13.78
2.7% Increase	£0.37
<b>Proposed Service Charge per week</b>	<b>£14.15</b>

- 5.4 The total average rent and service charge for 2020/21 is £104.45.
- 5.5 The reduction over the past 4 years on HRA resources has had an on-going impact on the base budget and compensating measures to reduce expenditure will therefore have to be developed to ensure the HRA remains in balance.
- 5.6 The HRA makes a contribution towards planned maintenance work on council homes, known as a Revenue Contribution to Capital Outlay (RCCO), which supports the councils overall stock investment programme. The proposal for 2020/21 is for the contribution from the revenue account to be reduced (thereby helping to close the growth gap), but, in order to ensure that the investment programme remains funded, resources allocated to providing against bad debts are released. This is discussed further in section 9.

#### Further Efficiency Proposals

- 5.7 The council remains ever vigilant to the pressures within the HRA, including those around stock and as such has developed a number of efficiency measures which it intends to develop over the coming year:
- delivering 2% efficiencies in core staff outside service charged services (this reflects the fact that a significant part of the HRA-funded structure has not been reviewed since 2015/16, despite stock losses and in some cases, significant changes to the way of work)
  - lowering voids expenditure – reducing the unit costs of empty property refurbishment by 10% through more productive use of the in-house teams and sub-contractors
  - more economic responsive repairs service - reducing use and costs of sub-contractors through increasing operative productivity and subcontractor procurement.
- 5.8 Lastly, a review of the administration of leasehold and Right to Buy (RtB) arrangements will release further resources, incorporating additional sales in the coming year.

- 5.9 The combination of these issues closes the gap to deliver a balanced HRA budget, as is legally required (Table 4).

*Table 4 – Financing of HRA Pressures*

<b>Financing of HRA Pressures</b>	<b>£m</b>
Growth Pressures b/f	4.615
Rent increase	(2.247)
RCCO	(1.196)
Savings / efficiencies	(0.451)
Service Charges	(0.388)
Leasehold / RtB Admin Fees	(0.333)
<b>Deficit / (Surplus)</b>	<b>-</b>

## 6. **HRA Budget 2020/21**

- 6.1 In summary the HRA budget position for 2020/21 is set out in Table 5.

*Table 5 – HRA Budget 2020/21*

<b>HRA Budget Position</b>	<b>2020/21 (£m)</b>	
<b>Income</b>		
Rent	(95.545)	
Tenant Service Charges	(14.770)	
Leasehold Charges	(4.501)	
Other rents (non-dwelling)	(2.585)	
Other Income	(1.480)	
Contribution to Expenditure (Minimum Working Balance)	(3.769)	<b>(122.650)</b>
<b>Expenditure</b>		
General Management	28.541	
Repairs	20.990	
Other Budgets, rents and rates	29.129	
Capital Financing	15.208	
Depreciation - Major Repairs Reserve	28.782	<b>122.650</b>
<b>Net HRA Budget</b>		<b>0.000</b>

### Stock

- 6.2 Council stock reduced in the previous year through 164 Right to Buy (RTB) sales. The HRA gained 13 homes at Vaile Court, Trinity Walk through the Woolwich Estates regeneration programme and in future years the Greenwich Builds programme will add 750 new homes into the HRA.

## **7. Benchmarking**

- 7.1 Housing and Safer Communities have carried out a Benchmarking exercise in 2020/21 and the results will be included in the Revenue Budget Monitoring Report for Cabinet in the summer.

## **8. HRA Welfare Reform**

- 8.1 Universal Credit (UC) continues to pose a significant risk to the HRA. Eleven percent of tenancies are in receipt of UC and these tenancies account for 40% (£2.4m) of the total arrears. Total average UC arrears has stabilised at around £1,400, compared to £600 for non-UC cases. Currently we are averaging 150 new UC cases per month with a total case count of approximately 2500. The rate of Alternative Payment Arrangements (APA - where rent & arrears payments are made direct to RBG) has remained consistent at 26%. UC arrears are outweighing decreases from non-UC arrears cases and indicative forecasting highlights arrears potentially rising from the current level of £6.2m - to £7.3m by the end of 2019/20 and £8.4m by the end of 20/21. The roll out of UC to date has included single claimants and those with a change of circumstances – essentially the easiest claimant types during a test and learn phase.
- 8.2 The next phase of UC will involve the migration of all claimant types on existing legacy benefits (HB, JSA, DLA, ESA. Etc). It is anticipated that this will start around 2022 or later. This poses significant challenges and risks with the most difficult and convoluted claimant types including those with complex mental & physical health, mobility & disability issues, in addition to claimants with a range of other vulnerabilities.
- 8.3 To mitigate against the current risks, a dedicated UC rent verification team has been extended until March 2021 to ensure UC claims & APA payments are processed and expedited, any gaps in benefit claims are reconciled and support & signposting is provided with budgeting, digital skills and employability.
- 8.4 Total Benefit Cap (TBC) cases have reduced from 81 to 73. Some TBC cases will move onto UC and the DWP will retain all information relating to these cases. Under-Occupation Charge (UOC) cases have reduced from 1055 to 852, with new cases resulting primarily from changes to household circumstances.

- 8.5 Substantial DHP payments which previously provided a high degree of coverage and support for this cohort is being increasingly withdrawn due to DHP budget pressures. Some UOC cases will move onto UC and the DWP will retain all information relating to these cases.
- 8.6 Welfare reforms have now been in place for over 7 years. The key policy areas of TBC and UOC are now embedded. We are increasingly embedding these areas as business as usual. However, the complete rollout and implementation of the underpinning of UC remains ongoing, fraught with risks and will remain close to scrutiny.

## 9. **Balances**

- 9.1 A review of the level of contributions made against new debts and cover against existing bad debts arising from rent arrears, has shown that it is possible to release a one-off sum of £1.2m. It is proposed that this sum is utilised for the Revenue Contribution to Capital Outlay in the year, therefore the RCCO for 2020/21 can be maintained at the same level as budgeted in 2019/20. This will be kept under review as the year progresses.
- 9.2 The HRA is expected to start the 2020/21 year with a minimum working balance (MWB) of £3.769m, to safeguard the delivery and sustainability of the budget.

## 10. **Consultation**

- 10.1 Tenant consultation will take place at a meeting of the Borough Wide Panel.

## 11. **Cross-Cutting Issues and Implications**

Issue	Implications	Sign-off
Legal including Human Rights Act	<p>This report is asking Council to agree the rent and budget proposals for the HRA for 2020/21.</p> <p>Under Section 21 of the Housing Act 1985, the general powers of management, regulation and control of Council houses is vested in and shall be exercised by the local authority.</p> <p>Under Section 24, of the Housing Act 1985, a Council may make such reasonable charges, as it determines for</p>	<p>John Scarborough, Director of Legal Services, 11/02/2020</p>

	<p>the tenancy or occupation of its dwellings and it must review rents from time to time and make such changes as circumstances require.</p> <p>The Council 's discretion to determine rent levels is limited by:</p> <p>Section 76 of the Local Government and Housing Act 1989 requires the Council, during the months of January and February immediately preceding the relevant year to formulate proposals relating to (a) income from rents and other charges and (b) the expenditure on repairs, maintenance, supervision and management of its houses.</p> <p>The Council is further obliged to keep the proposals referred to in this report under review to avoid a debit balance and continue to be satisfied during the year. In the event that the Council, on review, determines that this requirement will not be satisfied, then the Council is, by virtue of Section 76(6), required to “make such revisions of the proposals as are reasonably practical towards securing that the proposals (as so revised) satisfy those requirements”.</p> <p>Although the Council is not under a duty to consult tenants in respect of rent and other charges under section 105 Housing Act 1985, the Council is nevertheless under a duty to notify tenants of any variations of rents and other charges by serving Notice of Variation at least 28 days before the variation takes effect. It should therefore be noted that the intention is that the variations proposed in this report take effect from 1<sup>st</sup> April 2020.</p>	
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	<p>The Tenant Service Charge is part of the rent as the Council has (under section 24) the power to charge for the services associated with the occupation of Council tenancies and that can be on a costs recovery basis.</p> <p>From 1 April 2020 the Council is under a duty to set its rent in accordance with the Rent Standard 2020. The Standard was issued by the Regulator of Housing by Direction issued by the Secretary of State for Housing, Communities and Local Government under the Housing and Regeneration Act 2008. The Standard sets out the formula to be applied.</p>	
<p>Finance and other resources including procurement implications</p>	<p>The Director of Finance is required to be satisfied that the overall budgets set by the Council are robust. This applies the same discipline to the General Fund in setting the Council Tax and the Housing Revenue Account in decisions regarding rents and the level of balances. This report has been prepared in consultation with the Director of Finance</p> <p>With regard to Financial Management and Financial Standing, the approach outlined in section 5 is consistent with the budget principles approved for the General Fund Financial Strategy. Providing for known pressures including the effect of rental income reductions and maintaining sufficient bad debt provision to address the effects of welfare reform mitigates the risk to the overall strategy. This is further supported by the maintenance of budget reserves in line with the minimum working balance of £3.769m, which is required to be held separately. There is an outstanding legal case affecting a</p>	<p>Kim Sullivan</p> <p>Head of Accountancy Partnering Services Housing and Safer Communities 20/01/2020</p>

	<p>number of local authorities (including Greenwich) and their relationship with Thames Water in prior years – on current projections, the HRA will be able to meet the liability if it crystallises.</p> <p>The Director of Finance is satisfied that the budget proposals are sufficient to meet the legislative requirements of the Housing Revenue Account, in that the HRA is in balance for 2020/21.</p>	
<p>Equalities</p>	<p>This report sets the HRA budget and rent levels for the Royal Borough of Greenwich’s council housing.</p> <p>The diversity characteristics of council tenants are known in part, and this information is being refreshed in 20/21, which will allow more detailed Equality Impact Assessments of the HRA to be undertaken in the future. The council housing is, by virtue of the Council’s allocations policy, skewed towards those in housing need and in particularly those who were in priority need, including homelessness, when their tenancy started.</p> <p>By balancing the budget, this report secures the advantages of a social rent and of well-managed and maintained secure homes for Council tenants for the forthcoming year.</p>	<p>Jamie Carswell</p> <p>Director of H&amp;SC</p> <p>22/1/20</p>

Background Papers:

None

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