EASTSUFFOLK COUNCIL

SCRUTINY COMMITTEE

Thursday 28 January 2021

HOUSING REVENUE ACCOUNT BUDGET REPORT 2021/22

EXECUTIVE SUMMARY

1. Under the Self-Financing regime, the future resources and spend of the Housing Revenue Account (HRA) are based on local decisions. This report outlines the HRA income and expenditure budgets for the financial years 2021/22 to 2024/25 and notes the forecast position for 2020/21. In addition to this, a summary of its reserves and balances is included. The HRA budgets are fully funded from existing HRA funds to meet the Council's HRA spending plans. This includes the capital investment programme and reserve balances as per the HRA financial business plan. Currently there is no requirement for any additional borrowing.

2. Since 1st April 2016, the Welfare Reform and Work Act 2016 has required social landlords to reduce their rents by 1% each year for four years ('the social rent reduction'). In October 2017, the Government announced that at the end of the four-year rent reduction, there would be a return to annual rent increases of up to the Consumer Price Index (CPI) plus 1% for at least five years. This would be implemented through the Rent Standard set by the Regulator of Social Housing rather than through legislation. On 26th February 2019, the Secretary of State for Housing, Communities and Local Government published a 'Direction to the Regulator' to set a Rent Standard that has applied since 1st April 2020. Alongside this Direction, the Government also issued a policy statement on rents for social housing (the Policy Statement) and the Regulator is required to have regard to this when setting its Rent Standard. For the first time, the Government has directed the Regulator to apply its Rent Standard to <u>all</u> registered providers of social housing, including local authorities. Details of the Policy Statement and Rent Standard from 2020 are provided in this report.

3. This report provides an opportunity for Scrutiny Committee to submit any comments to Cabinet on the proposed 2021/22 budget for the HRA. Committee is asked to consider and make recommendations to Cabinet and Full Council regarding the:

   - HRA budget for 2021/22, and the indicative figures for 2022/23 to 2024/25;
   - Revised outturn position for 2020/21 for noting;
   - Movements in HRA Reserves and Balances;
   - Average weekly rent for 2021/22 of £89.30 over a 50-week collection year (£88.65 2020/21), an average weekly increase of £0.65 or 0.74%;
   - Service charges and associated fees for 2021/22;
   - Changes affecting public and private sector housing and welfare to be noted;

• Effects of COVID-19 to the HRA to be noted.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards within the District

Cabinet Member:	Councillor Richard Kerry Cabinet Member with responsibility for Housing Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officers:	Brian Mew Chief Finance Officer and Section 151 Officer (01394) 444571 brian.mew@eastsuffolk.gov.uk Amber Welham Senior Accountant (01502) 523662 amber.welham@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the Council's housing stock, offset by tenant rents, service charges and other income. The Council has a statutory responsibility to set a balanced HRA budget (i.e. all budgeted expenditure must be matched by income).

1.2 The Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016 made specific and significant provision for changes to the law affecting social housing providers with effect from April 2016. These changes included the statutory reduction of rents by 1% each year for four years, with 2019/20 being the final year of those reductions for the Council.

1.3 In February 2019, the Government set out a new policy statement for rents on social housing (the Policy Statement) effective from 1 April 2020. This was implemented through the Regulator for Social Housing rather than through legislation. The Government published a 'Direction to the Regulator' to set a Rent Standard, and the Regulator is required to have regard to this when setting its Rent Standard. For the first time, the Government has directed the Regulator to apply its Rent Standard to all registered providers, including local authorities. Further detail on the 2020 Rent Standard is covered in Section 6 of this report.

1.4 The new rent policy permits the Council to increase its rents for at least five years by up to the Consumer Price Index (CPI) plus 1%. Since 2001, social rents have been set based on a formula set by the Government and the new policy follows a similar process with the formulas set out in the Policy Statement.

1.5 In 2011, affordable rents were introduced and set at up to 80% of the market rent (inclusive of service charges), and from April 2015 the Government allowed social landlords to charge a full market rent where a social tenant has an annual household income of at least £60,000. This change allowed landlords to make better use of their social housing for properties rented to households with relatively high incomes.

2 KEY ISSUES AND CONSIDERATIONS

2020 Rent Standard

2.1 As referred to in Section 1.3 above, the Government's new policy statement for rents on social housing have been in effect since 1 April 2020 and was implemented through the 2020 Rent Standard. The new rent policy aims to strike a balance between the interests of existing social housing tenants who pay some or all their own rent, the need to build more homes, and the importance of ensuring that providers of social housing have sufficient income to manage and maintain their housing stock.

2.2 The last significant change to rent setting was the 'social rent reduction' which came into effect in April 2016. This required social landlords to reduce their rents by 1% each year for four years. This reduction to rents had a significant impact on the HRA financial business plan. Whilst the impact was contained within the existing parameters of the HRA, it resulted in reduced funds available to invest in the new housing development and redevelopment programme.

2.3 Following the four years of rent reduction, the new rent policy is welcomed. A five-year rent deal provides some stability to the Council in terms of its rental income stream, enabling the Council to plan for its housing development programme for the delivery of additional social housing properties.

Right to Buy Scheme

2.4 As of 6 April 2020, the maximum discount available to Right to Buys (RTB's) is 70% or £84,200 (£112,300 in London Boroughs), whichever is lower. This figure increases each year in line with inflation. In 2012, the Council entered into an agreement with the Secretary of state to retain a share of its RTB receipts to reinvest in the provision of new affordable homes. The receipts used can only fund up to 30% of any investment into new affordable housing and must be spent within three years of receiving them.

2.5 From April 2012 the number of properties sold through the RTB scheme has steadily increased. In 2012/13 only nine properties were sold through the scheme, compared to 28 in 2019/20. Future year estimates are thirty per annum and is built into the HRA financial business plan.

2.6 The implications of RTB sales is a reduction in dwelling rents received. The annual income lost through RTB is on average £100,000 per annum (year on year), adding to the importance of increasing the HRA housing stock. RTB sales are considered when setting the dwelling income budgets.

2.7 2020/21 RTB sales have been reduced due to COVID-19. As of the 31 December 2020 only nine properties have been sold.

3 WELFARE REFORM

3.1 The Welfare Reform Act 2012 introduced major changes to the way people receive housing benefit and other welfare benefits which present new risks to HRA income collection from tenants.

Universal Credit

3.2 The Welfare Reform Act 2012 introduced Universal Credit (UC). It replaces most existing working-age benefits with a single payment made directly to the claimant. Under UC there is a limit to the total amount of benefit a household can claim. As a result of this change there is a high risk that income previously guaranteed to the HRA may now not be collected.

3.3 UC is a single payment for working age people who are looking for work or on a low income. It replaces housing benefit, working tax credit, child tax credit, income support, income-based jobseekers' allowance and income related employment and support allowance. It has been rolled out across the country and was introduced in the District in March 2015. The introduction initially only applied to people who were single and who would have previously applied for jobseekers' allowance.

3.4 All postcodes within the East Suffolk area are covered by UC Full Service.

3.5 UC has given cause for concern with landlords nationally. Landlords, including local authorities who were once guaranteed income, must now rely on claimants to make payments. Measures (see section 3.13 and 3.14) are being implemented to monitor and improve the effects of UC.

3.6 From April 2018, claimants wait time was reduced from six weeks to five weeks. If they are already receiving housing benefits, they will continue to receive this for the first two weeks of the claim process. This has helped reduce pressure on tenants and had a positive impact on rent arrears.

Under-Occupation Charge

3.7 The criteria under the Welfare Reform Act mean that any working-age household deemed to be under-occupying their home receives a cut in their housing benefit or UC. The cut is a fixed percentage of the housing benefit-eligible rent. This is known colloquially as the 'Bedroom Tax'.

3.8 Government has set this at a 14% cut for one extra bedroom and a 25% cut for two or more extra bedrooms. In essence this means, for every £100 charged for rent, tenants will need to contribute £14 or £25 per week from their own resources.

3.9 To help alleviate the pressure of this penalty, the Council's HRA offers the incentive of 'Cash-for-Moving'. This is a widely used scheme across councils to encourage tenants to downsize. Tenants can bid for a smaller property on Gateway to Home-Choice, and if successful the tenant could receive up to £2,000 depending on the number of bedrooms given up. The scheme was in place before welfare reform to encourage better use of the housing stock. During 2020/21 three 'cash for moving' have been processed to 31 December 2020, however, this could be low due to COVID-19. The scheme will be pushed more after the pandemic in 2021/22.

Rent Arrears

3.10 In addition to the loss of rental income, there is growing concern regarding rent arrears. In 2015 the total Benefit Cap was reduced from £26,000 to £20,000 (outside of London). This combined with the roll out of Universal Credit, the under-occupancy charge, and other general factors relating to the economy (such as COVID-19), has increased the risk of rent not being collected.

3.11 2019/20 saw the first year since 2015/16 where the rent arrears position improved. The arrears reduced from £1,100,036.84 in 2018/19 to £972,662.22 in 2019/20, and prepayments increased from £574,331.71 in 2018/19 to £834,972.48 in 2019/20. Giving an overall net improvement of £388,015.39. This is a direct result of the measures implemented in section 3.12 and 3.13.

3.12 To reduce the risk of arrears, new tenants are now asked to pay rent in advance. The amount they pay is linked to how regularly they pay their rent e.g. if a tenant pays weekly, they will be required to pay one week in advance. As of 3 January 2021, the HRA holds £949,074.36 in rent in advance.

3.13 Predictive analytics software was implemented at the end of 2018/19 for current tenant arrears. This has been successful in reducing the number of cases rent officers look at each week, allowing them to get through their case load and contact the tenants whose accounts require action. With the current climate of full UC, it is nationally recognised that standing still in terms of arrears is the new upper quartile position, so to have achieved a reduction is an extremely positive step. Due to its positive impact, the former tenant arrears module was introduced at the end of 2019/20.

3.14 The tenant's portal and text messaging service will go live on the 1 February 2021. This will allow tenants to have 24-hour digital access to their rent account and will enable texting for automated balances or request contact from their Rent Officer. It will also offer paperless direct debits.

3.15 The arrears position as of the 3 January 2021 is currently higher than the closing position for 2019/20, however, it is an improvement on the same period from the previous year. The arrears are currently at £1,107,681.33, compared to £1,238,591.09 for the same rent week in 2019/20.

3.16 The 2019/20 arrears position had the advantage of being a 53-week year. The last week of 2019/20 was an additional rent-free week (as advised by Government), which would have improved the position, as tenants had an additional week where no rent was required, yet arrears could have been reduced.

3.17 Taking all the above facts into account, it is very difficult to predict where the arrears will be at the end of 2020/21. A prudent approach on budget has been taken, however, the statistics are pointing to an improved position, or very little movement at worst. The situation will continue to be monitored closely to achieve the best results possible.

3.18 Landlords are restricted by the 'Coronavirus Act 2020' from serving eviction notices on tenants. Tenants continue to be protected until 21 February 2021 under the act, which could potentially be extended again depending on future Government announcements. From 29 August 2020 the minimum period of notice that can be given is six months unless one of the exceptions below applies.

- Rent being in arrears by at least six months
- Anti-social behaviour
- Domestic abuse
- Obtaining the tenancy by fraud
- Death of the tenant (housing association landlords only)
- No right to rent due to immigration status (housing association landlords only). (MHCLG, 2020)

4 SELF-FINANCING ARRANGEMENT

4.1 The self-financing regime was introduced in April 2012. The Council had to take on a significant amount of debt (£68 million) in exchange for not paying future housing subsidy. This change is beneficial to the HRA over the long-term. It also means the future resources and spend of the HRA are now based on local decisions.

4.2 A 30-year financial business model is used to support the delivery of the HRA under the self-financing regime. It makes assumptions regarding the level of income available and the key risks facing the housing service delivery within this timeframe. It programmes in the years the Council expects to pay back the current borrowing, whilst delivering the required service.

4.3 The HRA funds the costs of borrowing for the initial debt settlement. The Council has chosen to incorporate this debt into the Council's overall borrowing portfolio, creating a single pool and charging interest to the HRA in proportion to the debt it holds.

4.4 Self-financing must not jeopardise the Government's priority to bring borrowing under control. It gives Council landlords direct control over a very large rental income stream, so borrowing financed from this income must be affordable within national fiscal policies as well as locally. Therefore, a limit was placed on the total housing debt that each local authority could support from its HRA. The Councils HRA limit or ‘borrowing cap’ was placed at £87.26 million.

4.5 On 3 October 2018, it was announced by central Government that the HRA borrowing cap was to be ‘scrapped’. It was officially removed on 30 October 2018 by central Government issuing a determination revoking previous determinations that specified a local authority’s limits on indebtedness. Nationally, the borrowing cap was tight in comparison to the value of the housing stocks local authorities hold, for example, the Council’s HRA housing stock has a market value of £567 million as of 31 March 2020, compared to a borrowing cap of £87.26 million.

4.6 As of the 1 April 2020 the total debt for the Council’s HRA was £71.17 million (£68 million from the self-financing settlement and £3.17 million pre-self-financing). In 2021/22, a further £10.77 million will be repaid, reducing the debt to £60.4 million. The HRA spending plans, including its capital investment programme, are currently fully funded from existing resources. Therefore, there is currently no need to make use of any additional borrowing.

4.7 Under self-financing, local authorities now have the opportunity with greater certainty to adopt a more strategic, long term approach to ensure that housing needs are met, that the housing stock is maintained, and where possible additional homes are provided. The Council has used this strategic approach to introduce the housing development and redevelopment programme.

5 HRA 2021/22 TO 2024/25 BUDGETS

5.1 The following table summarises the 2021/22 budget through to 2024/25. With a revised position for 2020/21. A brief description to each heading can be found in **Appendix A**.

	2020/21 Original £000	**2020/21 Revised £000**	**2020/21 Movement £000**	**2021/22 Budget £000**	**2022/23 Budget £000**	**2023/24 Budget £000**	**2024/25 Budget £000**
Income							
Dwelling Rent	(19,157)	(19,237)	(80)	(19,496)	(19,961)	(20,474)	(21,043)
Non-Dwelling Rent	(175)	(178)	(3)	(185)	(190)	(194)	(199)
Service & Other Charges	(1,239)	(1,265)	(26)	(1,227)	(1,126)	(1,114)	(1,103)
Leaseholders Charges for Services	(10)	(14)	(4)	(10)	(10)	(10)	(10)
Contribution towards Expenditure	(34)	(48)	(14)	(33)	(33)	(33)	(33)
Reimbursement of Costs	(285)	(341)	(56)	(306)	(308)	(310)	(313)
Interest Income	(106)	(133)	(27)	(109)	(112)	(115)	(115)
Total Income	**(21,006)**	**(21,216)**	**(210)**	**(21,366)**	**(21,740)**	**(22,250)**	**(22,816)**
10% of total income	**(2,101)**	**(2,122)**	**(21)**	**(2,137)**	**(2,174)**	**(2,225)**	**(2,282)**
Expenditure							
Repairs & Maintenance	4,318	4,889	571	4,292	4,420	4,576	4,689
Supervision & Management	3,456	3,123	(333)	3,397	3,448	3,525	3,599
Special Services	2,109	2,034	(75)	2,191	2,207	2,245	2,271
Rents, Rates and other Charges	102	141	39	102	102	102	102
Movement in Bad Debt Provision	37	254	217	12	22	24	27
Contribution to CDC	87	95	8	95	95	95	95
Capital Charges	3,539	3,495	(44)	3,768	4,128	4,384	4,628
Interest Charges	2,265	2,194	(71)	2,194	2,156	2,156	2,115
Revenue Contribution to Capital	5,410	1,743	(3,667)	5,368	5,559	4,173	5,225
Transfer to Earmaked Reserves	-	2,500	2,500	500	-	1,000	500
Total Expenditure	**21,323**	**20,468**	**(855)**	**21,919**	**22,137**	**22,280**	**23,251**
Movement in the HRA balance	**317**	**(748)**	**(1,065)**	**553**	**397**	**30**	**435**
HRA Balance carried forward	**(4,916)**	**(5,981)**	**(1,065)**	**(5,428)**	**(5,031)**	**(5,001)**	**(4,566)**

Highlights Regarding 2020/21 Revised in table 5.1.

Income

5.2 2020/21 forecasted income (Dwelling Rents and Service Charges) has increased by 1% of total original income budget. Much of this relates to the reduced numbers of RTB sales in 2020/21.

5.3 Increase in contribution towards expenditure relates to reimbursement of RTB discount for a property sold within five years of purchasing. This is a rare occurrence and is not budgeted for year on year.

5.4 Increase in reimbursement of costs directly links to increases in repairs and maintenance expenditure.

5.5 Although interest rates reduced during 2020/21, the HRA balances are higher than anticipated, due to savings in 2019/20 and delays in the capital programme in 2020/21, resulting in an increase on interest income.

Expenditure

5.6 There are some large movements on the expenditure. The increased revenue expenditure on repairs and maintenance net off against the increased income on reimbursement of costs and savings on revenue contribution to capital. These costs relate to unrecoverable salary costs of the operatives during the COVID-19 lockdown. During the initial lockdown, only void works and emergency repairs were carried out. Measures put in place to protect operatives such as reduced numbers of staff on site, no mixing of teams (small 'bubbles' created) all contributed to delays in progress of work during July to December 2020. With the current COVID-19 position (as January 2021), the team has reduced repairs services back to only carrying out void works and emergency repairs. Some operatives have been redeployed to the communities' team to help with deliveries to the District's most vulnerable people. Details of repairs and maintenance budgets can be seen in Section 7 and **Appendix C**.

5.7 There is currently no funding support for the HRA from central Government in relation to COVID-19 related expenditure or loss of income.

5.8 The savings on supervision and management are made up of a combination of things:

- Staff savings relating to leavers and vacancies;
- COVID-19 related savings, such as travel expenses, mileage, conference fees, postage, and printing;
- Legal fees due to no evictions during 2020/21; and
- Most significantly, savings realised from bringing the management of Coppice Court back in house, removing the management fee for this building.

5.9 Savings on Special Services are related to delays in the new build programme due to COVID-19. These costs have been delayed to 2021/22.

5.10 The increase on rents, rates and other charges relate to void properties. This is due to holding a small number of properties empty in early 2020/21 to be used for people such as rough sleepers or key workers to self-isolate during the COVID-19 lockdown. Also, the void turn-around time has increased due to the limited number of operatives that can be on site at any one time.

5.11 The bad debt provision has been increased for 2020/21. This is a prudent approach being taken with the uncertainty of the full impact of COVID-19 on rent arrears. However, it is hoped this will not be required.

5.12 Capital Charges relates to depreciation which has reduced due to delays in the capital programme.

5.13 Interest rates have fallen due to COVID-19, resulting in a saving on loan interest.

5.14 Revenue contributions to capital have reduced significantly. This relates to the housing development and redevelopment programme and the repairs and maintenance programme (mentioned in section 5.6). This is all a direct link to COVID-19. Construction stopped during the first lockdown, which has had a knock-on effect on the programme. Many developments have been pushed back to 2021/22, due to material supplies and social distancing restrictions.

5.15 The savings from the reduced capital spend have been transferred into HRA reserves (see Section 9).

2021/22 to 2024/25 Budgets

5.16 The table demonstrates a healthy HRA working balance. The carry forward balance from 2019/20 was £5.233 million, more than double the requirement. Best practice is considered to have a minimum working balance that approximates to 10% of the total income received in one year. The balance is planned to be drawn down between 2021/22 and 2024/25, to make best use of the funds, but remaining well above the required 10% minimum.

6 RENTS, SERVICES AND OTHER CHARGES

Dwelling Rents

6.1 In February 2019, the Government set out a new policy statement for social housing rents (the Policy Statement) which took effect from 1 April 2020. This replaced the legislative rent reduction of 1% until 31 March 2020 for the Council.

6.2 The Policy Statement was implemented through the 2020 Rent Standard of the Regulator of Social Housing. For the first time the Government has directed the Regulator to apply its Rent Standard to <u>all</u> social housing providers, including local authorities. From 1 April 2020 annual rent increases were permitted on both social and affordable rent of up to CPI (September of the previous year) plus 1% for at least five years to 2024/25. The Rent Standard also provides freedom to apply a lower increase or to freeze or reduce the rent if a registered housing provider chooses to do so.

6.3 The Council works on a 50-week rent period. The 52-week rent value is converted to the slightly higher 50-week value, allowing tenants to have two ‘rent free weeks’ over the Christmas period. This helps tenants at an expensive time of year, and for those in arrears, can help them ‘catch up’.

Social Rent

6.4 Social rent is described as all low-cost rental accommodation. Since 2001 social rents have been set based on a formula set by Government. This new policy follows a similar process with the formula and rent setting guidance, set out in the Policy Statement. Annual updates to the formula calculations are published in November of the previous year.

6.5 Under the Rent Policy the initial rent may be set at a level no higher than formula rent, subject to rent flexibility. The formula rent takes account of relative property values, relative local earnings and a bedroom factor, i.e. smaller properties should have lower rents. The formula rent is also subject to a rent cap. The rent cap applies a maximum ceiling on the formula rent. Therefore, if the formula rent is higher than the rent cap for a particular property, the rent cap must be used instead. The rent caps will increase each year by CPI (September of the previous year) plus 1.5%.

6.6 The Government's Rent Policy recognises that registered housing providers should have some flexibility over the rent set for individual properties, to take account of local factors, in consultation with tenants. As a result, the Policy Statement contains flexibility to set rents at up to 5% above the formula rent (10% for supported housing). However, it must be demonstrated that there is clear rationale for doing so which considers local circumstances and affordability. This flexibility can be applied to new developments.

Affordable Rent

6.7 Affordable rent is exempt from the social rent requirements of the Policy Statement. The Government expects new build properties to be let at affordable rent values. Affordable rent allows the Council to set rents at a level that are typically higher than social rents. The intention behind this flexibility is to enable local authorities to generate additional capacity for investment in new affordable homes. The Council is applying affordable rents to new build or purchased properties and can do so as it has an agreement in place with the Secretary of State. The agreement allows the Council to retain RTB receipts for investment in new affordable rented homes.

6.8 The rent for affordable rent housing (inclusive of service charges) must not exceed 80% of gross market rent, i.e. rent for which the accommodation might reasonably be expected to be let in the private rented sector. The size, location and service provision must be taken into consideration.

6.9 Affordable rents must not increase by more than CPI (September of the previous year) plus 1%. As with social rent setting, this is a ceiling and a lower increase, or to freeze or reduce affordable rents is permitted.

Dwelling Rent Budget for 2021/22 Onwards

6.10 In accordance with the Rent Standard for 2020, rent increases for 2021/22 can be increased by up to 1.5%. This is the CPI for September 2020 of 0.5% plus 1%. This is less than originally anticipated, due to a drop in CPI because of COVID-19. By applying the rent setting policy as set out in sections 6.1 to 6.9 above, the average weekly rent for the HRA for 2021/22 is £89.30 (£88.65 for 2020/21) and is based on a 50-week collection year. This is an average weekly increase of £0.65 or 0.74% from 2020/21 to 2021/22. This increase is less than what was originally anticipated, and a direct result of COVID-19.

6.11 Although rents can be increased by up to 1.5%, this has been capped at the formula rent value for social rents, and the Local Housing Allowance (LHA) rate for affordable rents. Although the formula rent increased for 2021/22, the LHA rate was frozen. This has contributed to the average increase being 0.74% and not 1.5%. As stated in section 6.6, flexibility could have been applied to increase rents further, but the budget could be balanced without this, avoiding any unnecessary hardship on tenants during these difficult times.

6.12 The HRA financial business plan has used the Bank of England (BoE) CPI forecasts for the period 2022/23 to 2024/25 plus 1%. See below;

- 2022/23 (BoE) CPI 1.8% +1% = 2.8%
- 2023/24 (BoE) CPI 2% +1% = 3%

- 2024/25 (BoE) CPI 2.5% +1% = 3.5%

6.13 A 2% increase has been applied from 2025/26 onwards. This prudent approach has been taken, as this will be the end of the five-year CPI +1% agreement and at this point there is no indication as to how Government will allow rents to be increased.

6.14 Other factors are also taken into consideration when calculating the dwelling rent budget for future years. Such as disposals through RTB's or asset management of underperforming stock, reconversions, new build developments and acquisitions.

Service Charges

6.15 Service charges are those charges payable by tenants to reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities, e.g. heating services and communal facilities in sheltered accommodation (Grouped Homes).

6.16 Councils can review their service charges annually. Service charges should be sufficient to cover the cost of providing the service and are not governed by the same factors as rents. Therefore, not all service charges will necessarily increase each year, they will replicate the cost of the service provided. As set out in the Policy Statement, increases for service charges should be managed, where possible, within the limit on rent changes of CPI plus 1%. Exceptions to this include new charges or where services have been extended.

6.17 The proposed service charges for 2021/22 are set out in **Appendix B** of this report. The costs of providing the services have been reviewed and set at a level to ensure that the costs are recovered. The HRA does not make a profit on the service charges, these are purely to recover HRA costs.

6.18 Many of the service charges, outlined in **Appendix B** will not increase in 2021/22. This is due to contracts that run for more than one year for a fixed price, or new contracts have been tendered resulting in reduced costs.

6.19 Grouped Home service charges relate to services provided to sheltered schemes and communal utility costs. The proposed general service charge for grouped homes for 2021/22 is set at an average weekly charge of £13.26 based on a 50-week collection year. This is an increase of £0.41 compared to 2020/21. This is following a £1.02 saving the year before.

6.20 The average heating charge is set to decrease in 2021/22. The 2021/22 average Grouped Homes heating charge is £13.59 based on a 50-week collection year. This is an average weekly decrease of £1.26 compared to 2020/21.

Other Charges

6.21 Garage rents are also set out in **Appendix B**. Garage rents are also collected on a 50-week collection period. For 2021/22 tenant's weekly garage rent is proposed to increase from £8.00 to £8.50, an increase of £0.50 on the 2020/21 charge. The proposed increased for non-tenant weekly garage rent is £11.90 from £11.50 (inclusive of VAT), an increase of £0.50 on the 2020/21 charge.

6.22 The increases are a reflection from extensive market research in the District.

6.23 Garage rents have been considered for approval by Cabinet as part of the 2021/22 Fees and Charges Report.

7 REPAIRS AND MAINTENANCE

7.1 The HRA repairs and maintenance (R & M) programme is split between capital and revenue. Revenue costs are to be funded from the revenue income derived from rents, whilst capital will be funded from the Major Repairs Reserve (MRR).

7.2 The repairs and maintenance revenue budget for 2021/22 has been set at £4.292 million, compared to a revised forecast of £4.889 million in the 2020/21 budget. An analysis of the R & M revenue budget is set out in **Appendix C**. The revised forecast for 2020/21 has a large increase that nets off against savings on the capital programme. It relates to operatives down time during the initial COVID-19 lockdown, and the current lockdown (January 2021).

7.3 The amounts included in the repairs and maintenance revenue budget are deemed sufficient to allow the Council to carry out all necessary major works and to maintain the decent homes standard in all its properties.

HRA Capital Programme

7.4 The HRA capital programme forms part of the Council's overall capital programme, which was presented to Cabinet on the 5 January 2021 and Full Council on the 27 January 2021. The HRA capital programme consists of capital budgets for housing repairs, project development and the housing development programme.

7.5 The HRA capital programme will be funded via the rental income it retains, the Major Repairs Reserve (MRR), Right-to-Buy (RTB) receipts, external funding and capital receipts held. Details of the MRR are set out in section 9.3. Funding of the repairs and maintenance aspect of the capital programme is through the MRR. The 2021/22 HRA capital programme is partly funded by Direct Revenue Financing, which totals £5.368 million. This represents £1.421 million towards housing projects and redevelopment and £3.947 million on the housing development programme.

7.6 The Private Sector Housing Team continues to work hard, improving some of the most vulnerable stock in the District and ensuring that Disabled Facilities Grants are delivered to those who need such works to enable them to stay in their own home. These funds are provided by central Government with the HRA paying the cost of such works for its own council properties.

8 SPECIAL SERVICES

8.1 Special Services are made up of revenue costs for Sheltered Schemes, Warden Services, redevelopment, and the new build programme. As the redevelopment and new build programmes pick up pace, the associated revenue costs also increase. These costs include architect fees, consultant's fees, and staffing.

9 HRA BALANCES AND RESERVES

9.1 The HRA has five Reserves as well as the HRA revenue working balance (see section 5.16 for details on the revenue working balance). **Appendix D** shows the movement and balances of these reserves for the budget period 2020/21 to 2024/25.

9.2 Taking the Welfare Reform Act 2012 into account, the Council established an HRA Discretionary Housing Payments (DHP) 'top up' Reserve in 2012/13 with a fund of £500,000, recognising the unexpected and exceptional difficulties tenants may face arising from these changes. This reserve is to 'top up' the DHP's made by the Council by the value used by HRA tenants, only if the total payments made were to exceed the value of the DHP grant received by the Council. To date, this has not been required. With increased Department for Work and Pensions (DWP) grant in recent years, it is unlikely to be required in 2021/22. However, the reserve will remain, in case it is required for future years. If any funds are to be transferred, it would require approval by the Secretary of State.

9.3 Following the introduction of the self-financing on 1st April 2012 and to meet changes in Accounts and Audit Regulations from 2012/13, depreciation charged to the HRA is no longer in the movement on the HRA statement. Instead, the depreciation charged to the HRA is credited to the Major Repairs Reserve (MRR). The MRR can be used to repay the principal elements of the HRA debt, as well as to finance capital expenditure on our existing dwelling stock. There are plans to use the MRR to part fund the capital programme in each year, whilst still increasing its balances to service future year's debt repayments. The balance as 31 March 2025 is projected to be a healthy £11.433 million, after paying the first instalment of £10.766 million borrowing that is due in 2021/22.

9.4 The viability of the self-financing regime depends ultimately on the Council acting prudently and in doing so, setting sufficient sums aside to meet its future liabilities. The transfer of funds to the Debt Repayment Reserve gives the Council flexibility around its future decisions for repaying the debt. The balance as 31 March 2025 is forecasted to be £14 million. This is planned to pay the second substantial borrowing instalment of £10 million in 2026/27. Future debt repayment instalments will be funded by both the Debt Repayment Reserve and the MRR.

9.5 On 31 March 2020, the Council's housing stock totalled 4,453 units. Between 31 March 2020 and 31 December 2020 there have been nine RTB sales. There have also been nine new properties added to the housing stock (three rented units in Melton, and six shared ownership in Brampton). Giving a nil net movement up to 2020/21 Q3.

10 HOW DOES THIS RELATE TO EAST SUFFOLK STRATEGIC PLAN?

10.1 The HRA budget directly supports the Council's aim of maintaining financial sustainability. With balanced budgets, and the ability to pay off its current debt, it demonstrates its ability to be financially self-sufficient.

10.2 In addition to demonstrating maintaining financial stainability, the budget provides the finances to contribute to other themes within the East Suffolk Strategic Plan priorities, including Growing our Economy – ensuring we have the right mix of housing, and Enabling our Communities – enabling housing needs in the District.

11 FINANCIAL AND GOVERNANCE IMPLICATIONS

11.1 The HRA self-financing regime transferred the financial risk to the Council. The HRA manages this risk through prudent budgeting, careful financial management and adoption of a rolling 30-year financial business plan. The financial sustainability of the budget is managed by ensuring adequate funds are set aside to repay the debt and appropriate levels of working balances are available for any unforeseen costs. It also gives the HRA the opportunities to meet its business objectives whilst creating efficiencies and savings, giving added value for money.

11.2 The HRA budgets 2020/21 to 2024/25 have been updated in the 30-year financial business plan, it shows the current requirements are financial sustainable, and no further borrowing is required at this point.

12 OTHER KEY ISSUES

12.1 This report has been prepared having considered the results of an Equality Impact Assessment, and no issues have been identified. The proposed increase in rent will be eligible for Housing Benefit or Universal Credit. This means that tenants who are in receipt of limited incomes will not be disadvantaged.

12.2 The self-financing regime and the use of the 30-year financial business plan provides, long-term certainty over the Council's future investment decisions.

13 CONSULTATION

13.1 The proposed average weekly rent increase of £0.65 or 0.74% would normally be presented at the January Housing Benefit and Tenants Services Consultation Group. However, due to COVID-19 these meetings have been suspended. As an alternative method of communication, an article has been included in the February 2021 'Tenants Magazine'. If tenants have any issues, they will have the opportunity to contact their rent officer before any changes are implemented. Tenants will also be informed in writing of any changes to their rent and service charges one month before they take effect as normal.

14 OTHER OPTIONS CONSIDERED

14.1 Following four years of compulsory rent reduction, setting rents from 2020/21 below the maximum permitted under the Rent Standard is not recommended for the following reasons:

1) Under self-financing, the debt settlement figure that the Council can afford is based on a valuation of the Council's housing stock. This valuation is based on assumptions about income and need to spend over 30 years and that the Council will follow the Government's social rent policy. Therefore, the main disadvantage of setting rents lower than that permitted by the Rent Standard is the loss of revenue over the 30 years of the HRA business plan, the ability to service the debt and the adverse impact this will have on investment in the Council's existing housing stock and the delivery of the housing development programme as currently planned. There is an expectation from Government for the social housing sector to make the best use of their resources to provide the homes needed.

2) The HRA has the option to borrow additional funds for future projects, as the borrowing cap has been removed, but the affordability of taking any additional borrowing would need to be assessed. At this time there is no need to make use of any additional borrowing, but this situation could change if rental income streams are not maintained.

15 REASONS FOR RECOMMENDATIONS

15.1 To bring together all relevant information to enable Members to review, consider and comment upon the Council's Housing Revenue Account budgets, the average weekly housing rent, service and other charges and movements in reserves and balances, before making recommendations to Full Council on 24 February 2021.

15.2 To advise Members of the wider housing and welfare changes that will impact on future service delivery.

RECOMMENDATIONS

That it be recommended to Cabinet and Full Council that it:

1. Approve the Housing Revenue Account Budget for 2021/22, and the indicative figures for 2022/23 to 2024/25;
2. Note the revised outturn position for 2020/21;
3. Approve the movements in Reserves and Balances as presented in **Appendix D**;
4. Approve the average weekly rent for 2021/22 of £89.30 over a 50-week collection year, an average weekly increase of £0.65 or 0.74%;
5. Effects of COVID-19 on the service in 2020/21 to be noted;
6. Approve the Service Charges and associated fees for 2021/22, **Appendix B**; and
7. Note the changes affecting public and private sector housing and welfare.

APPENDICES	
Appendix A	Summary of Headings on HRA Chart of Accounts
Appendix B	HRA Service and Other Charges
Appendix C	HRA Repairs and Maintenance Revenue Budgets
Appendix D	HRA Balance and Reserve Summary
Appendix E	HRA Budget Key Assumptions

BACKGROUND PAPERS

Please note that copies of background papers have not been published on the Council's website www.eastsuffolk.gov.uk but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

Date	**Type**	**Available From**
January 2021	Equality Impact Assessment	Financial Services Team
31st October 2019	Regulator of Social Housing - Rent Standard April 2020	https://www.gov.uk/government/consultations/consultation-on-a-new-rent-standard-from-2020

APPENDIX A

SUMMARY OF HEADINGS ON CHART OF ACCOUNT

Income;

- **Dwelling Rent**; Rental income from tenants for housing (Including Housing Benefits).
- **Non-Dwelling Rent**; Rental income for garages, and any other assets rented out by the HRA.
- **Services and other Charges**; Service Charges and nonspecific income.
- **Leaseholders charges for services**; Recharges to Leaseholders for works and services.
- **Contributions towards expenditure**; External contributions towards expenditure.
- **Reimbursement of costs**; Rechargeable works to a third party.
- **Interest Income**; Interest received on cash balances held by the HRA.

Expenditure;

- **Repairs and Maintenance;** General Repairs and Maintenance to all housing stock.
- **Supervision and Management;** Costs associated with running the HRA, e.g. tenant's services, office-based staff, IT etc.
- **Special Services;** Sheltered schemes, warden costs, property acquisitions, redevelopment and new development costs.
- **Rents, Rates and other Charges;** Council Tax charges for void properties.
- **Movement in Bad Debt Provision;** Bad debt provision is to hold funds to cover debt (arrears) that are unlikely to be recovered by the HRA. Current Bad Debt provision is at £661k.
- **Contribution to CDC;** CDC is Corporate & Democratic Core costs. This is the HRA's contribution towards these.
- **Capital Charges;** Depreciation charged to HRA assets. (This is transferred to the Major Repairs Reserve. This can fund capital work or contribute to paying down the debt).
- **Interest Charges;** The interest payments relating to HRA borrowing.
- **Revenue contribution to Capital;** Capital expenditure is large repairs work such as 'replacing a kitchen' or building new properties. These are funded from either the HRA 'Revenue Contribution', receipts held through the sale of assets (e.g. Right to Buy Properties), or other reserves and contributions.
- **Transfer to Earmark Reserves;** The HRA has several reserves, but the one used most frequently is the Debt Repayment Reserve. Money is transferred to this reserve each year to pay off the debt held by the HRA.

APPENDIX B

HRA SERVICE AND OTHER CHARGES

The following charges are based on a 50 week collection year. Under current policies, the following increases/(Decreases) in charges are proposed for 2021/22.

	Average Weekly Charge 2020/21 £	Average Proposed Weekly Charge 2021/22 £	Average Weekly Increase/ (Decrease) £
Grouped Homes Service Charges:			
General Service Charge	12.85	13.26	0.41
Heating Charge	14.85	13.59	-1.26
Communal Water Charge	2.93	2.95	0.02
Support Charge	3.33	3.33	0.00
Laundry	3.90	3.90	0.00

	Weekly Charge 2020/21 £	Proposed Weekly Charge 21/22 £	Weekly Increase/ (Decrease) £
Caretaker:			
St Peter's Court	6.15	6.65	0.50
Dukes Head Street	4.55	4.90	0.35
Chapel Court	3.35	3.60	0.25
Servicing:			
Electric Central Heating System (Wet Systems)	1.60	1.60	0.00
Solid Fuel Central Heating System	2.36	2.36	0.00
Gas Fire	0.50	0.50	0.00
Ecodan Central Heating System Air Source Heat Pump	2.30	2.30	0.00
Septic Tank Emptying/Servicing	5.34	5.45	0.11
Flue Maintenance	2.36	2.36	0.00
Grounds Maintenance	1.38	1.38	0.00
Other:			
Communal Area Cleaning Service	0.54	0.54	0.00

	Weekly Charge 2020/21 £	Proposed Weekly Charge 2021/22 £	Weekly Increase/ (Decrease) £	
Garage Rents:				
Tenants	8.00	8.50	0.50	
Non Tenants (net of VAT)	9.50	9.92	0.42	**(11.90 inclusive of VAT)**

APPENDIX C

HRA REPAIRS & MAINTENANCE REVENUE BUDGETS

	2020/21 Approved Budget	2020/21 Forecast Outturn	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Responsive Maintenance	**£**	**£**	**£**	**£**	**£**	**£**
Jobbing Repairs (See note 1 below)	1,552,100	3,035,500	1,621,600	1,698,500	1,841,900	1,922,300
Mutual Exchange	10,000	8,000	10,000	10,000	10,000	10,000
Tenant Allowances	50,000	30,000	40,000	40,000	40,000	40,000
Disabled Adaptations (See note 2 below)	190,000	285,800	257,500	259,300	261,800	264,300
Environmental Works	5,000	0	5,000	5,000	5,000	5,000
Fire Fighting Equipment and Detection	18,000	3,000	5,000	5,000	5,000	5,000
Door Porter and Security Systems (See Note 3 below)	0	4,000	0	0	0	0
Solid Fuel and Heating Repairs	13,000	13,000	13,000	13,000	13,000	13,000
Emergency Lighting	7,000	2,000	7,000	7,000	7,000	7,000
Drainage and Pumping Stations	8,900	8,900	8,900	8,900	8,900	8,900
Rechargeable Works - Incl's Leaseholder Properties	40,000	40,000	40,000	40,000	40,000	40,000
Relet Repairs (Voids) (See Note 4 below)	904,000	472,000	913,000	923,000	923,000	923,000
Lifts	8,000	5,000	8,000	8,000	8,000	8,000
Roof and PVC Panelling Cleaning	37,000	20,000	25,000	25,000	25,000	25,000
External Decoration (See Note 4 below)	120,000	50,000	100,000	130,000	130,000	130,000
Servicing Contracts & Repairs	486,500	471,000	477,000	486,000	496,000	526,000
Asbestos - Removal (See Note 4 below)	80,000	20,000	80,000	80,000	80,000	80,000
Asbestos - Testing (See Note 4 below)	95,000	40,000	95,000	95,000	95,000	95,000
Legionella	6,000	6,000	6,000	6,000	6,000	6,000
Electrical Testing & Repairs (See Note 4 below)	200,000	80,000	100,000	100,000	100,000	100,000
Communal Areas	58,000	20,000	30,000	30,000	30,000	30,000
Total Responsive Maintenance	**3,888,500**	**4,614,200**	**3,842,000**	**3,969,700**	**4,125,600**	**4,238,500**

Planned Maintenance	**£**		**£**	**£**	**£**	**£**
Chimneys (See Note 4 below)	30,000	10,000	20,000	20,000	20,000	20,000
External Walls (See Note 4 below)	25,000	5,000	30,000	30,000	30,000	30,000
Paths / Hardstanding (See note 4 below)	235,000	100,000	250,000	250,000	250,000	250,000
Boundary / Retaining Walls (See note 4 below)	25,000	10,000	30,000	30,000	30,000	30,000
Outbuildings (See note 4 below)	35,000	20,000	40,000	40,000	40,000	40,000
Structural / Damp / Drainage / etc (See note 5 below)	80,000	130,000	80,000	80,000	80,000	80,000
Total Planned Maintenance	**430,000**	**275,000**	**450,000**	**450,000**	**450,000**	**450,000**

Total HRA Housing Repairs	**4,318,500**	**4,889,200**	**4,292,000**	**4,419,700**	**4,575,600**	**4,688,500**

Notes:

Note 1 - The increase to 2020/21 forcast for jobbing repairs relates to the down time of operatives during the lockdown, that can not be recharged to specific capital or revenue works.

Note 2 - The Housing team completes Disabled Adaption works for the Private Sector Housing team. Income is received for this work covering the increase in costs.

Note 3 - From 2021/22 Door Porter security system charges are now accounted for directly under the schemes they relate to, giving a true cost of each asset.

Note 4 - The drop in expenditure in 2020/21 is directly linked to restrictions relating to COVID-19.

Note 5 - 2 large jobs identified in 2020/21.

APPENDIX D

HRA BALANCE AND RESERVE SUMMARY

HRA WORKING BALANCE

	Closing	*2020/21 Movements*		Closing	*2021/22 Movements*		Closing	*2022/23 Movements*		Closing	*2023/24 Movements*		Closing	*2024/25 Movements*		Closing
	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance
	31/03/20	*In*	*Out*	31/03/21	*In*	*Out*	31/03/22	*In*	*Out*	31/03/23	*In*	*Out*	31/03/24	*In*	*Out*	31/03/25
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
HRA Working Balance	**-5,232**	-795	0	**-6,027**	0	553	**-5,474**	0	397	**-5,077**	0	30	**-5,047**	0	435	**-4,612**
10% Requirement	**-2,065**			**-2,122**			**-2,137**			**-2,174**			**-2,225**			**-2,282**

HRA EARMARKED RESERVES

	Closing	*2020/21 Movements*		Closing	*2021/22 Movements*		Closing	*2022/23 Movements*		Closing	*2023/24 Movements*		Closing	*2024/25 Movements*		Closing
	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance
	31/03/20	*In*	*Out*	31/03/21	*In*	*Out*	31/03/22	*In*	*Out*	31/03/23	*In*	*Out*	31/03/24	*In*	*Out*	31/03/25
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Debt Repayment Reserve	**-11,000**	-1,000	0	**-12,000**	-500	0	**-12,500**	0	0	**-12,500**	-1,000	0	**-13,500**	-500	0	**-14,000**
HRA DHP topup Reserve	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**
MMI Reserve	**-60**	0	0	**-60**	0	0	**-60**	0	0	**-60**	0	0	**-60**	0	0	**-60**
Impairment/Revaluation Reserve	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**
Acquisition & Development Reserve	**-4,500**	(1,500)	-	**-6,000**	0	4995	**-1,005**	0	0	**-1,005**	0	0	**-1,005**	0	0	**-1,005**
Total HRA Earmarked Reserves	**-16,316**	-2,500	0	**-18,816**	-500	4,995	**-14,321**	0	0	**-14,321**	-1,000	0	**-15,321**	-500	0	**-15,821**

HRA CAPITAL RESERVE

	Closing	*2020/21 Movements*		Closing	*2021/22 Movements*		Closing	*2022/23 Movements*		Closing	*2023/24 Movements*		Closing	*2024/25 Movements*		Closing
	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance	*Transfers*	*Transfers*	Balance
	31/03/20	*In*	*Out*	31/03/21	*In*	*Out*	31/03/22	*In*	*Out*	31/03/23	*In*	*Out*	31/03/24	*In*	*Out*	31/03/25
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
HRA Major Repairs Reserve	**-20,803**	-3,446	1,594	**-22,655**	-3,719	16,732	**-9,642**	-4,079	3,800	**-9,921**	-4,334	3,700	**-10,555**	-4,578	3,700	**-11,433**

APPENDIX E

HRA BUDGET KEY ASSUMPTIONS

The following key assumptions have been made in the budgets.

Income	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Dwelling rents annual increase (see paragraph 6.12)	0.7%	2.8%	3.0%	3.5%
Allowance for voids - % of total rent roll	1.3%	1.3%	1.3%	1.3%
Garage rents annual increase *	5.3%	5.0%	5.0%	5.0%
Charges for services & facilities annual increase **	0.00%	0.00%	0.00%	0.00%
Write-off allowance	£100,000	£100,000	£100,000	£100,000
Number of dwellings lost through Right To Buys (RTB's)	30	30	30	30
Number of new dwellings added to the stock	30	50	50	50
Average interest rate on HRA balances	0.61%	0.61%	0.61%	0.61%
Expenditure				
Bad Debt Provision	4.76%	4.76%	4.76%	4.76%

* Garage rent increases may seem high, but following extensive market research, it was determined ESC garage rents are particularly low. 5% increase is a gradual increase, year on year, based on the low rents currently charged.

** As service charges are to recover costs, no increases have been assumed. New build properties are less likely to have service charges, compared to properties sold through RTB. Therefore there is a slight decrease in service charge budgets.