

11 February 2020

Lead Officers: Director of Housing Assessments and Solutions and Director of Council Homes, Districts and Regeneration

Wards: All

Agenda Item:

Subject: Housing Revenue Account Rent, Service Charge, Garage Rent and Budget Setting

1. DRAFT RECOMMENDATIONS

The Panel is asked to note the following:

- 1.1. Rent levels in 2020/21 to increase by CPI + 1% against the 2019/20 rate, in line with the Government social rent policy.
- 1.2. The full cost of caretaking, grounds maintenance and bulk refuse collection services will continue to be recovered via service charges applied to tenants that receive the service. The service charges will increase by 2% against 2019/20 rates. They were last increased in 2017/18.
- 1.3. Garage and parking space rents will continue to be charged at 2018/19 rates.
- 1.4. Heating charges will be updated according to latest energy rates

2. EXECUTIVE SUMMARY

- 2.1. This report provides information on the proposed rent and other charges made to council tenants and leaseholders for the financial year 2020/21.
- 2.2. The report also provides information on the Housing Revenue Account (HRA) budget for the financial year 2010/21, detailing the way in which the rental and other income is spent.

3. IMPACT OF CURRENT GOVERNMENT LEGISLATION ON THE HOUSING REVENUE ACCOUNT

- 3.1. The HRA is the main business account for the housing service. It continues to be a ring-fenced account, funded primarily from tenants' rents. The services provided to tenants and leaseholders are paid from this account. This includes responsive repairs, management services and caretaking.
- 3.2. Long-term financial planning is based on the 40 year HRA business plan which is updated annually to reflect changes in legislation and assumptions which

underpin the financial projections. This includes modelling the capital investment both to maintain and update stock.

3.3. The Welfare Reform and Work Bill required that council reduce rents by 1% per annum from 2016/17 to 2019/20. This period of rent reduction has resulted in reduction in spend totalling £13m since 2016/17. As a result the approach taken for budget 2020/21 has been to apply growth where costs have risen due to inflation. The expectation is that the council will increase rents by CPI +1% going forward and hence will have the ability to maintain or improve service levels as well as maintain properties to decent home standards at a minimum.

3.4. **Right to Buy:**

3.4.1. Croydon Council entered into a retention agreement with the government in April 2012. Under the terms of the agreement, the government requires that local authorities can only retain the receipts from right to buy (RTB) sales if they spend it within three years of retention to create new stock by match funding the purchase of this new supply on a 70:30 basis.

3.4.2. The implication of this is that the RTB receipts can only fund 30% of new property development or acquisition costs with the remaining balance of 70% funded through the council's HRA or other resources. Interest is repayable to the government on retained receipts not used within 3 years.

3.4.3. Receipts totalling £43.326m have been retained by LBC since April 2012. £3.302m was used to part fund new build expenditure across 2013/14 and 2014/15. Since then council building has been outsourced to Brick x Brick and so the balance of receipts was building up with no corresponding spend for the following two financial years. In 2017/18, 2018/19 and 2019/20, retained receipts totalling £33.5m have been granted to the Croydon Affordable Homes charity to part fund acquisition of 346 street properties.

3.5. **Borrowing Cap:** The government announced the lifting of the borrowing cap in October 2018. This provides an opportunity for the Council to borrow more money to provide social housing, where it is financially viable and does not adversely impact on the financial sustainability of the HRA.

3.5.1. The lifting of the cap has given the HRA funding capacity to acquire the first units completed by the fully Council owned development company, Brick by Brick, and hence 114 homes will transfer to the HRA across 2019/20 and 2020/21. These acquisitions will be part funded by the GLA in the amount of £100k per unit and the remainder by borrowing. These homes will be let at social housing level rents.

4. **HRA REVENUE BUDGET – 2019/20 INCOME**

4.1. The main changes proposed to the HRA income budgets for 2019/20 are identified below:

4.2. Rent

- 4.2.1. The Welfare Reform and Work Bill required all registered providers of social housing in England to reduce rents by 1% a year for four years from 2016/17. Following this period of reductions, 2020/21 will be the first year in which rents will rise in line with the Regulator of Social Housing direction to permit rises of CPI + 1%, which is equal to 2.7%

Table 1 – Average Weekly Rents –

Property Type	Average weekly Council rent 2019/20	Average weekly Council rent 2020/21
1 bed	£84	£86
2 bed	£102	£105
3 bed	£124	£127

- 4.2.2. Where tenants are eligible for receipt of Housing Benefit, the level of benefit will reflect the higher rent.

4.3. Service Charges

- 4.3.1. It is proposed that service charges increase by 2% from 2019/20 levels in 2020/21 as they have not increased since 2017/18. A full review of the costs will take place in summer 2020.

Table 2 – Tenant Service Charges

	2019/20	2020/21	Change
Tenant Service Charges			
Caretaking	£10.18pw	£10.38pw	£0.20pw
Grounds Maintenance	£2.09pw	£2.14pw	£0.05w

4.4. Garages and Parking Spaces

- 4.4.1. Rents for garages and parking spaces were not increased in 2019/20 and it is proposed that no increase will be applied for 2020/21. As a number of garages have been disposed of in recent years the rental income budget is reduced by £135k.

Table 3 – Parking and Garage Charges

	2019/20	2020/21	Change
Parking Spaces			
Tenants	£7.00pw	£7.00pw	£0.00pw
Non-Tenants	£9.62pw	£9.62pw	£0.00pw
Garages			
Avg. Rent*	£13.13	£13.13	£0.00pw

5. HRA REVENUE BUDGET – 2019/20 EXPENDITURE

5.1. The main changes proposed to HRA expenditure budgets for 2019/20 are identified below:

5.2. HRA expenditure items

5.2.1. Thames Water have terminated their agreement with London Borough of Croydon to collect water rates on their behalf. Tenants will now be receiving separate bills from Thames Water instead of an additional amount being applied to their rent charges. Thames Water were paying an administration fee to London Borough of Croydon in respect of this service in the amount of £437,000 per annum. As a result, Estate Management costs will no longer have this fee to offset against costs.

5.2.2. Inflationary pressures will result in increased expenditure on the repairs and maintenance budget and management costs. Following review, the level of costs recharged from the Council's main general fund for overheads and other costs such as waste collection, grounds maintenance will also increase expenditure within the HRA.

5.2.3. Growth has been included in the expenditure budget to cover these additional costs, of a total £3.4m. Overall, the HRA will continue to make a surplus over its expenditure costs. Surpluses are used to fund the investment programme, as set out below.

5.3. Provision for Bad Debts and Voids

5.3.1. Bad Debts

Bad debt has been included at £0.750m per annum for 2020/21 (no change from 2019/20). This represents a collection rate of rents of around 99%.

5.3.2. Voids

The loss of income associated with void properties is assumed will remain at 2019/20 level at 0.9% for 2020/21.

6. HRA INVESTMENT PROGRAMME – 2020/21

- 6.1. The table below sets out the summary of proposed investment expenditure in 2020/21 compared with 2019/20.

Table 4 – HRA Investment Programme

Investment Type	2019/20	2020/21
	£'000	£'000
Planned Maintenance and Improvements	26,771	26,771
Larger Homes	1,500	0
Special Transfer Payments	180	180
Fire Safety	10,000	0
Additions to the HRA stock	0	8,750
Total Capital Expenditure	38,451	35,701
Responsive and Cyclical Repairs	12,192	12,725
Grand Total	50,643	48,426

6.2. Repairs and Planned Improvement Programmes

The proposed major repairs and improvement programme for 2020/21 will remain at £26.7m. It should be noted that there is also a separate programme of responsive and cyclical repairs which are resourced through revenue funding totalling £12.7m, including the additional amount for inflation compared to 2019/20 costs. A reserve of £5m will be set aside to meet the costs of any future fire safety works. This amount is being ring-fenced from general reserves and we continue to lobby central government for the funding.

6.3. Housing Supply

In the past housing investment has been undertaken using HRA funds and Council borrowing, although this has been limited by the HRA borrowing cap. From 2017, housing new builds have been undertaken by Brick by Brick, the Council's independent development company. Brick by Brick is expected to deliver a total of 114 affordable rent units to transfer into the HRA by 2020/21. These new properties will be funded using HRA borrowing and grant from the Greater London Authority.

6.4. Housing Demand

It is considered that for at least the next 10 years that the housing market in London and the South East will be characterised by rising demand and increased barriers to entry caused by rising house prices, rising rents and population growth. Beyond 10 years it is difficult to predict with any certainty what housing policy will be in place or what structural housing market changes may have occurred.

In order to meet the Mayor of London's housing supply targets, 2,000 homes will need to be developed in the Borough every year for 20 years. The mix of new

housing supply continues to be influenced by numbers of applicants on the Council's housing register locally and the forecasts of future housing need.

7. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

7.1. The financial considerations contained in the main body of the report will allow the HRA to set a balanced budget for 2020/21. It also anticipates that the HRA budget will continue to hold a balanced position over the period of the plan based on the assumptions that have been included in the HRA 40 year business plan.

7.2. **Right to Buy (RTB):** Croydon is currently estimating 80 sales per year, adding additional receipts to the current RTB balance held by the council. The retained RTB receipts are utilised via the purchase and build schemes being undertaken by the Council's development company Brick by Brick and housing charity Croydon Affordable Homes.

7.3. Recent changes and Consultations

The outcome of 'A new deal for social housing' Green Paper consultation, ending in 2018, continues to be awaited. Recent changes and proposals made in the paper that are impacting on the HRA are set out below.

7.3.1. The government has proposed making Right to Buy (RTB) receipts to be available for 50% of social rented new build costs rather than 30%.

7.3.2. The government has proposed extending use of existing RTB receipts to 5 years with new receipts being available for 3 years.

7.3.3. The government confirmed in the Green Paper that it will not bring the disposal of high value void levy of the Housing and Planning Act 2016 on local authorities into effect.

8. COMMENTS OF THE COUNCIL SOLICITOR (TO BE CONFIRMED)

8.1. The Solicitor to the Council comments that under section 25 of the Housing Act 1985 (the Act) the council has the power to determine reasonable charges for its tenancies and leases, and is required by the Act to review these from time to time and to make such changes as circumstances may require. In addition, the housing authority is required, in exercising its functions under these provisions, to have regard to any relevant standards set under section 193 of the Housing and Regeneration Act 2008

8.2. In accordance with the Act the process for varying the rent and charges for secure tenancies and leases is determined by the terms of the tenancy agreement or lease, while for non-secure tenancies section 25 specifies the procedure to be followed. The council is required to give tenants' written notice of the proposed changes to their rental.

9. HUMAN RESOURCES IMPACT

- 9.1. There has been a senior management restructure, but the impact in respect of the HRA has been to move functions across departments. Where possible, we seek to avoid redundancy and all efforts will be made to find suitable alternative posts for affected staff within the organisation.

10. CUSTOMER IMPACT

- 10.1. The proposed HRA budget for 2020/21 includes a rent increase of CPI +1%. Charges for rent and service charges are eligible for Housing Benefit and central government has proposed to uplift Local Housing Allowances following a four year freeze.

11. EQUALITIES IMPACT

- 11.1. The increase in rental income will have an impact on tenants' bills. A large proportion of tenants in council housing claim Housing Benefit and so they will see no direct impact on their expenditure. The increase in rental income will help to reverse the impact of previous rent reductions on the sustainability of the HRA. It has been necessary to make significant savings in expenditure across the four years from 2016/17 onwards which may have an adverse effect on service delivery and tenants. For 2020/21, no savings options have been proposed.
- 11.2. The effect of self-financing and the previous rent increases is a higher level of investment in new housing supply measures and in improving the council's existing stock which will have a positive impact on many groups with protected characteristics because they are more dependent than average on social housing. One of the areas of expenditure which people struggle with is heating costs and this is particularly true for those living in homes which are hard to heat because of their construction or design. The capital programme, next year and in the longer term, will include investment in homes with solid wall construction and other hard-to-heat properties so will be of particular benefit to tenants with the highest heating bills.
- 11.3. Purchase of 114 new homes into the HRA will provide secure tenancies for residents either on the waiting list or in temporary accommodation. These modern homes will provide them with homes which are energy efficient and compliant with standards.

12. ENVIRONMENTAL IMPACT

- 12.1. Energy efficiency measures (including upgrades to boilers, central heating systems and insulation; double-glazing, and the kind of measure referred to above for hard-to-heat homes such as external cladding) are a key investment priority within the repair and improvement capital programme. These measures will contribute to a reduction in CO2 emissions as well as reducing heating bills to ensure that keeping the home warm is affordable. We are also undertaking a pilot ground source heat pump central heating scheme that will see an efficient, zero emission heating system installed to a high rise block, alongside other energy efficiency works.

13. CRIME AND DISORDER REDUCTION IMPACT

- 13.1. There are a range of measures within the council's repairs and improvement programme that support the council's wider objective to improve community safety. These include installation of security entry door systems to flats, environmental improvements, improved lighting, and a targeted security door programme.

14. HUMAN RIGHTS IMPACT

- 14.1. There are no human rights considerations arising from this report.

15. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

- 15.1. The information contained in this report will be accessible as part of the council's Publication Scheme maintained under the Freedom of Information Act, while information held by the council supporting the report may also be accessible under that Act subject to consideration of any relevant.