

9 February 2021

Lead Officers: Director of Housing Assessments and Solutions and Interim
Director of Homes & Social Investment

Wards: All

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 2021/22 to increase by CPI + 1% against the 2020/21 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 1.5% against 2020/21 rates.
- 1.3. Garage rents will also increase by 1.5%
- 1.4. Parking space rents will continue to be charged at 2020/21 rates.
- 1.5. 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 2021/22.
- 2.2. The report also provides information on the Housing Revenue Account (HRA) budget for the financial year 2021/22, detailing the way in which the rent and other income is spent.

3. IMPACT OF COVID-19

- 3.1. Covid-19 has had minimal impact on many of the spending patterns of the HRA landlord services. Additional tenant support was provided at a cost of around £50k of additional overtime during the first wave. Tenant rent collection dipped to 90%

in June 2020 but December debt figures showed that collection had recovered to 98.5% for the year to date and a standard increase to bad debt provision within the £750k budget is expected in 2020/21.

- 3.2. Spend on Planned Maintenance work has slowed fairly significantly across the year due to restrictions and distancing requirements for construction sites. The current forecast is for an underspend of around £3m in 2020/21, to be caught up on in future years.

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

- 4.1. 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.
- 4.2. 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.
- 4.3. 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 and 2021/22 has been to apply growth where costs have risen due to inflation by CPI +1%. 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.
- 4.4. A recommendation on the HRA rent setting policy will be reviewed by cabinet as part of the budget setting papers for submission to full council on 08/03/2021
- 4.5. **Right to Buy:**
 - 4.5.1. Croydon Council entered into a retention agreement with the government in April 2012 relating to capital receipts from Right to Buy (RTB) sales. Under the terms of the agreement, the government requires that local authorities can only retain the receipts from 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.
 - 4.5.2. The implication of this is that the RTB receipts can only fund 30% of new property development or acquisition costs with the remaining 70% costs funded through the council's HRA or other resources. Interest is repayable to the government on retained receipts not used within 3 years.
 - 4.5.3. Receipts totalling over £50m have been retained by LBC from April 2012 to September 2020. £3.302m was used to part fund new build expenditure across 2013/14 and 2014/15. Since then council house building has been outsourced to Brick by 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.

£1.225m was used to fund new-build affordable housing acquisitions within 19/20. No retained receipts have been used to date in 2020/21.

- 4.5.4. The next deadline that the authority has is to spend around £0.6m by 30/09/2021 to avoid returning further receipts and interest to MHCLG. By 31 December 2021 the spend required to use the next instalment of retained receipts is £7.5m and then a further £7.5m by March 2022, totalling around £16m spend of affordable housing required in 2021/22. Analysis is underway to determine how the receipts might be used to part fund social housing acquisitions for the HRA.
- 4.5.5. The 2020/21 deadlines were extended due to Covid and it is possible that this will be repeated into 21/22 although this is in no way confirmed at this stage.

4.6. **Borrowing Cap:**

- 4.6.1. 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.
- 4.6.2. The lifting of the borrowing cap allowed the HRA to purchase 42 new-build units in 2019/20 when borrowing increased by £16.4m relating to the acquisitions. Additional rental income from these properties will cover the additional interest relating to the new borrowing as well as the management and maintenance costs for the new properties.

5. HRA REVENUE BUDGET – 2021/22 INCOME

5.1. The main changes proposed to the HRA income budgets for 2021/22 are identified below:

5.2. **Rent**

5.2.1. 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. 2021/22 will be the second consecutive 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 1.5%

Table 1 – Average Weekly Rents –

Property Type	Average weekly Council rent	Average weekly Council rent
	2020/21	2021/22
1 bed	£86	£87
2 bed	£105	£107
3 bed	£127	£129

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

5.3. Service Charges

- 5.3.1. It is proposed that service charges increase by 1.5% from 2020/21 levels in 2021/22, prior to 2020/21 they had not increased since 2017/18

Table 2 – Tenant Service Charges

	2020/21	2021/22	Change
Tenant Service Charges			
Caretaking	£10.38pw	£10.54	£0.16
Grounds Maintenance	£2.14pw	£2.17	£0.03

5.4. Garages and Parking Spaces

- 5.4.1. Rents for garages and parking spaces were not increased in 2020/21 and it is proposed that a 1.5% increase will be applied to garage rents only for 2021/22. A consultation is required, and planned, to increase parking charges on estates from 2022/23

Table 3 – Parking and Garage Charges

	2020/21	2021/22	Change
Parking Spaces			
Tenants	£7.00pw	£7.00pw	£0.00pw
Non-Tenants	£9.62pw	£9.62pw	£0.00pw
Garages			
Avg. Rent*	£13.13	£13.33	£0.20pw

6. HRA REVENUE BUDGET – 2021/22 EXPENDITURE

- 6.1. The main changes proposed to HRA expenditure budgets for 2020/21 are identified below:
- 6.2. **HRA expenditure items**
- 6.2.1. Legal costs relating to disrepair have been steadily rising for several years, there was an overspend of almost £400,000 in 2019/20 and there is a forecast overspend of £300,000 for 2020/21. Whilst the primary action is to investigate the reasons for the claim and make changes to ensure that these costs are reduced, growth of £343,000 is being added to the budget for 2021/22.
- 6.2.2. Utility costs inflation hasn't been applied for some years whilst related costs have been rising. This is due partly to standard inflation and partly due to discovery of backdated costs when accurate readings have been taken from hard to access meters. Additional budget of £276k has been added to the 2020/21 budget as growth bringing the total budget for gas and electric costs to £1,270,000.
- 6.2.3. The 2020/21 budget included an allowance for a 2% pay award and the final agreed award was 2.75%. The remaining 0.75% has been included as growth for the 2021/22 budget, with a 2% allowance for a pay award in 2021/22. There has also been an increase in pension costs of £400,000 following appraisal by the

Local Government Pension Scheme. The increased costs do not translate to a change in benefits to staff but address a deficit in the pension fund. The change relates to an increase in employer's contributions to the pension fund from 16% to 26%.

6.2.4. A Government approved contribution from the HRA for Discretionary Housing Payments has been made for several years and never built into the budget. This payment is £500,000 and is not more than payments made to HRA tenants.

6.3. Provision for Bad Debts and Voids

6.3.1. Bad Debts

Bad debt has been included at £0.750m per annum for 2021/22 (no change from 2020/21). This represents a collection rate of rents of around 99%.

6.3.2. Voids

The loss of income associated with void properties is assumed will remain at the 2020/21 level at 0.9% for 2021/22.

7. HRA INVESTMENT PROGRAMME – 2021/22

7.1. The table below sets out the summary of proposed investment expenditure in 2021/22 compared with 2020/21.

Table 4 – HRA Investment Programme

Investment Type	2020/21	2021/22
	£'000	£'000
Planned Maintenance and Improvements	26,771	26,771
Larger Homes	0	0
Special Transfer Payments	180	180
Fire Safety	0	0
Additions to the HRA stock	8,750	0
Total Capital Expenditure	35,701	27,951
Responsive and Cyclical Repairs	12,725	12,725
Grand Total	48,426	40,676

7.2. Repairs and Planned Improvement Programmes

The proposed major repairs and improvement programme for 2021/22 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 2020/21 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.

7.3. 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. Analysis is currently ongoing as to what units the HRA could purchase in 2021/22 from Brick by Brick to add to current HRA stock.

7.4. **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.

8. **FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

8.1. The financial considerations contained in the main body of the report will allow the HRA to set a balanced budget for 2021/22. 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.

8.2. **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.

8.3. **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.

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

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

8.3.3. 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.

9. **STATUTORY FRAMEWORK**

9.1. 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

- 9.2. 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.

10. HUMAN RESOURCES IMPACT

There are no immediate direct HR impacts for LBC staff a result of the issues raised in this report. Should there be any future impact for the council's workforce, these will be further advised on by human resources and be managed in accordance with the council's policies and procedures.

Approved by: Sue Moorman, Director of Human Resources

11. CUSTOMER IMPACT

- 11.1. 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.

12. EQUALITIES IMPACT

- 12.1. 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 2021/22, no savings options have been proposed.
- 12.2. 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.
- 12.3. Purchase of 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.

13. ENVIRONMENTAL IMPACT

- 13.1. 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.

14. CRIME AND DISORDER REDUCTION IMPACT

- 14.1. 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.

15. HUMAN RIGHTS IMPACT

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

16. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

- 16.1. 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.