1 October 2019	ITEM: 10
Housing Overview and Scrutiny Committee	
HRA Rent and Service Charges	
Wards and communities affected: All	**Key Decision:** N/A
Report of: Mike Jones, Strategic Lead of Corporate Finance	
Accountable Assistant Director: Carol Hinvest, Assistant Director of Housing	
Accountable Director: Roger Harris, Corporate Director of Adults, Housing and Health and Interim Director of Children's Services, Sean Clark, Director of Finance, IT and Legal	
This report is Public	

Executive Summary

The 2019/20 financial year is the 4th and final year of the governments rent reduction policy. From 2020/21 local authorities and registered providers have the ability to increase social and affordable rents in line with the newly issued Rent Standard.

1. Recommendation(s)

1.1 That the Housing Overview and Scrutiny Committee comment on the proposal for rent and service charge increases within the Housing Revenue Account

2. Introduction and Background

Central Government Directives and Policy

2.1 The Welfare Reform and Work Act 2016 aimed to reset the levels of rents in the social housing sector, relative to private rents. This involved reducing social and affordable rents in England by 1% a year for 4 years from April 2016.

The Act effectively suspended the previous social rent policy guidance. Instead of on-going rent increases of CPI + 1%, landlords of social housing were expected to reduce rents by 1% from 2015/16 levels each year for a period of four years (to 2019/20). The Commons Select Committee was advised that this assumed reversion to previous guidance (CPI + 1%) from

2020/21. This was confirmed in October 2017 and applied annually up to and including the 2024/25 municipal year.

Regulation and Policy

2.2 The significant change to previous regulation is the inclusion of local authority housing within the rent standard issued by the Regulator of Social Housing. In effect, this means that Local Authority rents now follow the same process and standards as those managed by registered social landlords, bringing an end to the convergence objectives prior to the rent reductions

3. Issues, options and analysis of options

Implications for Thurrock Council housing tenants

3.1 The majority of properties within the HRA are charged a social rent, however, the newly developed units are based on affordable rents. The current stock level for the HRA has been updated to August 2019, and the impact of the proposed rent increases are shown below:

Social Rent properties

Number of dwelling by Bedrooms	Number of Properties	2019/20 Average Weekly Rent	2020/21 Rent Increase per week	2020/21 Average Weekly Rent	Additional Annual Income	Total Income 2020/21
		£	£	£	£	£
0	243	59.95	1.92	61.87	23,309	751,718
1	2,800	73.92	2.37	76.29	331,164	10,680,047
2	2,199	80.30	2.57	82.87	282,517	9,111,164
3	4,222	100.55	3.22	103.77	679,222	21,904,904
4	216	113.30	3.63	116.92	39,156	1,262,768
5	7	113.22	3.62	116.84	1,268	40,894
6	2	122.85	3.93	126.78	393	12,678
Total / Average	**9,689**	**87.54**	**2.80**	**90.34**	**1,357,029**	**43,764,172**

3.2 The assumption has been made that the prevailing rate for CPI will be 2.2% (to be confirmed at the end of September 2019), and on that basis, the rent will be increased by 3.2% compared to the 2019/20 level.

Affordable Rents

3.3 The rent setting process for the existing affordable rent properties will follow the same guidance as applied to the properties within the HRA that are charged a social rent. This has the following impact:

Number of Bedrooms	Number of Properties	2019/20 Average Weekly Rent	2020/21 Rent Increase per week	2020/21 Average Weekly Rent	Additional Annual Income	Total Income 2020/21
		£	£	£	£	£
1	18	114.06	3.65	117.71	3,285	105,942
2	59	139.59	4.47	144.06	13,177	424,974
3	13	173.67	5.56	179.23	3,612	116,497
Total / Average	**90**	**139.41**	**4.46**	**143.87**	**20,075**	**647,413**

3.4 In addition to the existing affordable rent properties currently within the HRA, it will be required to calculate the rent levels for the HRA new build schemes that will complete in the near future (namely Topps clubs and Claudian Way). Whilst it is not possible to give an accurate indication of these at the time of writing, included below is a summary as to how the affordable rent levels need to be determined.

3.5 The rent for affordable rent housing (inclusive of service charges) must not exceed 80% of gross market rent. Gross market rent means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.

3.6 Properties let by registered providers are not subject to the Local Housing Allowance. Nevertheless, providers should have regard to the local market context, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located, when setting affordable rents.

3.7 Valuations for initial rent setting must be made in accordance with a method recognised by the Royal Institution of Chartered Surveyors. This requirement is intended to help ensure that registered providers adopt a consistent and transparent approach to the valuation of market rents.

3.8 **South West Essex Broad Rental Market Area (Local Housing Allowance)**

Shared Accommodation Rate: £67.37 per week
One Bedroom Rate: £136.00 per week
Two Bedrooms Rate: £171.08 per week
Three Bedrooms Rate: £199.80 per week

Four Bedrooms Rate: £266.65 per week

Service Charges

3.9 Service charges for both tenants and leaseholders are based on the actual costs of providing services and are set on the basis of full cost recovery. Councils are entitled to recover the costs of these services from all users i.e. leaseholders and tenants. The cost of providing the services is reviewed annually as part of the budget setting process, and the charges set accordingly.

3.10 Leaseholder service charges are set in line with the terms set out in the lease. Tenant's service charges are flat to all tenants receiving the service or service standard.

3.11 Details of the current service charges (for financial year 2019/20) are shown in the table below. As a prudent approximation, it has been estimated that in order to ensure that the cost of service delivery is fully recovered, charges will increase in line with rents i.e. at 3.2% as set out above. The full details of the increases to the charged will then form part of the HRA budget estimates for 2020/21.

Service Charge	2019/20 Weekly Rate	% Increase	2020/21 Weekly Rate
	£		£
Lift Maintenance	3.16	3.2%	3.26
Door Entry	3.34	3.2%	3.45
Door Entry	3.34	3.2%	3.45
Communal Electricity	1.48	3.2%	1.53
Bruyns Court Electricity	3.34	3.2%	3.45
Caretaking	0.58	3.2%	0.60
Caretaking	7.59	3.2%	7.83
Caretaking	8.92	3.2%	9.21
Caretaking	12.66	3.2%	13.07
Caretaking	13.80	3.2%	14.24
Caretaking	13.98	3.2%	14.43
Concierge	32.23	3.2%	33.26
Concierge - Piggs Corner	34.75	3.2%	35.86
Sheltered	10.00	3.2%	10.32
Heating	5.78	3.2%	5.96
Heating	9.22	3.2%	9.52

3.12 Service changes generate income to the HRA in the region of £4.5m per annum. This is essential in order to continue to delivery of services to tenants and leaseholders

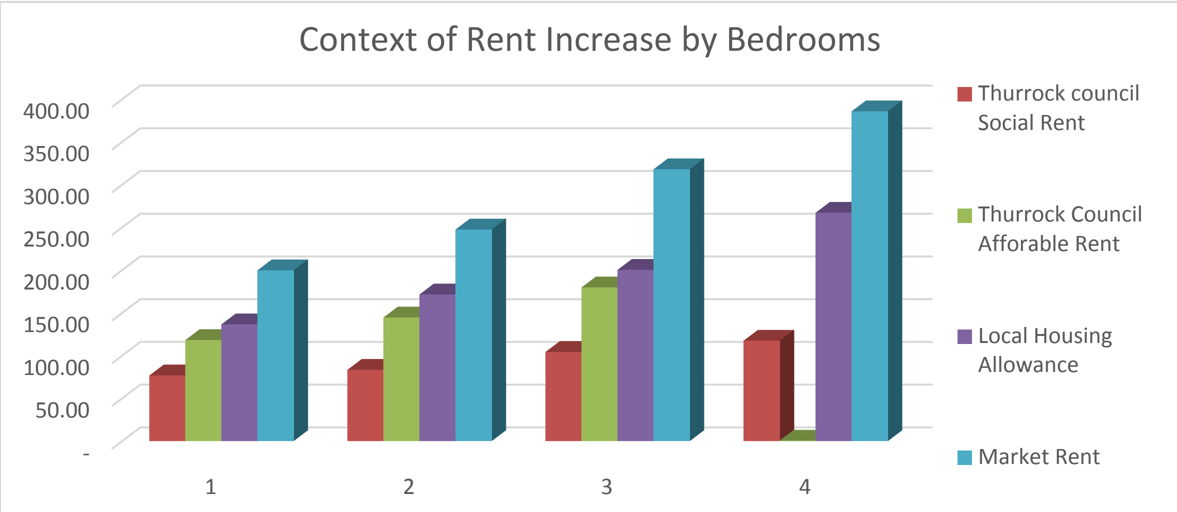
Garage Rents

3.13 The current weekly charges for garage rents are £10 per week for council tenants and £12 per week for non-Council tenants. It is recommended that these charges are increased to £10.50 for a Council tenant, and £15.00 per week for a non-Council tenant in 2020/21. This will bring the up to a level in line with inflation as they have been historically low.

4. Reasons for recommendation

Wider context of HRA rents

4.1 The graph below is an illustration of how HRA rents compare to other levels of charges. This demonstrates that whilst there is a requirement and recommendation to increase the current rents level in line with the government's proposals, social rent levels are still significantly lower than those of the local housing allowance and market rents.



Impact on HRA Business Plan

4.2 The introduction of the rent reduction reduced the cumulative level of resources available within the 30 year HRA business plan by £281.34m. The Medium term financial impact 2015-16 to 2019-20 during the rent reduction period had a cumulative reduction of revenue of £18.7m, meaning that without the rent reduction, the HRA would have an additional £18.7m per annum to spend.

4.3 The decision to reintroduce the ability for Local Authorities to increase rents is essential in order to maintain and improve the existing stock, as well as introduce other improvements within the service.

The following section of the report details the need for significant further investment into the existing housing stock. This is essentially where the additional income raised from rent increases will be spent, in order to maintain and improve the Councils housing stock. Without an increase in the current level of rent, it will not be possible to allocate sufficient additional resources to this without having to find reductions to the current level of front line services

Capital Investment in Existing Stock

4.4 The Stock condition survey undertaken in 2017 demonstrated a need for an overall investment of £101.8m over the next 5 years to ensure all properties are maintained to a good standard and continue to provide reasonably modern facilities and services. A total of £452.485m is required over the 30 year lifespan of the business plan.

Component - Extrapolated costs	£m's Full 30 Years
Dwelling	
Kitchen	35.353
Bathroom	23.455
Heating	37.809
Electrical Works	41.543
Misc	5.642
Communal Areas	
Per Floor	2.420
Lifts	2.990
External Areas	
Roof Renewal	57.596
External Refurbishment	27.407
Boundaries, Landscaping	21.090
Windows and Doors	41.046
Scaffold Access	77.668
Sub Total	374.019
Garages	19.446
Sub Total	393.465
Prelims at 15%	59.020
Grand Total	452.485

4.5 Annual requirements as estimated by the survey fluctuate annually depending on when specific elements are projected to reach the end of their useful lives. On average £15m a year investment is required in our existing stock to ensure it is in good repair and fit for purpose. This equates to a spend per property requirement of approximately £1,530 per property per annum.

4.6 Within the current 30 year HRA business plan (as at February 2019) there are assumptions regarding capital investment in the existing HRA stock. The current capital investment programme of £11.96m a year is addressing the highest priorities only and concentrates on the critical works while not allowing for additional improvements. This investment delivers the current Transforming Homes programme for the next two years and will replace the single glazing in around 1,000 properties.

4.7 In addition, there are also have a large number of properties in the stock where the double glazed windows have reached the end of the lifespan but current investment levels will not accommodate their replacement yet. The current programme will also start to tackle some of the priority external works required on the Garrison Estate but will not accommodate full external refurbishment.

4.8 The Council is commitment to achieving its objectives of providing homes to meet the decent home standard to all of its tenants. The tables below illustrates the funding that the HRA has been able to invest into the Capital programme in prior years.

Budget Profile

4.9 The financial profile of programme is as follows (in £m).

2013/14	2014/15	2015/16	2016/17	2018/19	2019/20	2020/21
16.69	20.29	19.56	10.27	10.06	11.96	11.54

4.10 Furthermore, changes in legislation and items that fall outside of the standard decent homes survey have resulted in the need for the HRA to allocate considerable funding from its capital programme to meet compliance directives.

4.11 It is important to note that the capital budget allocated to the transforming homes programme is required to covers capital costs of works outside of the standard scope for decent homes refurbishment. These additional areas major works to void properties which fall outside of programme, properties with structural concerns, energy efficiency works, management of damp and mould and major adaptation requirements as identified by Adults services.

Key Objectives for Years 7 and 8 of the Programme 2019 – 2021

4.12 Looking ahead for the remaining years of this programme, the following agreed key objectives have been identified:

- Completing internal improvements works to remaining council housing stock, helping to improve long term viability of council properties while improving the wellbeing of residents

- Replacement of single glazing in residential properties in the housing stock. There are a number of properties across the borough with the largest concentration being in the low rise blocks in Ockendon and Belhus.
- Priority external refurbishment in line with the results of the stock condition survey. The priority areas for this are in Chadwell and on the Garrisons Estate in Purfleet
- Continued resident focused delivery in the format that has been proven to deliver strong customer satisfaction results
- Statutory leasehold consultation supplemented with face to face leasehold engagement in relation to external and communal works packages
- Extending strong partnerships with contractors delivering works, ensuring ongoing improvement in performance and partnership working, underpinning the ability of the Council to bring additional tangible benefits to local residents.
- Consulting on and seeking Cabinet approval for the delivery of a programme of stock investment from 2021 onwards

HRA Revenue Position

4.13 The impact of the rent reduction has led the services to take various initiatives in order to maximise the resources available to deliver front line services. Below are some of the initiatives taken to combat with budget pressures and growth during the last four years:

- A major service review was carried out in 2017/18 which resulted in significant changes to each service area within Housing services to generate efficiencies and synergies between the teams
- New Service charges have been identified and the introduction was phased over the last three financial years to ease the burden on the residents.

4.14 Despite these initiatives, the rent reduction has reduced the non-earmarked HRA reserves to the statutory minimum level making it difficult to fund any further budget pressures, growth or the resources required to meet the demands identified within the Capital programme.

4.15 The earmarked reserves within the HRA are committed towards supporting the transforming homes programme, and the remainder are ring-fenced for the delivery of additional housing purposes and cannot be used for any other purpose.

4.16 Moving forwards, while pay inflation (2%) and repairs and maintenance contractual uplift (2.9%) have been built into the business plan, there are no assumptions regarding additional service provision to tenants for housing management or repairs and maintenance as these require either additional income to be identified or significant cuts to be made to existing front line services budgets.

5. Consultation

5.1 A full, detailed consultation exercise with tenants, to fully explain the process and implications of the proposed rent increase with be undertaken throughout October. This will allow sufficient time to provide detailed feedback of this exercise to inform further reports in relation to future year's rents. The increase will ultimately be subject to formal ratification by Cabinet as part of the 2020/21 budget setting approval.

5.2 The consultation process will aim to engage residents with a series of meetings set across the Excellence Panels scheduled meeting dates and their various locations. The meetings will seek to inform tenants of how their rents are calculated, as well as the plans that the department has for how the additional resources will be invested.

6. Impact on corporate priorities

6.1 The recommended increases in rents in line with Central Government policy is essential to allow the HRA's to remain financially viable, and to work towards its objectives of sustaining the capital investment needed to maintain the stock, and ensure compliance with health and safety regulations.

6.2 The HRA is required by statute to make a minimum revenue contribution to finance it's the capital improvements required by existing stock. This is calculated at £10m but there is definite need to increase this in order to meet the requirements detailed in the stock condition survey. The actual requirements for funding were detailed in the Housing Revenue Account – Business Plan and Budget 2019/20 report to the Committee on 18 December 2018.

7. Implications

7.1 Financial

Implications verified by: **Jonathan Wilson**

Assistant Director of Corporate Finance

The financial implications are set out in the body of the report.

7.2 Legal

Implications verified by: **Martin Hall**

Housing Solicitor / Team Leader

Section 76 of the Local Government and Housing Act 1989 imposes a duty on local housing authorities to prevent debit balances arising in their Housing

Revenue Account (“the HRA”). The HRA is a record of revenue expenditure and income in relation to an authority’s own housing stock.

The principal statutory provision governing the fixing of rent for Council property is contained in section 24 of the Housing Act 1985, which provides that authorities may “make such reasonable charges…as they may determine.” Further, it requires the local authority, from time to time, to review rents and other charges and make such changes, as circumstances may require.

7.3 **Diversity and Equality**

Implications verified by: **Natalie Warren**

Strategic Lead of Community Development

The Councils Housing Revenue Account works to reflect the Council’s policy in relation to the provision of social housing with particular regard to the use of its own stock. In addition to the provision of general housing, it incorporates a number of budgetary provisions aimed at providing assistance to disadvantaged groups. This included adaptations to the stock for residents with disabilities.

7.4 **Other implications**

- None

8. Background papers used in preparing the report

- None

9. Appendices to the report

- None

Report Author:

Mike Jones

Strategic Lead

Finance and IT