

**Meeting** EXECUTIVE  
**Portfolio Area** Resources/Housing  
**Date** 20 JANUARY 2021



## FINAL HRA RENT SETTING AND BUDGET REPORT

### KEY DECISION

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### 1. PURPOSE

- 1.1 To update Members on the final proposals on the HRA budgets and rent setting for 2021/22, to be considered by Council on 28 January 2021.
- 1.2 To update Members on the formula for setting rents for 2021/22.
- 1.3 To propose the HRA rents for 2021/22.
- 1.4 To propose the HRA service charges for 2021/22.
- 1.5 To update Members on the 2020/21 and 2021/22 HRA budget, incorporating the Financial Security options and fees and charges included in the December Financial Security report, together with any revised income and expenditure assumptions identified since the HRA MTFs update to the November Executive.

### 2. RECOMMENDATIONS

- 2.1 That HRA rent on dwellings be increased, week commencing 5 April 2021 by 1.5% which is an average increase of £1.46 for social rents, £2.38 for affordable rents and £1.80 for Low Start Shared Ownership homes per week

(based on a 52 week year). This has been calculated using the rent formula, CPI +1% in line with the governments rent policy as set out in paragraph 4.1.1.

- 2.2 That Council be recommended to approve the 2021/22 HRA budget as set out in Appendix A.
- 2.3 That Council be recommended to approve the 2021/22 Financial Security options as set out in Appendix B
- 2.4 That Council be recommended to approve the 2021/22 growth options as set out in Appendix C.
- 2.5 That Council be recommended to approve the 2021/22 Fees and Charges as set out in Appendix D.
- 2.6 That Council be recommended to approve the 2021/22 service charges.
- 2.7 That Council be recommended to approve the minimum level of reserves for 2021/22 as shown in Appendix E to this report.
- 2.8 That the contingency sum of £250,000 within which the Executive can approve supplementary estimates, be approved for 2021/22 (unchanged from 2020/21).
- 2.9 That Council notes the comments from the Overview and Scrutiny Committee as set out in the report.

### **3. BACKGROUND**

- 3.1 In November 2020 the Executive approved the HRA Medium Term Financial Strategy (MTFS). The HRA MTFS included an update on lower borrowing costs, (as a result of the government's reversal of the 1% increase in PWLB rates for housing). However the MTFS did show lower HRA balances by 2024/25 of £1.294Million, compared to the 30 year HRA Business Plan approved at the December 2019 Executive.
- 3.2 For 2021/22 rent setting there has been no change to the government rent policy issued in 2020, which allows social housing providers to increase rents by the Consumer Prices Index (CPI) +1% for a five year period. Guidance released in November 2020 allows local authorities to breach this cap in circumstances of exceptional financial hardship. However, this would not currently apply to Stevenage Borough Council's HRA.
- 3.3 There are still developing policy issues in the HRA regarding the decent homes standard, environmental improvements and building safety regulations. Estimates for the potential impact of changes in these areas have been included in the budget plans, but these will need to be refined as the impact becomes clearer.
- 3.4 For the second year, the outcome of the Government's consultation on 'Use of Right to Buy (RTB) Receipts' and increased flexibilities has still not been concluded. However, local authorities have been allowed to retain their receipts between April 2020 and March 2021 (recently extended from December 2020), without penalties, due to the impact of the COVID pandemic on development schemes. The Government has also issued a further consultation, in November, asking for authorities' current position on

the use of receipts. This may lead to a further extension of the repayment timetable, but this is not known at this time. As there has not been any formal conclusion to the last Government consultation process, future policy regarding the RTB system is not known and this continues to impede the use of the receipts.

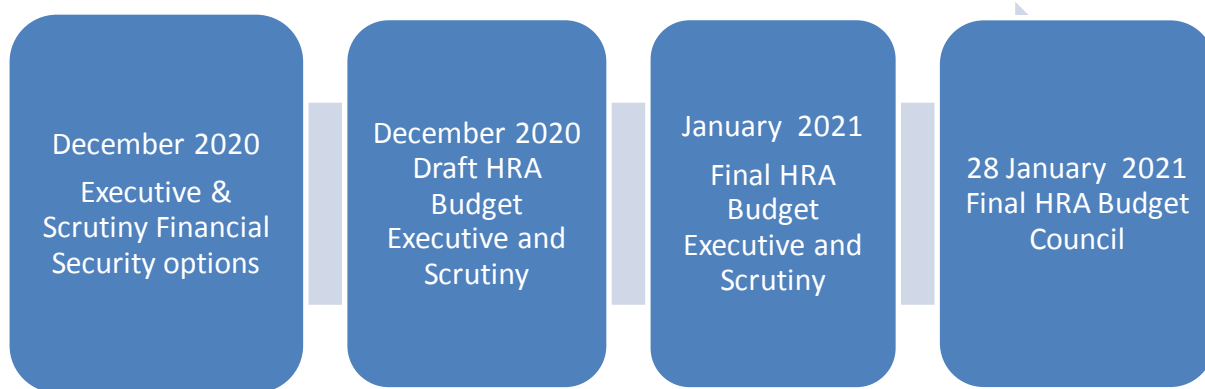
- 3.5 The HRA has been financially impacted by the COVID pandemic. Rent arrears have risen sharply and this is exacerbated by no enforcement, in line with national policy. There have also been additional costs in some parts of the service, most notably in Independent Living, due to increased COVID safety measures. The known impacts have been reflected in the budget proposals, but this is still a developing situation that will continue to be monitored carefully over the coming months.
- 3.6 The total number of HRA homes in management at 6 November 2020 is summarised in the table below. The average rents for 2021/22 are based on current housing stock, any right to buys or new schemes subsequent to this date may change the average rent per property type.

Stock Numbers at 06/11/2020	Social	Affordable	Sheltered	LSSO	Homeless	Total
Number of Properties	6,799	36	840	85	164	7,924

- 3.7 The assumptions in the HRA Draft report to the December 2020 Executive are shown in the table below.

Financial Assumptions in the HRA Draft MTFS	2021/22
<b>Rent &amp; Service Charge Increases</b>	CPI+1% or 1.5%
<b>New Build policy</b>	50% Affordable 50% Social
<b>Right-to-Buys</b>	35
<b>Financial Security options</b>	£224,883
<b>Growth bids</b>	£161,650
<b>Growth bids Business Plan 2019</b>	£950,000
<b>New Build - Number of Units</b>	29
<b>Repayment of Debt</b>	0
<b>New loans</b>	26,602,339
<b>Capital Deficit in the Business Plan</b>	0

3.8 The Budget and Policy Framework Procedure Rules in the Constitution prescribe the Budget setting process, which includes a minimum consultation period of three weeks. Under Article 4 of the Constitution, the Budget also includes: the allocation of financial resources to different services and projects; proposed contingency funds; setting the rents; decisions relating to the control of the Council's borrowing requirement; the control of its capital expenditure; and the setting of virement limits. The timescale required to implement this process is outlined below.



#### 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

##### 4.1 Rents

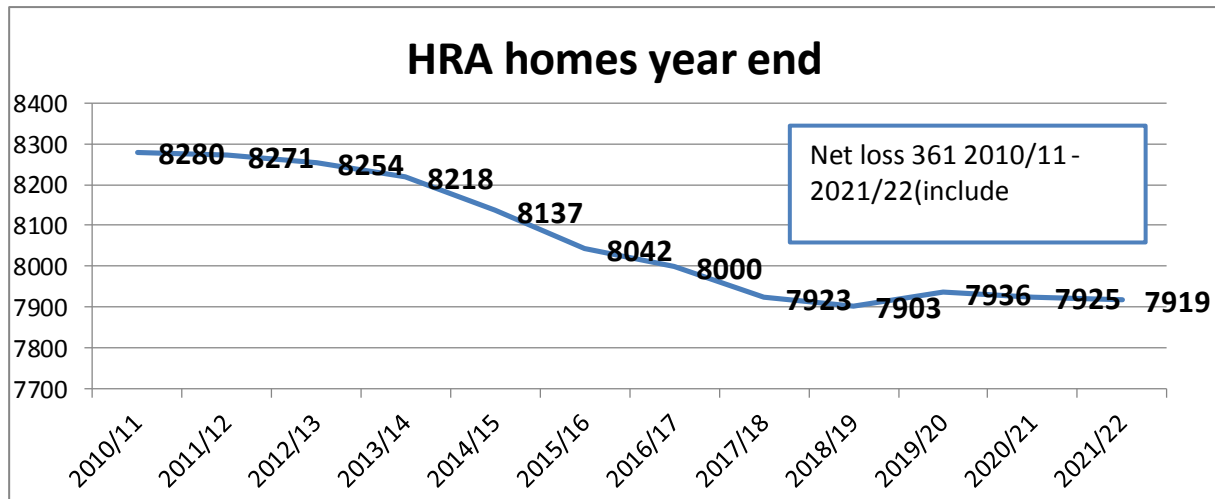
4.1.1 Rents are calculated on a formula of CPI+1% increase for 2021/22. The CPI inflation increase is based on the September index which was 0.5%, this means the increase for 2021/22 for the council's housing stock is 1.5%.

4.1.2 The proposed average rents for 2021/22 are set out in the table below, there are currently 35 affordable rented properties (ranging from four bedroom-two bedroom houses and flats).

Average Rents 2021/22	LSSO	Incr. %	social	Incr. %	Affordable	Incr. %
Average Rent 2020/21	£120.07		£97.58		£159.08	
Add rent impact 2021/22	£1.80	1.50%	£1.46	1.50%	£2.38	1.50%
<b>Total 52 week Rent 2021/22</b>	<b>£121.87</b>		<b>£99.04</b>		<b>£161.46</b>	

4.1.3 The net rental income increase for 2021/22 is estimated to be £609,570, which includes the impacts of estimated right to buys, estimated new properties and properties taken out of management (awaiting redevelopment). This is unchanged from the draft budget to the December 2020 Executive.

4.1.4 The total number of properties available is estimated to have reduced by 361 homes between 2010/11 and 2021/22, (based on net impact of RTB's, new homes, homes awaiting development). The forecast numbers for 2021/22 reflect the latest development timetables for schemes like Kenilworth and Symonds Green and an expected lower level of open market purchases, while they are being built.



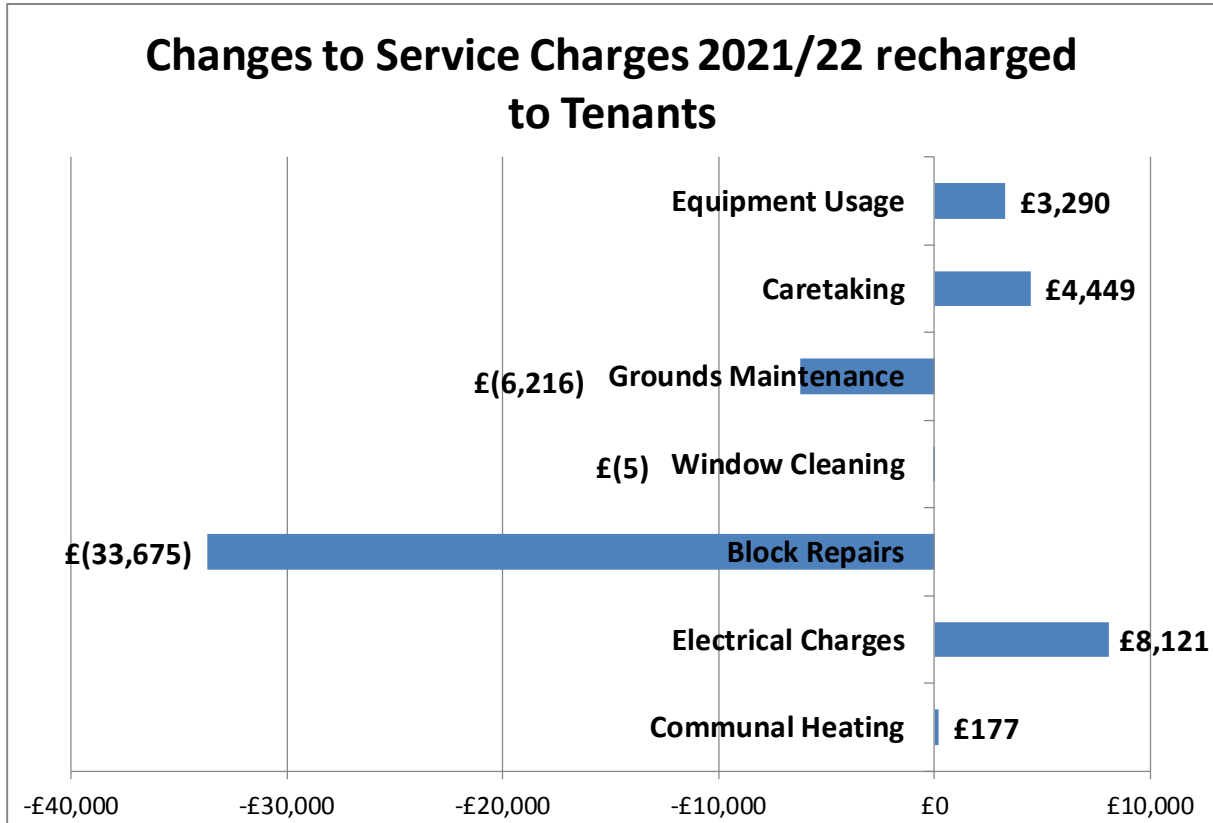
## 4.2 Service Charges

4.2.1 Service charges are calculated for each block individually for the 2,956 properties, (2020/21, 2,940) or 37% of current SBC tenanted properties. A review of service charges has not been concluded in time for 2021/22 rent and service charge setting and requires tenant and Member consultation. The type of service charges currently provided, (eligible for housing benefit) are shown below.

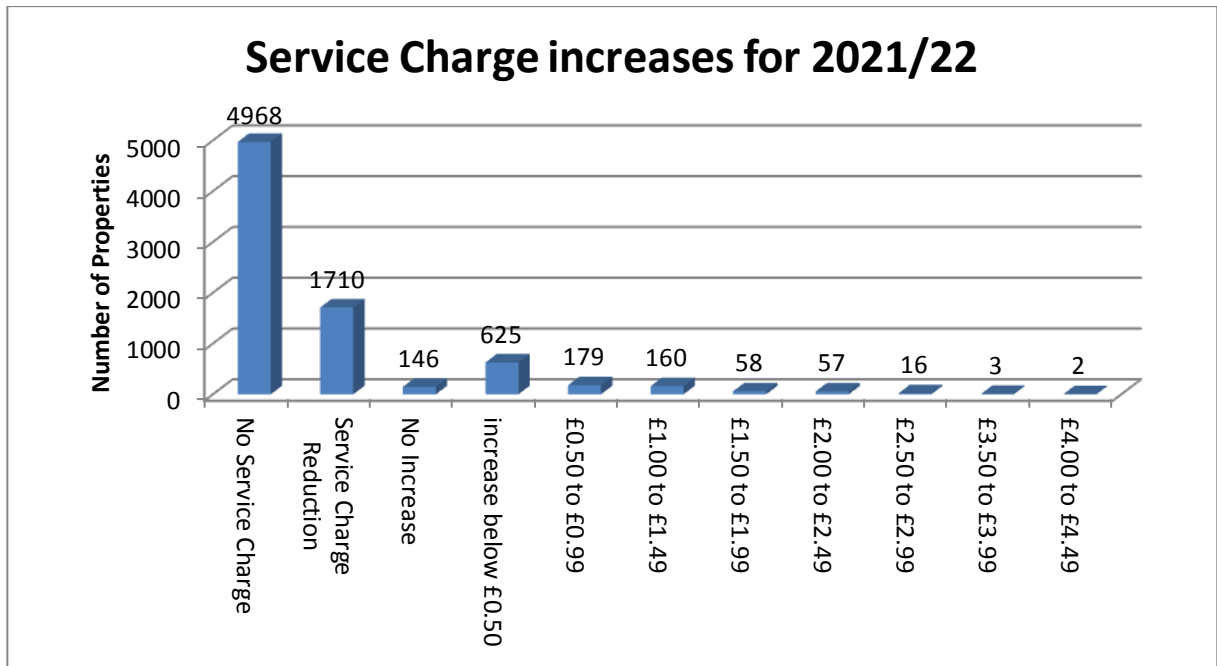
Service Charges:
Caretaking
Grounds maintenance
Window cleaning
Block repairs (including pest control)
Electrical charges
Communal heating

4.2.2 Service charges are not subject to the rental increase of 1.5%, but are based on cost recovery. For 2021/22, service charge costs will increase with inflationary pressures and changes in usage. The chart below identifies the

changes between 2020/21 and 2021/22 for service charges. The estimates are based on the projected budgeted costs for 2021/22, with the exception of block repairs, which is 'smoothed' over a five year period to eliminate individual in year spikes in repairs spend. This is unchanged from the draft budget to the December 2020 Executive.



4.2.3 The spread of service charge increases for all tenants in 2021/22 is shown in the chart below. The impact of the changes in service charges, means 1,710 or 58% of homes (who get a service charge) will receive a service charge reduction, even though service charges have fluctuated between individual services as shown above. There are only two properties with a service charge increase above £4.00.

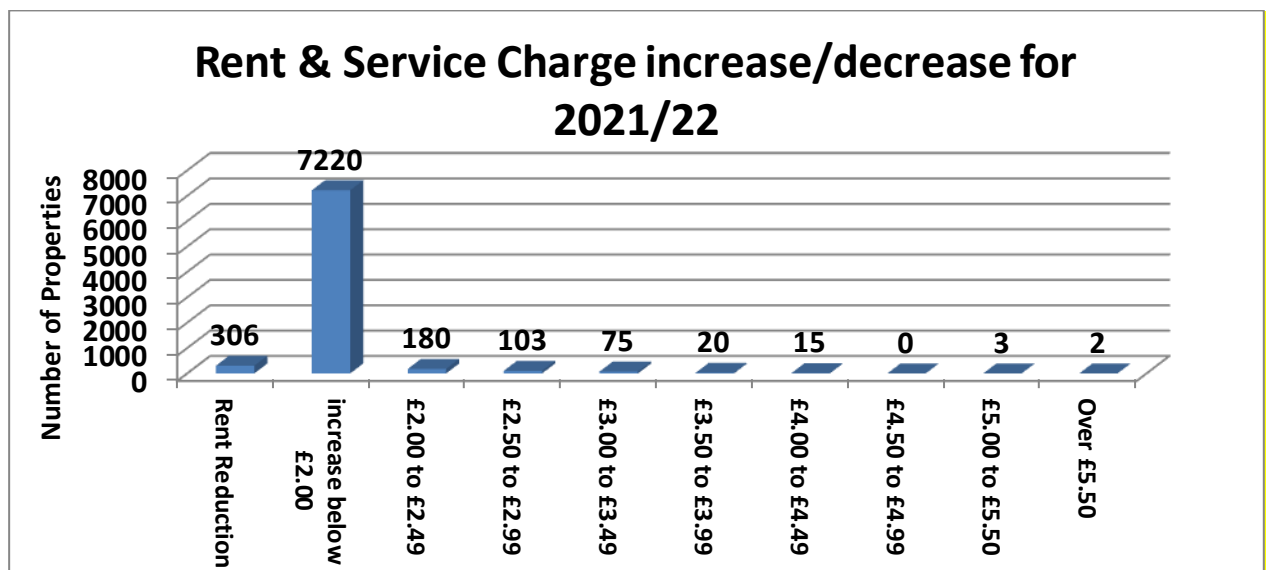


### 4.3 Rents and Service Charges

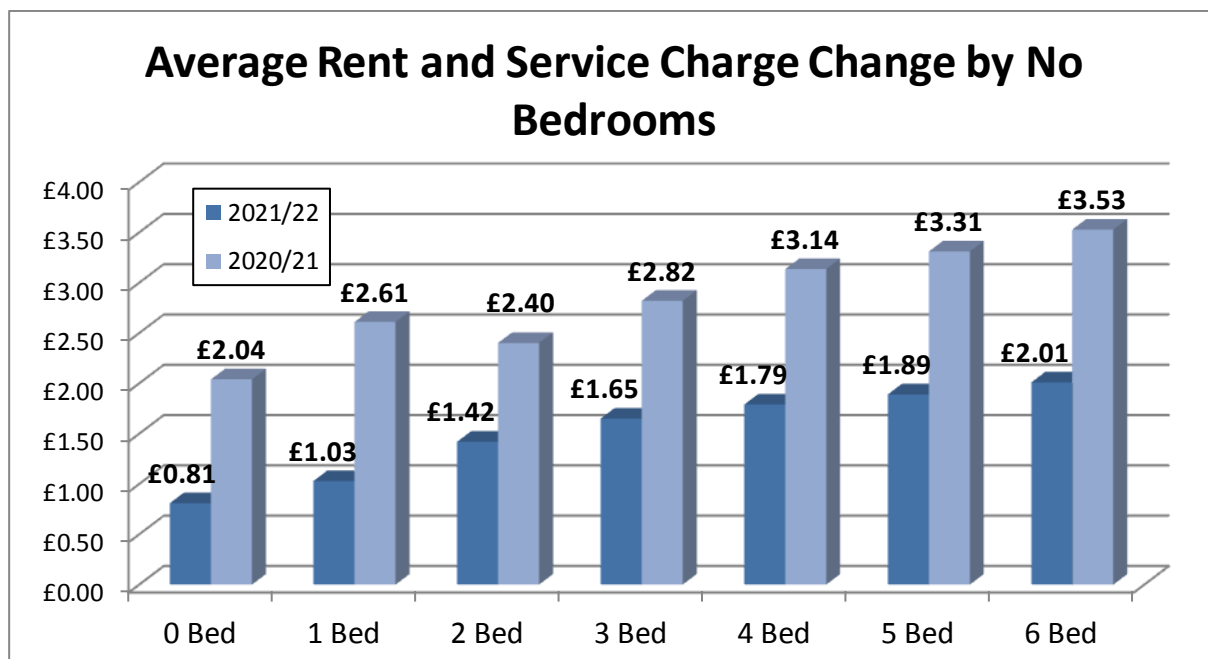
4.3.1 The impact of the 2021/22 rent increase and service charges is

- 306 homes or 4% receive a rent and service charge reduction;
- 7,578 homes or 96% of households will receive a weekly rent and service charge increase of less than £3.50 (based on 52 weeks).
- There are only 5 properties with a weekly rent and service charge increase of more than £5.00.

4.3.2 The spread of the 2021/22 rent and service charge changes are summarised in the chart below.



4.3.3 The average rent and service charge increase/decrease by bedroom size has also been calculated and summarised in the chart below.



4.3.4 The comparison between HRA property rents per week and private sector rents per week, for one to four bedroom properties, is shown in the table below. A three bedroom private sector rental property costs an additional 133%, (2020/21, 137%) more per week than a SBC council home and 32% more than the affordable let properties, (2020/21 34%).

	SBC Social Rent	SBC Affordable Rent	Median Private Rent	Local Housing Allowance 2020/21	Median % v SBC Social	Median % v SBC Affordable
1 Bed Property	£84.99	£132.45	£168.89	£155.34	99%	28%
2 Bed Property	£99.23	£168.55	£221.30	£195.62	123%	31%
3 Bed Property	£109.96	£194.37	£256.24	£241.64	133%	32%
4 Bed Property	£121.40	£233.04	£314.48	£299.18	159%	35%

*Private rent Data from ONS as at March 2020 updated by ONS rental inflation for East of England to September 2020. Please note the SBC rents are 2021/22 prices and the private rents 2020/21 prices.*

4.3.5 **The Local Housing Allowance (LHA)** shown in the table above is the maximum amount of housing benefit payable by property size for private rented properties.

## 4.4 Borrowing

4.4.1 Last year the HRA Business Plan was recalculated to take advantage of the lifting of the HRA debt cap that had restricted HRA borrowing to £217Million. The HRA MTFS reported that loan rates are estimated at 1.47% and 1.56% respectively. New loans totalling £23.8Million and £26.6Million are expected to be taken in the current and next financial years. However, the decision when



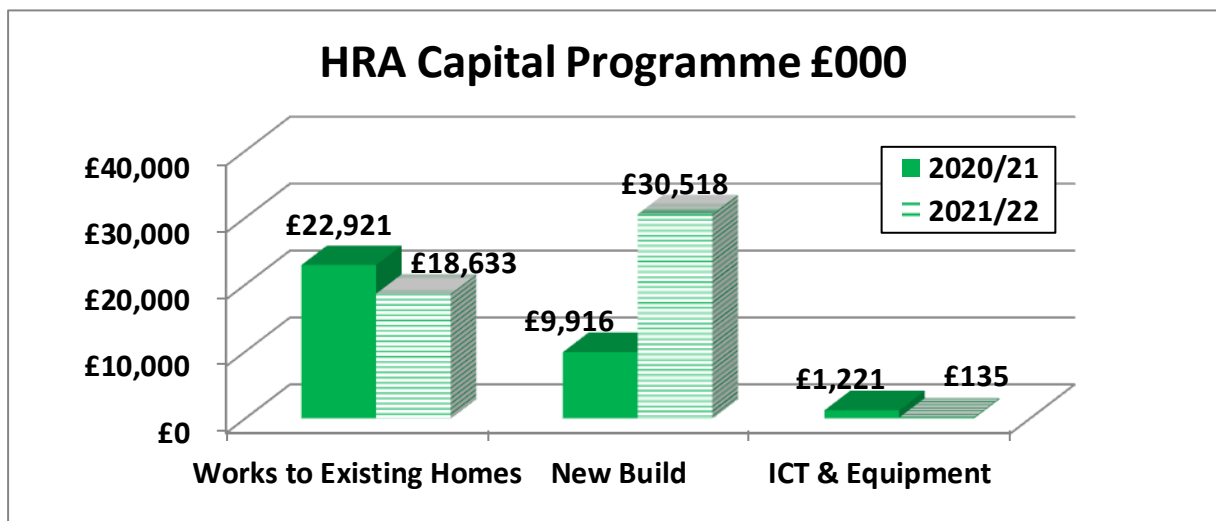
to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing PWLB rates. The interest payable in 2020/21 and 2021/22 is estimated to be £7,328,770 and £7,800,270 respectively. This is unchanged from the draft budget to the December 2020 Executive.

4.4.2 The 2019 HRA Business Plan (to the December 2019 Executive) set out an ambitious programme of investment in current and new housing stock, taking advantage of the new financial freedoms offered by the debt cap removal. These plans were not significantly changed in the HRA MTFS report to November 2020 Executive.

#### 4.5 Contributions to Capital Expenditure

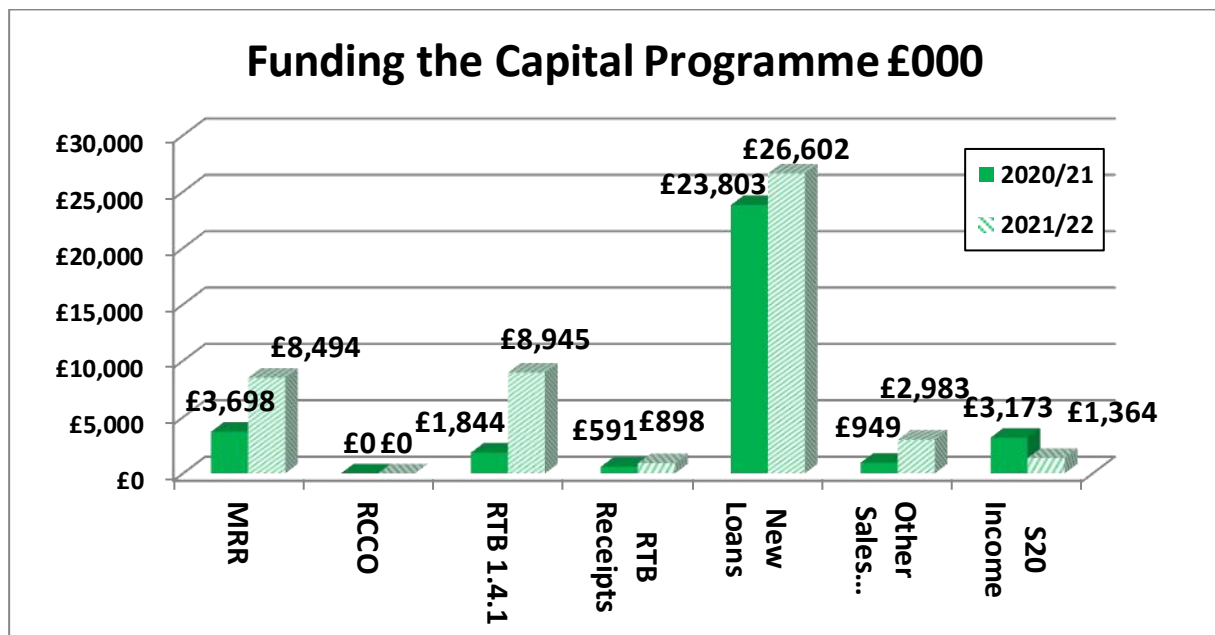
4.5.1 There is no requirement for a revenue contribution to capital (RCCO) as result of the borrowing set out in section 4.4 above.

4.5.2 The 2021/22 budgeted depreciation allowance required by legislation to be transferred to the Major Repairs Reserve (MRR) to fund the capital programme is £11,484,000. This has been supplemented by a revenue contribution to capital of £1,359,260 in order to support the planned works and these combined figures give an increase of £356,840 on the 2020/21 amount. A summary of the 2020/21-2021/22 capital programme is shown in the chart below.



4.5.3 The increase in the value of the 2021/22 capital programme compared to the current 2020/21 programme is mainly due to rescheduling of new build schemes and the impact of the Kenilworth scheme expenditure on the programme. Expenditure on the existing stock is expected to be lower and this is mainly due to the scheduling of the Major Repairs Contract (MRC) works. The draft capital strategy recommends an increase in HRA expenditure on IT and Digital.

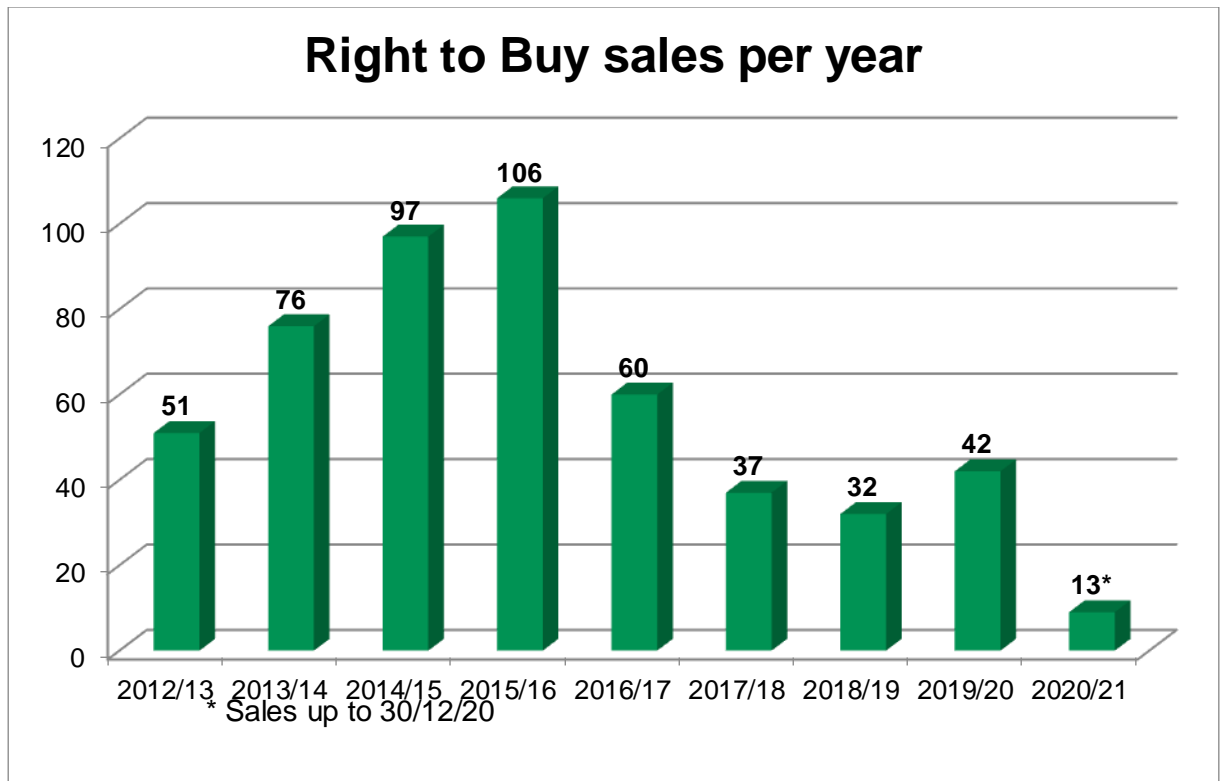
- 4.5.4 The recently published Housing White paper is likely to have an impact on both capital and revenue budgets and once the assessment of any additional costs have been made, further growth bids may be required and the impact included in the refresh of the HRA Business Plan next financial year.
- 4.5.5 The capital programme funding for 2020/21 and the draft HRA capital programme 2021/22 is summarised in the chart below. This is unchanged from the draft budget to the December Executive.



#### 4.6 Use of One for One Receipts

- 4.6.1 The Council continues to retain the majority of the capital receipts arising from the sale of RTB properties, in line with the retention agreement signed with the Government. Under this agreement the receipts must be used within three years to fund a maximum of 30% of spend on replacement properties, or be paid to the Government with a high interest penalty. While the new build programme, identified in the Business Plan, is large enough to make full use of the receipts, there has often been difficulties in matching the timing of expenditure to when the receipts must be used.
- 4.6.2 The Government has recognised the potential difficulties in meeting construction timetables during the current pandemic and have allowed local authorities to retain their receipts between April 2020 and March 2021 (recently extended from December 2020), without penalties. Latest forecasts show that with the use of this extension Stevenage Borough Council will not need to pay receipts to the Government for the current financial year. However this position needs to be continually monitored in case of any slippage in the timing of schemes. The government asked for further views on 1.4.1 receipts which were submitted by officers at the end of November.
- 4.6.3 In future years the issue of spending the receipts within the time limit should reduce, as shown in the graph below. This is partly due to a fall in the levels of

RTB sales, leading to a lower level of receipts that need to be spent. Combined with the Kenilworth scheme that will ensure the use of receipts within the three year time limit. In 2021/22 the Council will need to spend 1.4.1 receipts of £2.9Million, derived from sales in 2018/19. Current projections show that these should be fully used by the second quarter of next year and that no receipts will need to be paid to Government.



13 right to buy sales have occurred in 20/21, an increase of four since the draft HRA budget report which showed nine sales up until the 6<sup>th</sup> November 2020. It is anticipated that a further 14 sales will be made in the final quarter of 20/21.

4.6.4 At this time the risk of surrendering receipts to the Government has further reduced if spend happens as profiled. However, the issues raised on the current time limit in the agreement will continue to be challenged, in order to have a more flexible system that allows these resources to be invested locally. Any delays, or slippage, in the development programme could breach the three year rule and lead to a loss of receipts and interest penalties, despite having schemes that need the funds. For this reason this area is reviewed each quarter in order to minimise the potential cost to the HRA.

#### 4.7 Draft Budget Proposals

4.7.1 The HRA budget is estimated to be a net income of £2,791,960 which is a reduction of £204,020 from the reported position within the draft HRA budget report to December 2020 Executive. The reasons for the changes are summarised in the table below.

<b>Summary of 2021/22</b>		
<b>Draft HRA 2021/22 budget</b>		<b>(£2,923,980)</b>
Increases in Income/Reductions in Expenditure:		
Reduction in budgeted salary costs	(£36,690)	
New Savings - Graduate Scheme HRA share	(£16,660)	<b>(£53,350)</b>
Increases in Expenditure:		
Increase in leaseholder Insurance	£20,970	
Additional recharges from GF (including digital ICT)	£213,450	
Other Minor Changes	£22,950	<b>£257,370</b>
<b>Total Changes:</b>		<b>£204,020</b>
<b>Final HRA 2021/22 budget</b>		<b>(£2,719,960)</b>

4.7.2 The 2020/21 budget summarised below includes changes not previously reported in the December 2020 report.

<b>Summary of 2020/21 budget movements</b>		
Working Budget 2020/21		(£3,309,210)
Increase in external audit fees (HRA share)		£23,340
Other budgets		£40,200
<b>Total Changes</b>		<b>£63,540</b>
<b>Revised Working Budget</b>		<b>(£3,245,670)</b>

4.7.3 The 2020/21 HRA projected year-end net income is estimated to be £63,540 lower than included in the November MTFs Report and includes the HRA share of external audit costs, with the remainder a number of budget changes identified as part of the budget setting process.

4.7.4 All HRA balances in excess of the minimum balances held for assessed risks in year, are required to fund the HRA 30 year capital programme.

<b>HRA Balances:</b>	<b>2020/21 £</b>	<b>2021/22 £</b>
<b>HRA Balance 1 April</b>	(19,819,411)	(23,065,081)
<b>Use of balances in Year</b>	(3,245,670)	(2,719,960)
<b>HRA Balance 31 March</b>	<b>(23,065,081)</b>	<b>(25,785,041)</b>
<b>Minimum Balances</b>	(2,985,000)	(2,985,000)
<b>Debt Repayments</b>	(20,080,081)	(22,800,041)

## **4.8 Comments from Overview and Scrutiny**

4.8.1 The Overview and Scrutiny committee considered the draft HRA rent, service charge proposals and budget at their meeting of the 15th December 2020. The CFO (Chief Finance Officer) introduced the report and the Committee were advised that the draft HRA budget included the growth set out in the HRA Business Plan and that the average rent increase for Council homes was 1.5%, based on a CPI + 1% rise. The paper was noted with no questions raised.

## **4.9 Consultation**

4.9.1 The Council remains committed to working in partnership with council tenants and leaseholders to shape, strengthen and improve council housing services and sets out a range of options to enable housing customers to be involved.

4.9.2 The Housing Management Advisory Board (HMAB) acts as an advisory body to the Executive for council housing-related matters, including participation in the HRA budget-setting process and the development of the HRA Business Plan. HMAB currently includes one leaseholder and five tenant representatives in addition to Member and officer representation.

4.9.3 The HMAB has not met in the last few months but have received the draft HRA budget report and a slide presentation highlighting the key information and any comments will be fed back to the Executive prior to the final budget report being recommended to the Council.

4.9.4 Targeted consultation will be carried out with staff, customers and stakeholders directly affected by the financial security options agreed by the Executive in November 2020. All tenants will be notified of changes to their rent and service charges in February/March 2021.

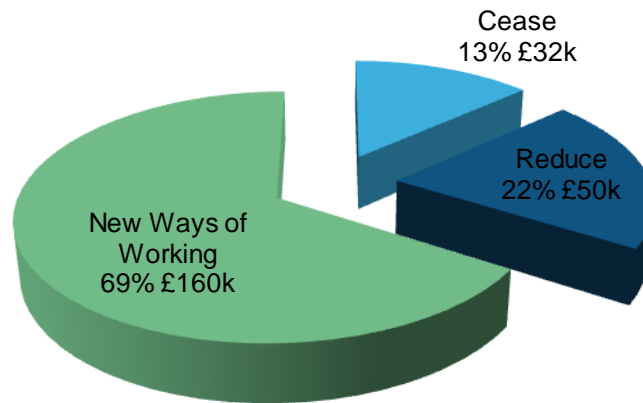
4.9.5 The STAR survey was undertaken in early 2018 and we will seek to understand the priorities when this is updated in 2021.

## **4.10 The 2021/22 Financial Security Options process for the General Fund and HRA**

4.10.1 The Leader of the Council recommended a departure to the normal Financial Security process for the 2020/21 budget, which normally has any options channelled through the cross party Leaders Financial Security Group (LFSG). This was primarily because of the potential level of savings required as exacerbated by the COVID pandemic and the need for Portfolio holders and the Executive as a whole to make some service prioritisation decisions.

4.10.2 The Financial Security options totalling £241,546 are shown in the chart below, with further detail provided in Appendix B:

## Financial Security Options

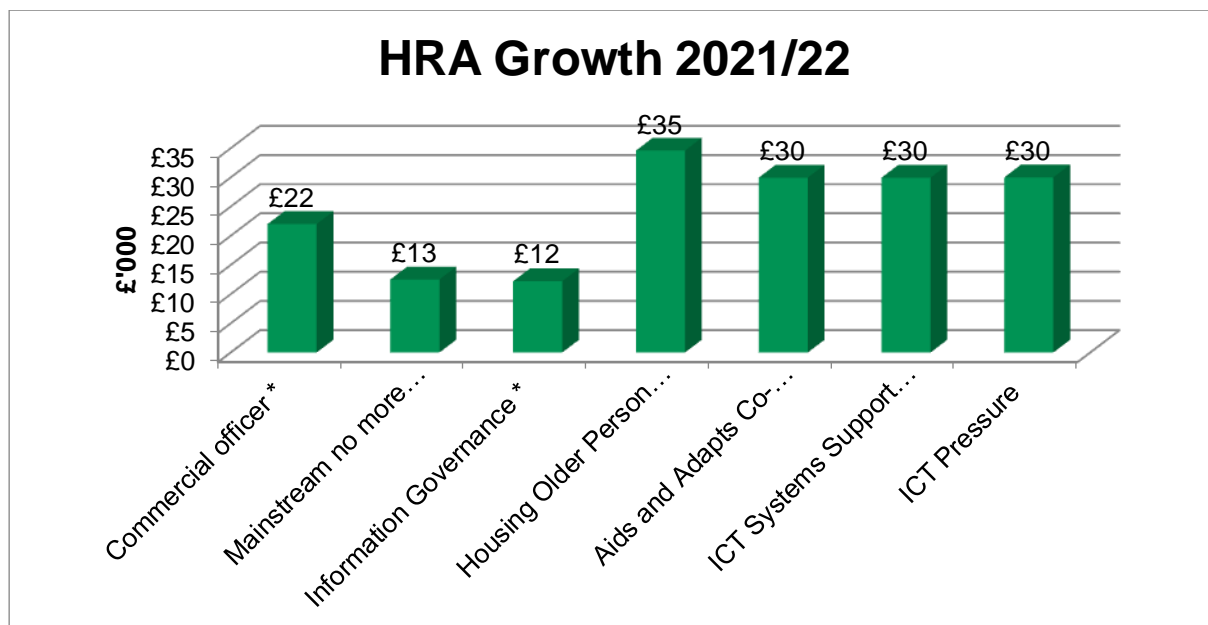


- The options consider changes implemented as part of the different way staff now work due to the move from office to remote working.
- The services that are severely impacted by COVID.
- The functions that the Council were funding but were the responsibility of other public bodies.
- Considering the level of budget pressures which increased the level of savings particularly for the General Fund.

4.10.3 The LSFG did reconvene to consider fee increases on 11 November 2020 and made some recommended changes to the HRA fees and charges. Fees and Charges options total £73,950 and are shown in Appendix D.

### 4.11 Growth included in the HRA

4.11.1 The growth and service pressure totalling £161,650 included in the 2021/22 HRA budget is summarised in the chart below and detailed in appendix C.



*\*HRA share of General Fund expenditure*

## 5. IMPLICATIONS

### 5.1 Financial Implications

5.1.1 Financial implications are included in the body of the report

### 5.2 Legal Implications

5.2.1 Legal implications are included in the body of the report

### 5.3 Staffing Implications

5.3.1 The unions have been consulted on the options approved at the November Executive. Human Resources staff are co-ordinating centrally the implementation of any staff related savings.

### 5.4 Risk Implications

5.4.1 Due to frequent Government policy changes, there are significant risks in setting the HRA budget. Historically the ring fenced account has relied almost solely on rent income to finance both revenue and capital works. Many changes in policy, including the loss of £225Million from the Business Plan from four years of rent reductions (2016/17-2019/20 estimated over a 30 year period), have made medium to long term planning difficult. These risks increase with the removal of the debt cap and further borrowing, as the Council is making long term financing decisions, on capital investment, based on income streams set by the current policy. However the Council has set aside a HRA interest equalisation reserve of £5.7Million to reduce the impact on borrowing costs on the HRA and the increased borrowing was affordable based on the current assumptions.

- 5.4.2 Currently one of the biggest risks to the account is a large increase in arrears. Over 2019/20 weekly rent arrears increased from £300K to £800K and it is believed that this was in part due to increasing numbers of tenants switching from housing benefits to Universal Credit. However, from April 2020 arrears continued to rise and now stand at just under £1.2Million. This was due to the impact of the COVID 19 pandemic and the measures put in place by the Government, which included a suspension of evictions. To mitigate this position increased resources are being employed to help recover rent owed and the provision for bad debt has been increased to recognise that not all of the outstanding debt will be recovered.
- 5.4.3 There is a potential adverse financial impact on the HRA as a result of high inflationary pressures. Rent increases are based on the September CPI figure, which was below normal levels at 0.5% this year. If inflation rises above that assumed in the budget generally, or spikes as a result of BREXIT, reductions in spend may need to be made or some of the growth recommended in the MTFS update removed.
- 5.4.4 The full operational implications of regulatory changes after the Grenfell tragedy are still being implemented. Provision was made in the last Business Plan to allow for an additional £500K in the budget. However, as policy and best practice across the sector is developed this may need to be reviewed and could lead to an increase budget pressures on the HRA.
- 5.4.5 With the increased level of borrowing in the HRA, after the removal of the debt cap, there is a greater risk of interest rates being higher than projected and leading to a reduction in the amount of expenditure for both revenue and capital. There is also a risk that PWLB rate differential between gilts and borrowing rates will be increased as happened in 2019/20. To mitigate this, an interest rate reserve of £5.7Million has been set up to offset any future variances from expected rates.
- 5.4.6 The HRA has an annual Financial Security target to achieve, which for 2021/22 onwards is £100,000 per year.

## **5.5 Equalities and Diversity Implications**

- 5.5.1 In carrying out or changing its functions (including those relating to the provision of services and the employment of staff) the Council must comply with the Equality Act 2010 and in particular section 149 which is the Public Sector Equality Duty. The Act replaced three previous equality legislations – the Race Relations Act (section 71), the Sex Discrimination Act (section 76A) and the Disability Discrimination Act (section 49A). The Council has a statutory obligation to comply with the requirements of the Act, demonstrating that as part of the decision-making process, due regard has been given to the needs described in the legislation. These duties are non-delegable and must be considered by Council when setting the budget in January 2021.
- 5.5.2 To inform the decisions about the Budget 2021/22 officers have undertaken Brief Equality Impact Assessments (EqIAs) for service-related budget savings proposals. Where there is a potentially negative impact, officers have identified further action needed to inform a final decision and to mitigate the impact where this is possible. These EqIA were included in the November



Report and will be appended to the final HRA Budget report together with an EQIA for the rent and service charges increase for the January Executive.

## **BACKGROUND DOCUMENTS**

BD1 Housing Revenue Account MTFS November 2020 Executive

BD2 Draft HRA and Budget Setting Report December 2020 Executive

## **APPENDICES**

Appendix A - Final HRA Summary

Appendix B – Financial Security Options

Appendix C – Growth and Budget Pressures

Appendix D – Fees and Charges

Appendix E – Risk Assessment of Balances

Appendix F – EQIA for HRA Services