Meeting date:	13 February 2020
Report to:	Full Cabinet
Subject/report title:	**HOUSING REVENUE ACCOUNT ESTIMATES AND RENT INCREASES 2020/21**
Report from:	Director of Resources & Deputy Chief Executive
Report author/lead contact officer:	Samantha Gilbert, Assistant Director of Finance and Property Services sgilbert@solihull.gov.uk

Wards affected:

☒ All Wards | ☐ Bickenhill | ☐ Blythe | ☐ Castle Bromwich | ☐ Chelmsley Wood |
☐ Dorridge/Hockley Heath | ☐ Elmdon | ☐ Kingshurst/Fordbridge | ☐ Knowle |
☐ Lyndon | ☐ Meriden | ☐ Olton | ☐ Shirley East | ☐ Shirley South |
☐ Shirley West | ☐ Silhill | ☐ Smith's Wood | ☐ St Alphege

Public/private report:	Public
Exempt by virtue of paragraph:	

1. Purpose of Report

1.1 To consider the Housing Revenue Account (HRA) budget estimates for 2020/21, the Management Fee payable to Solihull Community Housing (SCH) and the proposed changes in dwelling and garage rents and leaseholder management fees for 2020/21.

2. Decision(s) recommended

2.1 To approve an average rent increase (excluding service charges) of 2.7% (£2.23 per week on a 50-week basis) to £84.56 from 1 April 2020 for HRA stock;

2.2 To approve an average rent increase of 2.7% (£2.90 per week on a 50-week basis) to £110.39 from 1 April 2020 for SMBC Affordable Homes;

2.3 To approve an average rent increase of 2.7% for Saxon Court (£2.55 per week on a 50-week basis) to £101.44 from 1 April 2020;

2.4 To approve a rent increase of RPI (as at February 2020) + 0.5%, as per lease agreements, from 1 April 2020 for HRA shared ownership properties;

2.5 To note different rent increases for SCH Part Ownership properties and SCH owned Affordable Homes;

2.6 To approve the £0.14 per week increase in garage rents from 1 April 2020;

2.7 To approve the increase in Leaseholder Management Fees from £155 to £157;

2.8 To approve the Housing Revenue Account budget for 2020/21 including the SCH Management Fee as set out in the HRA Business Plan Financial Forecast at Appendix A;

2.9 To approve the SCH Management Agreement for 2020/21 – 2024/25;

2.10 To approve the three year budget savings set out in Appendix C;

2.11 To approve the use of the Future Capital Investment Reserve to match fund the 70% contribution towards the right to buy 1-4-1 capital receipts;

2.12 To approve a contribution of £150k per year for 2020/21 and 2021/22 from the Welfare Reform reserve to support the cost of debt impairments; and

2.13 To note the fees and charges approved by the SCH Board on 13 January 2020 set out in Appendix D.

3. Matters for Consideration

Background

3.1 In 2012/13 the Council opted for it's HRA to become self-financing by adopting £69.566m of HRA debt in exchange for being released from the government's subsidy system. The sum was set out in the self-financing settlement and there was a requirement to produce a 30-year business plan. The HRA 30 year plan included inflationary rent increases throughout this period and the repayment of debt between 2032/33 – 2041/42 although there was no legal requirement to repay debt. However, since the introduction of a 1% decrease year-on-year for four years from 2016/17 to 2019/20 the Council recognised that the prospect of repaying debt as originally planned was no longer realistic within the original proposed timeframe.

3.2 SCH began making savings in 2016/17 with a four year plan and are operating within the 2019/20 revised Management Fee of £18.199m, made up of £18.115m approved by Full Cabinet on 7 February 2019, plus £0.084m additional funding from the HRA Welfare Reform reserve. This additional funding was approved by CPH Environment & Housing on 19 September 2018 to support the Money Advice service (£0.046) and Income Collection service (£0.038m).

3.3 In addition, SCH is delivering the HRA capital works in line with the approved capital programme and the Asset Management Strategy.

3.4 The Chief Executive and Chief Finance Officer (CFO) for SCH attended the Budget Strategy Group on 1 October 2019 and the CFO attended the Members Budget Seminar on 27 November 2019 to present their plans for savings over the next 3 years. The proposed Management Fee for 2020/21 is £18.634m made up of £18.484m uplifted base management fee plus £0.150m additional funding as a consequence of a reduced contribution to the HRA Debt Impairment Allowance.

HRA Estimate 2020/21

3.5 The Council and SCH have updated and refined Solihull's 5-year HRA business plan and capital programme. This update was reported to the SCH Board at their meeting on 23 September 2019. The 5-year plan is based on the original 30-year self-financing business plan updated with the latest information.

3.6 The Council and SCH have jointly developed the HRA estimates for 2020/21. SCH has also developed its operating budget for 2020/21 and this has been ratified by the SCH Board on 25 November 2019.

3.7 The HRA Business Plan Financial Forecast is set out at Appendix A and has the following key features:

- An annual rent increase of CPI (as at Sep 2019) +1.0% as specified by the Ministry of Housing, Communities and Local Government (MHCLG) 2019 Policy Statement on rents for social housing equivalent to 2.7% for 2020/21. This follows four consecutive years of 1% rent reductions from 2016/17 to 2019/20 under the directions of the Welfare Reform and Work Act 2016.
- A net contribution to the HRA Debt Impairment Allowance of £0.952m. This is a decrease of £0.464m from £1.416m in 2019/20 as a consequence of reviewing the risk and revising assumptions in the calculation based on more recent experience.
- A proposed SCH Management Fee of £18.634m. This is an increase of £0.435m (+2.4%) from £18.199m in 2019/20.
- A revised HRA net balance in 2019/20 of £0.052m underspend, made up of the operational surplus of £0.136m, less the approved use of Welfare Reform Reserve of £0.084m. This net surplus maintains the four-year balanced HRA position whereby this surplus will be contributed to reserves to be utilised in future years. The net £0.084m shown at Appendix A relates to the contribution from the Welfare Reform Reserve highlighted in paragraph 3.2.

3.8 It is proposed that HRA stock rented on a social rental basis should increase by 2.7% (CPI +1%) from 1st April 2020. This will increase the average rent from £82.33 per week to £84.56 per week on a 50-week basis.

3.9 There are also properties subject to rent levels that fall outside of the standard formula rent regime. Of the total 99 properties, 63 properties (including 6 as a consequence of mortgage rescue) are deemed Affordable Homes and are owned by the Council. It is proposed rents for these properties should increase by 2.7% (CPI +1%) from 1st April 2020. This would increase the average rent from £107.49 per week to £110.39 a week on a 50-week basis. Members are advised that the average rent included in last year's report of £107.38 was amended to £107.49 due to the inclusion of one property that increased the average rent.

3.10 The properties within the extra care scheme at Saxon Court are based on an affordable rent. It is proposed rents for these properties should increase by 2.7% (CPI +1%) from 1st April 2020. This would increase the average rent from £98.89 per week to £101.44 a week on a 50-week basis.

3.11 In 2018/19 a further 14 shared ownership properties were completed at Borley Close

(5 units) and Cambridge Drive (9 units) increasing the total of shared ownership properties within the HRA to 31 units. All properties were occupied by August 2019 and range in tenant ownership from 25% to 70%. The monthly rents are based on an affordable rent and the current average for a 50 week basis is £63.76. As per their tenancy agreements these properties will be subject to RPI (at February 2020) +0.5% rent increases at 1 April 2020.

3.12 SCH own 29 Affordable Homes to rent and 7 shared ownership properties. These properties are subject to different tenancy arrangements and were considered at the SCH Board meeting on 25 November 2019. The tenancy agreements propose the rent increases for the SCH Affordable Homes properties are set at September 2019 CPI + 1% (2.7%) increasing average rents from £116.16 per week to £119.30 a week on a 50-week basis. For the shared ownership properties, the tenancy agreements specify an increase based on February 2020 RPI.

Investment in Housing Stock / Housing Capital Programme

3.13 The proposed Housing capital programme for 2020/21 will be presented to the Cabinet Member for Adult Social Care & Health at the meeting on 24 February 2020.

3.14 The capital budget for stock investment proposed for 2020/21 is £12.299m, which includes £0.200m funding rephased from 2019/20 approved by Cabinet on 5 December 2019. In addition, the stock growth budget for 2020/21 includes schemes for 71 homes totalling £7.659m, continuation of the DIY Shared Ownership scheme of £1.000m and further property acquisitions of £0.494m.

3.15 The capital programme has previously been reviewed in the light of the scale of savings to be identified. In previous years, a significant contribution of funding has been made from revenue towards capital investment and the revised programme will continue with the approach set out in the Council's Asset Management strategy. The programme will provide cyclical maintenance of the housing stock and concentrates on the following key investment needs:

- The prioritisation of Health and Safety and legislative requirements including programmes of works covering fire prevention, gas safety and electrical integrity. Regular inspections will continue to take place to ensure high rise stock meets emerging regulation changes and best practice advice. The lift refurbishment programme, high rise electrical supply cabling replacement works and electrical remedial works across the stock in line with a 5 year testing programme will also continue to ensure compliance.
- Improving energy efficiency for tenants and contributing to lowering carbon emissions within the Borough by investing in more efficient heating systems and exploring the utilisation of new technologies.
- The Envelope programme to improve security, energy efficiency and aesthetics of low rise communal areas; and
- The adaptations for disabled residents will continue where identified on a needs basis.

3.16 Planning permission has been received for two shared ownership schemes (Brackleys Way and Halifax Road) and a third shared ownership site at Wagon Lane is expected later in the year. Further planning permissions have also been approved on two social rental schemes (Willow Way and Faulkner Road). In addition suitable properties will be purchased from the open market utilising right to buy 1-4-1 time limited capital receipts.

Solihull Community Housing Management Fee

3.17 During 2015 the Management Agreement between the Council and SCH was revised to reflect the HRA funding available to spend on a Management Fee. Funding is considered over a five year period where each year may have a net surplus or deficit when looked at in isolation.

3.18 Delivery of the 2019/20 savings plans has been tracked closely throughout the year and by December 2019 all of the £0.966m savings target were rated green for 2019/20. Details for SCH savings are attached at Appendix C. Current SCH monitoring for December 2019 shows a forecast underspend of £0.119m for the 2019/20 year end.

3.19 The Council's Management Agreement with SCH is based on a rolling five year agreement providing that there has been satisfactory financial and service delivery. The performance of SCH is considered through a Quarterly Monitoring Board chaired by the Cabinet Portfolio Holder for Adult Social Care and Health and has been satisfactory. It is therefore recommended that Cabinet approve the SCH Management Agreement continues for 2020/21 – 2024/25.

3.20 Last year's budget setting saw a significant increase in the budget requested for the capital programme of future years as a result of implementing the calculations from a new asset management system. The new system was based on the 2012 self-financing 30 year plan with assumptions of component useful life and the results this produced would have been unaffordable. Last year it was agreed to revert to the original estimated level of capital investment whilst work was undertaken by SCH to model what capital investment is required in the longer term. This work is continuing and as a consequence there are no further HRA savings targets required for 2022/23.

2020/21 HRA Reserves

3.21 The HRA budget estimates, including the estimated SCH Management Fees for the 4-year period 2019/20 to 2022/23 are shown at Appendix A. The HRA Working Balance includes contributions in 2019/20 and 2020/21 totalling a net £0.390m (£0.306m surpluses adjusted for £0.084m approved use of Welfare Reform Reserve). These contributions partly offset the forecast deficit of £0.731m in 2021/22 with a further forecast surplus of £0.341m in 2022/23 maintains the balanced four year period.

3.22 The HRA Working Balance is included as part of the HRA reserves and revenue balances are shown at Appendix B and the total HRA reserves have an estimated balance at the end of 2019/20 of £30.525m, compared to £29.417m at the start of the financial year.

3.23 Within this overall balance, the HRA holds capital balances from retained receipts for right to buy sales, shared ownership and other property sales. These have increased in the last year from £14.863m to an estimated £15.962m.

3.24 It was agreed in 2017 that priority be placed on the use of 1-4-1 capital receipts, which is a small proportion of the total Right to Buy capital receipts, due to the stringent conditions placed on their usage with a requirement that funds are spent within a three year period. These receipts represent 30% of any stock replacement expenditure and it is proposed that the remaining 70% is funded from the Future Capital Investment Reserve (an uncommitted reserve established some time ago from past surplus balances).

3.25 The Welfare Reform Reserve was established to address any additional costs the Council could incur as a consequence of the implementation of Universal Credit. The roll out of Universal Credit is complete for any new applicants and a managed migration will take place from 2020 until 2023 for existing housing benefit applicants. It has now been possible to reassess the financial risk and the level of funding required in the reserve.

3.26 Latest statistics on housing benefit in Solihull show that 32% of SCH tenants receive full housing benefit, 6% of tenants receive partial benefit and a further 25% of tenants now receive Universal Credit. The balance of the reserve for Welfare Reform support at the end of March 2020 is expected to be £1.405m and it is recommended that the reserve can be reduced by £0.150m per year for 2020/21 and 2021/22 towards the cost of debt impairments. This results in £1.024m of the Welfare Reform Reserve committed to support the contribution to the debt impairment allowance and other projects approved by Cabinet Members.

3.27 Other minor reserve balances of £0.212m for Regeneration, £0.100m for Homelessness initiatives and £0.096m for repayment of pre-2004 reserves are also available. The remaining £2.272m relates to balances accumulated since 2004 as a consequence of the previous SCH management fee methodology.

Garage Rents

3.28 It is proposed that garage rents be increased by 14p (2.0%) from £7.17 to £7.31 per week (on a 50-week year) with effect from 1 April 2020 and the budget as presented has assumed this increase. The increase is in line with the Council’s inflationary rate for income.

Other Miscellaneous Charges

3.29 The charge for tenant content insurance is passed through to tenants at cost and this is an estimated increase of 3% for 2020/21.

3.30 SCH are responsible for setting a range of fees and charges some for their own commercial ventures and some under delegated powers. Appendix D details the full list of fees and charges and these were considered by SCH Board on 25 November 2019 with final approval given on 13 January 2020.

Leaseholder Management Fees

3.31 Under the terms of their leases, the Council is entitled to levy a management fee on all leaseholders with the aim of recovering the costs of managing their leases (including the costs of collecting amounts due and calculating the costs of managing and delivering services). This management fee must be reasonable and reflect the actual costs of management and administration of leaseholder services.

3.32 SCH have reviewed the management fee and propose that it should increase by 1.3% from £155 to £157 per annum. In line with usual practice this figure is rounded to the nearest pound. As in previous years, leaseholders in mews flats, who only pay insurance and ground rent, will pay a lower rate of management fee set at 50% of the full fee (£78.50 per annum).

4. What options have been considered and what is the evidence telling us about them?

4.1 Not applicable

5. Reasons for recommending preferred option

5.1 Not applicable

6. Implications and Considerations

6.1 How the proposals in this report contribute to the delivery of Council Plan priorities:

Priority:	Contribution:
Securing inclusive economic growth.	No direct contribution.
Planning & delivery for Solihull's low carbon future (to include biodiversity implications).	Improving energy efficiency for tenants – SCH will continue to work closely with the Council to tackle fuel poverty and deliver the commitments due to be set out in the low carbon strategy.
Managing demand and expectation for public services.	No direct contribution.
Developing our approach to services for adults and children with complex needs.	Where applicable, specific savings proposals will be subject to detailed fair treatment assessments which will consider the implications for adults and children with complex needs before they are implemented.
Making the best use of our people and physical assets.	No direct contribution.

6.2 Consultation and Scrutiny:

The Budget Strategy Group has agreed that consultation with the public will take place on key specific savings proposals. The savings proposals presented here have been shared with the unions and representatives of the business community.

6.3 Financial implications:

Financial implications with regard to the HRA budget and the changes in rents are set out in the report.

6.4 Legal implications:

The proposed rent increase is in keeping with MHCLG guidance.

6.5 Risk implications:

Financial risks relating to rent collection are protected through the reserves detailed in this report.

6.6 Equality implications:

The impact on the tenants arising from the proposed average rent increase of 2.7% (CPI+1.0%) will be an additional cost to those that are not in receipt of Housing Benefit or who are already receiving the maximum Universal Credit allowance. The most disadvantaged tenants are in receipt of Housing Benefit or Universal Credit payments lessening the financial impact to them.

7. List of appendices referred to

7.1 Appendix A – HRA Business Plan Financial Forecast

7.2 Appendix B – HRA Statement of Reserves

7.3 Appendix C – SCH Savings Proposal 2019/20 – 2022/23

7.4 Appendix D – Fees & Charges 2020/21

8. Background papers used to compile this report

8.1 None

9. List of other relevant documents

9.1 Solihull Community Housing Asset Management Strategy 2017-2022

9.2 Solihull Community Housing Delivery Plan 2019/20