Meeting date:	7 February 2019
Report to:	Full Cabinet
Subject/report title:	**HOUSING REVENUE ACCOUNT ESTIMATES AND RENT INCREASES 2019/20**
Report from:	Director of Resources & Deputy Chief Executive
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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 2019/20, the Management Fee payable to Solihull Community Housing (SCH) and the proposed changes in dwelling and garage rents and leaseholder management fees 2019/20.

2. Decision(s) recommended

2.1 To approve an average rent decrease (excluding service charges) of 1.0% (£0.70 per week on a 50-week basis) to £82.33 from 1 April 2019 for HRA stock;

2.2 To approve an average rent decrease of 1% (£0.91 per week on a 50-week basis) to £107.38 from 1 April 2019 for SMBC Affordable Homes;

2.3 To approve an average rent decrease of 1% for Saxon Court (£1.00 per week on a 50-week basis) to £98.89 from 1 April 2019.

2.4 To approve a rent increase of RPI (as at February 2019) + 0.5%, as per lease agreements, from 1 April 2019 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 £0.17 per week increase in garage rents from 1 April 2019;

2.7 To approve the increase in Leaseholder Management Fees from £151 to £155 per annum.

2.8 To approve the Housing Revenue Account budget for 2019/20 including the SCH Management Fee as set out in the HRA Medium Term Financial Strategy Appendix A;

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

2.10 To note the fees and charges approved by the SCH Board on 10 December 2018 set out in Appendix D.

3. What is the issue?

Background

3.1 The year 2019/20 will be the eighth year of HRA Self-Financing. The full implications were reported to Cabinet seven years ago when the 2012/13 HRA estimates were approved. Solihull MBC took on £69.566M of HRA debt in exchange for being released from the subsidy system (as set out in the final self-financing settlement) at the start of the 2012/13 financial year.

3.2 As part of the self-financing settlement there was a requirement to produce a 30-year business plan. SCH's plan included inflationary rent increases and the repayment of debt between 2032/33 – 2041/42 although there was no legal requirement to do so. However, with the introduction of a 1% decrease year-on-year for four years in 2016/17 it is now recognised that the prospect of repaying debt as originally planned is no longer realistic within the original proposed timeframe due to the material impact on income and the need to identify significant savings.

3.3 SCH began making savings in 2016/17 with a four year plan and are operating well within the 2018/19 revised Management Fee of £18.402M, made up of £18.160M approved by Full Cabinet on 15 February 2018, plus £0.200M funding for Communal Decorations transferred from capital to revenue and £0.042M additional funding from the HRA Welfare Reform reserve to support the Money Advice service (£0.022M) and Income Collection Service (£0.020M) both of which were approved by CPH Environment & Housing on 19 September 2018. In addition, SCH is delivering the Housing capital programme in line with the approved Asset Management Strategy.

3.4 The Chief Executive and Chief Finance Officer for SCH attended the Budget Strategy Group in October 2018 and the Members Budget Seminar in December to present their plans for savings over the next 3 years. The proposed Management Fee for 2019/20 is £18.199M made up of £18.115M base management fee plus £0.084M being the full year effect of support for Money Advice (£0.044M)and Income Collection Services (£0.040M) as detailed in para 3.3 above.

HRA Estimate 2019/20

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 10 September 2018. The 5-year plan is based on the original 30-year self-financing business plan and is updated with the latest information.

3.6 The Council and SCH have jointly developed the HRA estimates for 2019/20. SCH has also developed its operating budget for 2019/20 and this has been ratified by the SCH Board on 10 December 2018.

3.7 The HRA budget as set out in Appendix A to this report has the following key features:

- A fourth and final year rent decrease of -1.0%.
- A contribution to the bad debt provision of £1.416M. This is an increase of £0.255M from £1.161M in 2018/19.
- A proposed SCH Management Fee of £18.199M. This is a decrease of £0.203M from £18.402 in 2018/19.
- A revised HRA net balance in 2018/19 of £0.864M underspend. This surplus maintains the four-year balanced HRA position whereby this surplus will be contributed to reserves to be utilised in future years. The net £0.168M shown on Appendix A relates to the contribution from the Welfare Reform Reserve highlighted in paragraph 3.3 above.

3.8 Recent investment has taken place into a new Extra Care scheme at Saxon Court. This 51 unit development opened in December 2018 and has rents set at Affordable levels (i.e. 70% of Market Rent). A rent reduction of 1% will be applied for 2019/20.

3.9 2017/18 saw the introduction of 17 new HRA shared ownership properties at Richmond Road. The scheme was successful with all properties occupied by summer 2017 and ranging in ownership from 25% to 70%. The monthly rents are based on an Affordable Rent and the current average for a 50 week basis is £73.16. These properties will be subject to RPI + 0.5% rent increases in 2019/20.

3.10 There are also non-HRA properties subject to rental increases 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 SMBC. It is proposed rents for these properties should decrease by 1.0% from 1st April 2019. This would decrease the average rent from £108.29 per week to £107.38 a week on a 50-week basis.

3.11 SCH own 29 Affordable Homes to rent and 7 part ownership properties. These properties are subject to different tenancy arrangements and were considered at the SCH Board meeting on 10 December 2018. The tenancy agreements propose the rent increases for the SCH Affordable Homes properties are set at September 2018 CPI + 1% (3.4%) increasing average rents from £112.35 per week to £116.16 a week on a 50-week basis. For the part ownership properties, the tenancy agreements allow an increase based on February 2019 RPI.

3.12 Income collection performance is supported by work carried out by SCH Tenancy Sustainment and Money Advice Teams. The Tenancy Sustainment Team targets its activities at all new tenants who go through a pre and post tenancy programme as part of an Introductory Tenancy. The Money Advice Team is focused on assisting tenants to maximise their income and continues to support all tenants affected by welfare reform and those subject to Universal Credit full service. The Money Advice Service levered in over a million pounds in benefits between April – December 2018 compared to an annual cost of £0.159M and will continue as a priority in 2019/20, reducing the potential impact on rent collection and improving outcomes for tenants.

April 2019 Rent Decrease

3.13 Originally the self-financing determination assumed that the Government's Rent Restructuring model would continue to be applied with the aim of the model to move rents paid by tenants progressively towards formula (or target) rents. Target rents were defined as the rents paid for equivalent properties by Housing Association tenants with an aim to complete by 2015/16. This had meant that past annual rent increases for Solihull have generally been in excess of inflation.

3.14 Since 2012/13, rent increases have been limited firstly on a local level by agreeing smaller rent increases than allowable, then government capped rent increases by linking the calculation to one based on Retail Price Index (RPI) +0.5%, then to Consumer Price Index (CPI) +1%. A further reduction has now been mandated as a year-on-year decrease of 1% for four years from 1 April 2016 until 2020/21 when increases will return to CPI +1%.

3.15 Latest statistics on housing benefit in Solihull show that 35% of SCH tenants receive full housing benefit, 18% of tenants receive partial benefit and a further 17% of tenants now receive Universal Credit.

Investment in Housing Stock / Housing Capital Programme

3.16 The proposed Housing capital programme for 2019/20 will be presented to the Cabinet Member for Environment & Housing at his meeting on 27 March 2019.

3.17 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 Solihull MBC's Asset Management strategy and concentrates on the following key investment needs:

- Health and Safety and legislative requirements including programmes of works covering fire prevention, gas safety and electrical integrity. The on going commitment to the safety of both the SCH managed portfolio and customers remain a business priority. Works will continue to survey all remaining High Rise refuse chute fire dampers, arranging for the replacement as required. High rise Sub Mains identified as being non-compliant thus far will be replaced and those highlighted during the on going assessment will also be programmed for replacement. Electrical remedial works across the stock will continue in line with our 5 year testing programme to ensure compliance and the lift refurbishment programme will continue.

- Improving energy efficiency for tenants – SCH will continue to work closely with the Council to tackle fuel poverty and deliver the commitments set out in the Council's Home Energy Efficiency and Affordable Warmth Strategy (HEEAWS). This will include:

    - Using all opportunities to ensure residents maximise their income
    - Promoting utility funded initiatives that make energy supply and heating more affordable for residents
    - Exploring further opportunities to use renewable technologies such as solar PV and heat pumps
    - Working with the Council on its Winter Warmth campaign
    - Signposting residents to ensure they receive the best advice on energy suppliers and tariffs suitable to their circumstances

- The programme to replace heating systems in properties that still have inefficient heating systems will enter its eighth year. The number of properties left for this 'planned' approach have significantly reduced although there are a number of boilers that are no longer economical to repair that need to be replaced. In addition, work will continue to take advantage of current and emerging renewable energy heating systems, i.e. District heating considerations where applicable and air / ground source heat pumps for those properties off grid.

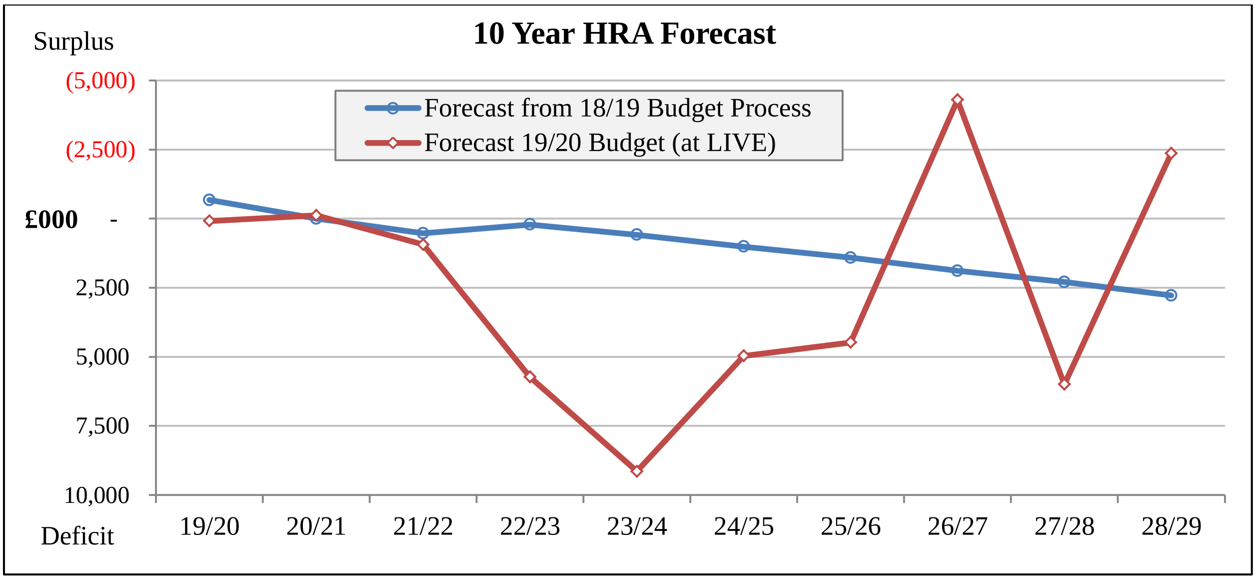
- The Envelope programme continues to increase security, efficiency and aesthetics of low rise communal areas and a cyclical maintenance programme continues across the borough to improve communal areas of high rise accommodation, external components and the footprint around housing properties and managed areas including garages. Adaptations for the disabled will continue where identified on a needs basis for residents.

- Following the successful completion of recent developments namely, Saxon Court (51 unit extra care scheme), Cambridge Drive (9 Shared Ownership units) and Greenhill Way (5 Shared Ownership units). Investigations relative to Wagon Lane have progressed well and progressed to design and technical assessment. Planning applications have been submitted to develop under utilised garage sites (Willow Way, Brackleys Way, Halifax Road) and the development at Faulkner Road with the outcomes expected in April / May 2019. Work will also continue to purchase suitable properties on the open market utilising 1-4-1 time limited capital receipts.

Solihull Community Housing Management Fee

3.18 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. Plans up until 2017/18 have been delivered and it is proposed that savings for 2018/19 and onwards are revised. The delivery of these savings has been tracked closely throughout the year and by December all £0.683M savings were rated green for 2018/19. Current SCH monitoring for December 2018 also shows a predicted underspend of £0.879M for the year end.

3.19 The need for SCH savings in 2021/22 has been generated by the introduction of a new SCH Asset Management System which was used for the first time to determine the required capital programme. The graph below sets out the HRA annual surpluses / deficits over the next 10 years, and also sets this against the forecast over the same period presented as part of last year's budget process:



3.20 After reviewing the impact of the results, it has been recognised that the assumptions made in the system were based on the 2012 self-funding 30 year plan and these now need reviewing. Work has begun by commissioning an up to date stock condition survey and the results will be reviewed by a joint SMBC and SCH officer group to set investment priorities that will aim to ensure investment levels are kept within available budgets. Therefore the 2021/22 capital programme will be reduced by £2.938M, giving a modest increase of £0.166M until the true level of future investment is addressed during 2019/20.

2019/20 HRA Reserves

3.21 The HRA budget estimates, including the SCH Management Fees, for 2018/19 and 2019/20 are shown at Appendix A. The HRA Working Balance includes contributions totalling a net £0.820M (£0.906M less £0.086M) of HRA estimated surpluses for 2018/19 and 2019/20 which are planned to be used in 2021/22 to maintain a balanced four year period (see para 3.7 above).

3.22 The HRA Working Balance is included as part of the HRA reserves shown at Appendix B and the total HRA reserves have an estimated balance at the end of 2019/20 of £26.974M, compared to £28.059M in 2018/19.

3.23 Within this amount, Retained receipts from Right to Buy sales, shared ownership and other property sales have marginally increased in the last year from £11.033M to an estimated £11.090M. This includes £1.717M from Richmond Road shared-ownership sales.

3.24 It was agreed last year that priority is 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 and a requirement to be used 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 A reserve for Welfare Reform support of £1.765M is still available for use and is subject to member approval with other minor balances of £0.508M also available. The remaining £2.272M relates to balances accumulated since 2004 as a consequence of the previous SCH management fee methodology.

Garage Rents

3.26 It is proposed that garage rents be increased by 17p (2.5%) from £7.00 to £7.17 per week (on a 50-week year) with effect from 1 April 2019 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

3.27 The cost of tenant content insurance is usually passed through to tenants. The current contract contains a price freeze agreement for 2019/20; therefore there is no additional cost to be passported to tenants.

3.28 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 approved by the SCH Board at their meeting on 10 December 2018.

Leaseholder Management Fees

3.29 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.

3.30 SCH have reviewed the management fee and propose that it should increase by 2.6% from £151 to £155 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 (£77.50 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 Delivery of the Council's priorities:

How will the options/proposals in this report contribute to the key themes in the Council Plan?

☐ Improve Health and Wellbeing

☐ Managed Growth

☐ Build Stronger Communities

☒ Deliver Value

6.2 Implications for children and young people, vulnerable groups and particular communities:

(a) Where applicable, specific savings proposals will be subject to detailed fair treatment assessments which will consider the implications for children and young people, vulnerable groups and particular communities, before they are implemented.

6.3 Consultation and Scrutiny:

(a) 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.

6.4 Financial implications:

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

6.5 Legal implications:

(a) The proposed rent reduction is in keeping with MHCLG guidance.

6.6 Risk implications:

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

6.7 Statutory Equality Duty:

(a) The impact on the tenants arising from the proposed average rent decrease of 1.0% will be beneficial to those that are not in receipt of Housing Benefit. The most disadvantaged tenants are in receipt of Housing Benefit payments.

7. List of appendices referred to

7.1 Appendix A – Housing Revenue Account Medium Term Financial Strategy

7.2 Appendix B – HRA Statement of Reserves

7.3 Appendix C – SCH Savings Proposal 2018/19 – 2021/22

7.4 Appendix D – Fees & Charges delegated to SCH

8. Background papers used to compile this report

8.1 None

9. List of other relevant documents

9.1 None