

CABINET
9 FEBRUARY 2016
HOUSING REVENUE ACCOUNT
CAPITAL AND REVENUE BUDGETS 2016/17

Portfolio Holder: Councillor Howard Doe, Deputy Leader and Housing and Community Services

Report from: Richard Hicks, Director of Regeneration, Community and Culture

Authors: Phil Watts, Chief Finance Officer
Marc Blowers, Head of Housing Management

Summary

This report presents the Housing Revenue Account (HRA) capital and revenue budgets for 2016/17 and provides details of proposed rent and service charges levels for 2016/17.

These proposals will be submitted to the Business Support Overview and Scrutiny Committee on 2 February 2016.

1. Budget and Policy Framework

1.1 The Council is required by law to carry out a review of Council rents from time to time and to ensure that the HRA does not fall into a deficit position.

2. Background

2.1 The 'self-financing' regime for the HRA came into place on the 1 April 2012 and the previous subsidy regime and the complex calculations that accompanied it have now gone. For the most part this left the HRA free of Government intervention and with the responsibility for managing and maintaining the Council's housing stock within the rental stream that the stock generates. This report concentrates on proposals for 2016/17 including:

- Rent and Services charges
- Performance management – voids, welfare reform and debt collection
- Expenditure assumptions
- Housing repairs
- Capital Budget
- Borrowing & Headroom
- New House Building Programme
- Revenue budget for 2016/17

3. Rent

3.1 The Government has recently introduced new rent setting measures under the Welfare Reform and Work Bill 2015, for social housing landlords to reduce the rent payable by individual tenants each year between 2016 and 2019. This supersedes the Government's previous 10 year rent increase policy implemented in April 2015 and Medway's Rent Setting Policy 2015.

The main changes are:

- Moving the annual weekly rent increase from the current arrangement of Consumer Price Index (CPI) + a maximum of 1% to reduce current weekly rent by 1% in the 2016/17 rent year and so on for the following 3 years.

The HRA Business Plan when revised in December 2014 was based on an assumption of a 3% increase in rental income year on year. The new directive above means, in essence a 4% reduction to rental income each year for the next 4 years. As reported to the Business Support Overview and Scrutiny Committee, it was initially estimated that the impact would mean a reduction of income of approximately £6.7m, however, further evaluation has led to a revised reduction of income of approximately £5.4m, an improvement of some £1.3m

- 3.2 Appendix A, attached, has the details of the proposed rent decrease by property type based on social housing rent and is in line with Government guidance as detailed above.
- 3.3 The proposed decrease, as set out above, will give an average rent of £83.44 (1% reduction to 2015/16 weekly rent) per week based on 52 weekly payments.
- 3.4 Rents under this arrangement exclude service charges which are charged separately and are based on actual expenditure.
- 3.5 As of 1 April 2016, with the proposed decreases implemented, Medway HRA will have moved 98.3% of their rent to formula rent. This will leave 1.7% or 51 properties below formula rent.
- 3.6 As part of the Summer Budget 2015, the Chancellor announced that the discretionary 'pay to stay' scheme (charging affordable rent (80% of market rent) to tenants with income over £60,000) would be made compulsory. The Government's proposals are that from April 2017, social housing tenants with household earnings above £30,000 (£40,000 in London) per year will be required to pay near market rent.
- 3.7 Currently the Government's consultation paper is seeking views on whether some form of taper system should be introduced under which the amount of rent paid will increase as tenants incomes increase above the 'high income threshold'. With the average social housing rent of a Medway Council property approximately £83.44 in 2017/18, this will see a rise for those in these circumstances to approximately £160 per week. Currently 30% of our tenants are not in receipt of any housing benefit and therefore may potentially be affected by this change.

- 3.8 The Housing and Planning Bill 2015 includes legislation for rent regulations that may give social landlords the power to require tenants to provide information or evidence for the purpose of determining whether the social landlord is obliged by the regulations to charge a specific level of rent and what that level will be. Work is underway to identify households that will be affected by this change. This support will include money management skills training and ensuring robust sign posting arrangements are in place for debt advice and support.
- 3.9 This change will not benefit the HRA Business Plan, as the difference between social housing rent charge and any market rent charge will have to be returned to the Central Government.

4. Garage Rents

- 4.1 The current rent charged per garage is £326.50 (£6.53 x 50 weeks) per annum for Council tenants and £435.00 (£8.70 x 50 weeks) per annum plus VAT for other residents. It is proposed that garage rents will increase by 2% from April 2016 and the new charge will be £333.32 (£6.41 x 52 weeks) per annum for Council tenants and £444.08 (£8.54 x 52 weeks) per annum plus VAT for other residents. It is estimated that this will generate an additional income of approximately £3,500 based on current letting rates.

5. Service Charges

- 5.1 Service charges for 2016/17 have been calculated using estimated costs based on actual charges for previous years and any known increases. Guidance states that, whilst increases should be confined to inflation plus 1%, it also states that providing charges are fair, transparent and set at a level where they cover costs for a particular service without profit or subsidising another, then the authority can use its discretion to charge a rate where costs are fully recovered.
- 5.2 As part of previous year's budget report, it was highlighted that there were several service charge areas where cost was not being fully recovered and therefore above inflation increases were applied. All service charges are now expected to fully recover costs with the exception of sheltered helpline charges.
- 5.3 It was agreed in the 2015/16 budget report that the sheltered helpline service charge requires above inflation increases of 15% in order to fully recover costs. The proposed charges for 2016/17 are based on this principle, to assist in fully recovering the costs for sheltered helpline.
- 5.4 The average service charge increase for 2016/17, excluding Housing Related Support eligible charges and charges for new properties (releasing in 2016/17), is 2.1% or £0.12 per week. Appendix B details the percentage increases required against each type of projected weekly service charge in comparison to 2015/16.
- 5.5 Some charges for Sheltered Housing are funded through a Housing Related Support fund via a Service Level Agreement. If this fund is discontinued the charges will be payable by the tenants.

5.6 As per previous years, it is proposed to continue the process of rounding service charges to the nearest 5p or 10p for 2016/17. This exercise results in a small loss of income (less than £500), but saves 24 hours of administration time.

6. Performance Management

6.1 The financial management of the HRA is directly linked to key performance in a number of operational areas (void management, rent collection and arrears recovery).

6.2 Void Management

6.2.1 There is a direct correlation between the time a property remains void and the rent foregone.

6.2.2 For 2015/16 a target for void property rent loss was set at 0.51% of the rent debit, equating to £67,601. As at 17 November 2015 performance was at 0.54%, which would produce a financial rent loss of around £71,093 if performance remains at this level for the remaining 2015/16.

6.2.3 For 2016/17 the provision for void rent loss has been set at 0.56% against the 2016/17 rent debit or in financial terms £73,602. This gives a slightly higher rent loss in comparable with November 2015 performance as noted in paragraph 6.2.2. However, this budget is based on the potential for an increased number of void properties due to the letting of the new build bungalows at Beatty Avenue (one and two bedroom properties) in summer 2016. The effect of the expected downsizing of some households, as is the aim of the initiative into the new properties, is likely to see a “trickle” effect of larger vacant properties arising and an impact on the void budget as well as void rent loss. The current year’s void budget is already under pressure without the anticipated increase in voids for 2016/17.

6.3 Rent Collection/Bad Debt Provision

6.3.1 The collection rate for rent and service charges and the performance in managing rent debt is critical to the financial position of the HRA and has a direct impact on the amount of bad debt provision that has to be set aside.

6.3.2 It has been calculated, as at 17 November 2015, that the collection level of rent and service charges for 2015/16 will be £14,230,746, which will result in current tenant rent arrears at 1 April 2016 of around £264,021. However, it is projected that total arrears, both current and former tenants, will be in the region of £743,646.

6.3.3 As at 31 March 2016, the projected yearly requirement for bad debt provision will be £56,000. Due to the effect of the implementation of Universal Credit and other welfare reforms, the budget for 2016/17 remains as previously, £105,000.

6.4 Universal Credit

6.4.1 Universal Credit was introduced in Medway on a cascade approach on 12 October 2015. It is expected to be rolled out across all claimants and fully

implemented by October 2017. This will have a direct impact on the income to the HRA and to its tenants in Medway.

- 6.4.2 Universal Credit will be paid to tenants in equal 12 monthly payments across the year.
- 6.4.3 At present the rent and service charges paid by tenants are charged over a 52 week rent cycle but paid over a 50 week rent payment period with 2 non payment weeks at Christmas commonly known as “rent free”. If this arrangement were to continue it would distort arrears over the course of the year and if not managed robustly could cause tenants to be pursued for arrears caused because the Universal Credit payment cycle does not correspond with the rent payment cycle.
- 6.4.4 It is proposed to amend the rent and service charges payment cycles to 52 weeks each year to address this anomaly. This matches with good practice and experience of other landlords where Universal Credit has already been introduced.
- 6.4.5 Tenants will actually be paying slightly less per week than they would under the 50 week arrangement, for example:
- Annual rental of £5,200 / 50 = £104.00 per week (with 2 “free weeks”)
 - Annual rental of £5,200 / 52 = £100.00 per week, but due every week
- 6.4.6 Consultation with residents on this proposal was undertaken via a letter to all residents in October 2015 and by means of face to face consultation at a Customer Catch Up Forum on 13 October 2015. There were no significant objections raised.

6.5 Direct Payments – Housing Benefit Payments

- 6.5.1 Currently all payments of Housing Benefit to working aged HRA tenants are credited directly to rent accounts at no cost. The introduction of Universal Credit would include a gradual shift of payments of state assistance in respect of housing costs direct to tenants, which would then need to be collected by the HRA. Based on the current roll-out plans there is potential for a minimal impact through the 2016/17 financial year with an increasing impact from April 2017.
- 6.5.2 Universal Credit in its current form would only affect working age claimants. Currently the HRA receives approximately 69% of rental income via Housing Benefit of which 44% is in respect of working age tenants and 25% of which is in respect of state pension age tenants or £5,681,763 and £3,310,736 respectively for 2016/17 budgeted income.
- 6.5.3 The proposed changes would result in Housing Benefit being paid directly to working aged tenants and it is estimated that in 2016/17, the additional cost to the Council to collect this rent from tenants in terms of transaction payments, will be approximately £10,000. This would be a new additional cost to the HRA. These transaction costs will increase as Universal Credit is fully rolled out over the next couple of years. It is also likely that arrears and the consequent provision for bad debt will increase.

6.5.4 Work is underway by the HRA team to prepare both the service and tenants for these proposed changes. This includes the HRA Housing Team being a prominent member of the Corporate Welfare Reform Steering Group where partnership working has been developed with the Department of Work and Pensions, work streams agreed around communication, identifying vulnerable customers and development of digital inclusion initiatives.

7. HRA Expenditure

7.1 Generally, all expenditure will remain at 2015/16 levels for 2016/17 to reflect the current economic climate and reduction in rental income, in line with the Medium Term Financial Plan, including any corporate determination of pay.

7.2 The only exceptions to this will be contracts that are subject to contractual annual uplifts and contracts which are due to be re-tendered.

7.3 In 2016/17, it has been agreed that there will be no uplift to the Service Level Agreement (SLA) charges between the HRA and General Fund (GF) services. This is as a result of a comprehensive review in 2015/16, that looked in detail at the time spent on various SLAs' between the HRA and the GF services which led to an increase of £86,646 in 2015/16 to reflect the level of service and the management support provided to ensure that the HRA operates effectively. This increase excluded management fees for the planned decorating and capital maintenance programme which is 8% charge for decorating and 12.5% charge for capital works, based on the actual programme delivery.

7.4 The cost of Housing Benefits under Rent Rebate Limitation is the responsibility of the HRA. Based on an estimated rent rebate limit, for 2016/17 it is projected that the cost of this will be nil, however, as the actual rent rebate limit cap (set by the Government) will not be available until the beginning of 2016, a provision of £50,000 has been made in the budget.

8. Housing Repairs

8.1 Following formal tendering, a new repair and maintenance contract was formally awarded to Mears Ltd for five years, from 1 September 2014. The first year of the contract has performed well, including bringing savings to the HRA budget through efficiencies and the price per property arrangement.

8.2 Housing repairs expenditure covers both planned and responsive maintenance, some of which is capital funded. Government guidelines have stated that local authorities should be moving away from responsive repairs and towards increased planned maintenance expenditure to achieve a spend ratio of 30:70

8.3 Based on the proposed draft combined capital and revenue work programmes the financial split in 2016/17 is likely to be:

- Responsive Maintenance £2.181m
- Planned/Capital Maintenance £5.136m

This split will equate to a 30:70 spend ratio for 2016/17.

8.4 Responsive Repairs and Voids Budget

8.4.1 The revenue expenditure budget funds all general day to day repairs, emergency repairs, repairs to void properties, lift maintenance, estate improvements and repairs programme and central heating maintenance.

8.5 Three-Year Capital Works Budget

8.5.1 Up until 2014/15, the capital works budget was set on an annual basis. This approach led to delays in the start on site of some projects as officers could not formally instruct contractors or the Building and Design Team, who project manage works on behalf of the HRA service until formal budget approval was obtained. This approach also led to lost opportunity of not being able to produce contracts for longer periods of time for the same work streams which should otherwise give a greater value for money in procurement terms if those tendering could bring savings via reduction in longer terms work programmes and overheads as well as reduction in administrative costs. In 2015/16, based on December 2014 revised HRA Business Plan (BP) which identified that the BP was financially robust, a three-year capital works budget programme was approved by the Members (HRA Capital and Revenue Budget 2015/16 Report).

8.5.2 Whilst the detailed plan for capital works for 2016/17 is currently being revised in conjunction with the asset management strategy, the table below shows the approved 3 year (2015/16 to 2017/18) HRA capital works programme budget (including disabled adaptations, but excluding the house building programme). Any under-spend on the 2015/16 capital programme will be added to the 2016/17 capital programme and the same principle will apply to 2017/18 capital programme. The Round 3 capital budget monitoring forecasts for 2015/16 predicts savings of £278,000 on the capital programme mainly for kitchen/bathroom (waivers) where tenants have refused the works. This will be carried forward and will be in addition to the approved budget provisions detailed below for 2016/17.

8.5.3

3-Year approved Capital Programme Budget

	15-16	16-17	17-18
Planned Maintenance	£4.630 million	£4.338 million	£4.648 million
Disabled Adaptations	£0.200 million	£0.250 million	£0.255 million
Total	£4.830 million	£4.588 million	£4.903 million

8.5.4 The 3-year approved capital programme expenditure is funded by way of:

3-Year Capital Programme Projected Funding

	15-16	16-17	17-18
Depreciation through Major Repairs Reserves	£3.576 million	£3.650 million	£3.684 million
Contribution from HRA Working Balances	£1.254 million	£0.938 million	£1.219 million
Total	£4.830 million	£4.588 million	£4.903 million

9. House Building Development Programme

- 9.1 Council agreed to the Council's house building development programme on the 17 October 2013, which requires investment of £8.560 million over four years to be funded from borrowing and ring fenced Right to Buy (RTB) 1-4-1 capital receipts.
- 9.2 During the second year of this programme (2014/15), the actual spend for the completion of 13 new properties and start of remaining properties in Phase one was £2.035 million (in addition to £0.97m in 2013/14), of which £1.472 million was funded via borrowing and £0.563 million from the use of retained RTB 1-4-1 capital receipts.
- 9.3 As at 1 April 2013 the maximum headroom available was £5.5 million and Council agreed to add this £5.5 million to the 2013/14 capital programme and then increase it by the minimum revenue payment made by the HRA.
- 9.4 A total of £1.596 million has been added to the initial available headroom from the increased headroom available due to MRP payments. On 28th October 2014, Cabinet approved the use of available RTB 1-4-1 capital receipt funds towards the new build programme. This funding further increased the budget by £0.563 in 2014/15, thereby increasing the capital programme to £7.66 million for 2015/16.
- 9.5 It is again proposed to increase this capital programme by the estimated available RTB 1-4-1 capital receipts funds of £0.390 million and remaining required funds of £0.511 million from 2015/16 MRP payment made by the HRA, thereby increasing the capital programme to the maximum approved budget of £8.560 million for the period from 2015/16 to 2016/17, which is all committed.
- 9.6 As new properties come on line, the rents and service charges will be set in accordance with normal procedures via Cabinet and Council approval.

10. HRA Working Balance

- 10.1 There is a requirement to maintain a working balance to safeguard against unplanned and unavoidable increases in expenditure or losses of income. As at 1 April 2015, the working balance stood at £2.235 million. For a number of years the actual HRA balance has exceeded the recommended guideline of £450,000.
- 10.2 2015-16 Round 3 budget monitoring predicts a balance as at 31 March 2016 of £2.280 million, which is similarly in excess of the guideline but given that the balance of reserves is also to cater for future investment, it is recommended a minimum reserve balance of £750,000 would be appropriate.
- 10.3 The draft 2016/17 HRA budget, as presented at Appendix C, produces a projected surplus of £0.808 million for the year and after allowing for a contribution to fund the capital programme of £0.938 million and a charge of £0.024 million for non-dwellings impairment, the revenue balance is forecast to be £2.126 million as at 31 March 2017.
- 10.4 Part of the Council's on-going commitment to improve its housing estates is to have a rolling programme of improvement to its garage sites. Part of this

programme of works, which has been approved at Asset Management Board, involve the demolition of old garages which are in a state of disrepair. These sites either have been used to redevelop as part of the Council's new build house programme or turned into car parking spaces. As a result of this, current 'HRA-Valuations, Depreciation and Impairment' statutory adjustment require any impairment losses on non dwellings to be charged to the HRA reserves. This means that the working balance for the year end is reduced by the amount of impairment losses on non dwellings. It is likely that in 2015/16, 31 garages will be demolished and turned into car spaces as per HRA's 5 Year Garage Improvement Strategy, presented to the Asset Management Board in 2014/15, hence reducing the value of stock (impairment) by approximately £84,000 and an impairment of approximately £24,000 in 2016/17 for the demolition of 9 garages. These impairment losses will result in reduction in HRA working balances at the end of the relevant year.

11. New Self-Finance Arrangements - Borrowing and Headroom

- 11.1 Each year the Council is required to calculate the 'Capital Financing Requirement', which forms the Council's ceiling for prudent borrowing. For the HRA, the Government set each local authority a borrowing cap limit and in Medway's case this amounts to £45.846 million. The difference between the borrowing cap and the actual amount of borrowing is the 'headroom' for further borrowing which can only be used on creating, improving or maintaining HRA assets or services.
- 11.2 In 2012 the HRA began a programme of repaying its debt by a minimum revenue payment (MRP). This payment is calculated at 2% on the HRA opening outstanding debt and the 2016/17 MRP repayment is estimated to be £0.843 million.
- 11.3 As at 1 April 2016 the estimated 'headroom' of £3.683 million available for borrowing (subject to repayment of 2015/16 MRP) has been allocated to finance the completion of the Council's current house building programme, including Beatty Avenue.
- 11.4 Work is underway to consider options for future use of the 'headroom' and will be reported to the Asset Management Board in 2016 and to Members. These options will include consideration for more new build HRA stock or use for investment in existing stock and will be dependent on availability of funding.

12. HRA Business Plan Update

- 12.1 Local Authorities are required to produce and maintain a HRA Business Plan that meets the Governments 'fit for purpose' criteria. The Business Plan is also a statement of the viability of Medway Council's HRA. It does not set the budget for the HRA but reports on the plans already agreed, including those reported to Members in this HRA Budget Report. A full revision of the Business Plan has not been undertaken this year to date.
- 12.2 The Business Plan also supports the Housing Strategy within the Council Plan in respect of housing, and in-line with the Council's budgetary framework. The housing stock represents one of the Council's highest value assets and its repair and maintenance is a significant liability, therefore planning for its sustainable future is important. Effective and efficient management of the housing assets plays an important part in delivering many of the Council's corporate priorities and strategic objectives and the Asset Management

Strategy (AMS) provides the long term planning, provision and sustainability of assets.

- 12.3 An interim revision of the HRA Business Plan was undertaken in autumn 2015, to establish the impact of the proposed 4 year rent reduction (1% each year). Since then there have been further proposals set out in the Housing and Planning Bill 2015 which will affect social housing landlords with high value assets. The exact implications are as yet unknown and are currently expected to be the subject of further government guidance in spring 2016. It is envisaged that a subsidy payment back to Central Government will be required annually by local authorities retaining 'high value assets'. No definition of 'high value assets' is yet available.
- 12.4 The expectation is that this new government guidance will have a significant impact on the business plan, the likelihood being that less funding will be available to manage, maintain and improve Medway's housing stock.
- 12.5 As a result of uncertainties around this significant proposal, it has been decided to revise the Business Plan again once the regulations around this area are published, most likely to be spring/summer 2016. A further report to Cabinet will then be produced

13. Engagement and Information

- 13.1 The Housing Act 1985 requires the issue of written notification to each tenant a minimum of four weeks in advance of the date any rent charge adjustments become operative. For 2016/17 the latest date for posting the notices is 3 March 2016.
- 13.2 Tenants were written to in October in regards to the proposal to remove the 2 non payment weeks at Christmas and move to a 52 week rent cycle. A customer talk back tenant forum was held on 13 October 2015 when the matter was also discussed and consulted upon. There were no formal objections to this proposal
- 13.3 The Council has developed a resident engagement strategy detailing how officers consult and engage with tenants in partnership with tenants' forums. In order to support this commitment, a meeting to present the proposals within this report to tenants was held on 26 January 2016. At the meeting tenants were given a presentation and officers responded to questions raised. Whilst there were no significant issues raised by tenants they were concerned about the impact of the Government's directive as to the proposed rent reduction and the potential impact on services and the business plan in the future.

14. Business Support Overview and Scrutiny Committee

- 14.1 The Business Support Overview and Scrutiny Committee will consider this report on 2 February 2016. The views of the Committee will be submitted to Cabinet in an addendum report.

15. Risk Management

Risk	Description	Action to avoid or mitigate risk
HRA Balance.	There is a requirement to ensure that the balance on the HRA does not fall into deficit and a business plan is required to model this need over a thirty-year period. The major factor with the potential to impact on this requirement is the level of expenditure required for housing repairs.	Ongoing stock condition surveys we have undertaken will provide a sound basis on which to model future repairs investment. Regular monitoring by senior officers of the budgets take place and actions agreed to avoid deficit occurring.
Changes brought about by Welfare Reform.	If fully implemented Government proposals to introduce Universal Credit would mean approximately £5.68 million (based on current figures) being paid direct to tenants that is currently paid via Housing Benefit directly to the HRA rent account. This may mean a significant increase in arrears and also additional transaction costs for the HRA of around £35,000 to recoup this income.	Welfare reform team in place who are working with most vulnerable residents. Key partners being engaged in process. Money management training being organised for Tenants and Debt Advice sign posting in place.
<p>No up to date Business Plan in place.</p> <p>Significant change in income from rent or service charges affects Business plan.</p> <p>Change of stock Number.</p>	<p>Local Authorities are required to produce and maintain a HRA Business Plan that meets the Government's 'fit for purpose' criteria.</p> <p>Arrears escalate above predicted bad debt provision.</p> <p>The reduction by 1% each for the next for years for rent charging will reduce previously predicted income to the HRA Business Plan. Along with any significant increase in arrears this may impact on the ability to deliver current services or staffing structural models.</p> <p>Significant change in stock numbers due to increase in Right To Buy or Strategies to review stock retention and assets such as garages.</p>	<p>The adoption of the Business Plan once the full implications of the housing and planning bill we understood would allow the Council to continue to meet this requirement.</p> <p>Dedicated team in place to manage income. Weekly reports produced to monitor robustly Performance and take prompt and effective action.</p> <p>Monthly reporting in place for arrears and other income</p> <p>HRA Business Plan reviewed annually.</p> <p>Regular reviews undertaken of alternative methods of delivery which may improve customer service and value for money.</p> <p>Significant changes will be monitored and Business Plan refreshed As necessary.</p>

<p>Charging of Market rent to households with incomes over £30,000</p>	<p>Families who have budgeted for payment of social housing rent may face considerable financial hardship.</p>	<p>Analysis underway to try and identify those that may be affected by change in rent charging.</p> <p>Housing Team to work with affected tenants by undertaking Income and Expenditure assessments and assist with money management skills.</p>
<p>Subsidy payment for high value assets.</p>	<p>High value assets above defined threshold will be subject to a subsidy payment back to Central Government which currently has not been accounted for within the existing HRA Business Plan.</p>	<p>A review of affected stock to be undertaken with a strategic decision on retention of high value assets.</p>

16. Financial and Legal Implications

- 16.1 The financial implications are contained within the body of this report and the appendices.
- 16.2 Under Section 76 of the Local Government and Housing Act 1989, the Council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that, on certain stated assumptions the HRA for that year does not show a debit balance. The Council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'break even' requirement. If not, then the Council shall make such provisions as are reasonably practicable towards securing that the proposals, as revised, shall satisfy the requirement.
- 16.3 Under Section 24 of the Housing Act 1985, the Council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The Council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. This is a decision for Full Council as it forms part of the Council's budget and policy framework.
- 16.4 A decision to adjust rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.
- 16.5 In considering the recommended rent adjustments and other matters proposed in this report, and making its recommendations to Council, Cabinet is exercising a public function. It must therefore comply with the duties in section 149 Equality Act 2010 to have 'due regard' to the need to eliminate discrimination, advance equality, and foster good relations between those with a protected characteristic (pregnancy and maternity, age discrimination,

disability, gender reassignment, marriage and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it. A Diversity Impact Assessment is attached at Appendix D to assist Members to fulfil these duties.

- 16.6 The Cabinet must consider tenants' human rights, in particular Article 8 of the European Convention on Human Rights (right to respect for a person's home) and Article 1 of the First Protocol (right to peaceful enjoyment of possessions) when considering what recommendations to make to Cabinet. Members will need to consider whether the proposals strike a fair balance between the rights of the individuals who may be adversely affected by them, and the legitimate aims of the Council (setting a balanced budget, targeting social housing at those who are most in need and of generating income that can be invested back into social housing so that more people in need can benefit from it).

17. Recommendations

- 17.1 That Cabinet considers the recommendations from the Business Support Overview and Scrutiny Committee.
- 17.2 That Cabinet recommend to Council:
- a) That the rent cycle move from a 50 week rent payment year to a 52 week rent payment year for both the housing stock and garages.
 - b) A proposed rent decrease of 1% for the housing stock as set out in Appendix A (based upon 52 collection weeks).
 - c) A rent increase of 2% for garages.
 - d) That the service charges and increases as set out in Appendix B of the report for 2016/17 be approved.
 - e) That the revenue budget for the HRA Service for 2016/17 as per Appendix C be approved.
 - f) That the provision for the repayment debt continues to be based on a minimum revenue payment of 2% on the 2016/17 HRA opening outstanding debt.
 - g) To increase the 2016/17 HRA housing building development programme amount by the available RTB 1-4-1 capital receipts and remaining from 2015/16 MRP payment as set out in paragraph 9.5.

18. Suggested Reasons for Decisions

- 18.1 The Council is required to carry out a review of rents and notify tenants not less than 28 days prior to the proposed date of change. The Council is required under the Local Government and Housing Act 1989 to ensure that the Housing Revenue Account does not fall into a deficit position.

Lead officer contacts

Phil Watts, Chief Finance Officer

Telephone 01634 332220 Email: phil.watts@medway.gov.uk

Stephen Gaimster, Assistant Director, Housing and Regeneration

Telephone (01634) 331192 E-mail: stephen.gaimster@medway.gov.uk

Marc Blowers, Head of Housing Management

Telephone (01634) 334382 E-mail: marc.blowers@medway.gov.uk

Background papers

None

Appendices:

Appendix A – Average rent decreases by property type

Appendix B - HRA Service Charges Summary

Appendix C - Revenue Budgets for HRA Service for 2016/17

Appendix D – Diversity Impact Assessment

AVERAGE RENT DECREASES BY PROPERTY TYPE (52 WEEKS)

Property Type	No of Properties	Actual Rent 2015/16	Actual Formula Rent 2015/16	Proposed Rent 2016/17	Formula Rent 2016/17	Average Decrease 2015/2016 to 2016/2017	Average Percentage Decrease 2015/2016 to 2016/2017
Bedsit Bungalow	45	£66.91	£66.99	£66.23	£66.32	(£0.67)	-1.0%
Bedsit Flat	67	£63.42	£63.42	£62.78	£62.78	(£0.63)	-1.0%
1 Bedroom Bungalow	175	£75.86	£76.19	£75.10	£75.43	(£0.76)	-1.0%
1 Bedroom Flat	488	£73.55	£73.57	£72.82	£72.83	(£0.73)	-1.0%
2 Bedroom Bungalow	11	£84.98	£84.98	£84.13	£84.13	(£0.85)	-1.0%
2 Bedroom House	507	£89.28	£89.31	£88.39	£88.42	(£0.89)	-1.0%
2 Bedroom Flat	538	£82.08	£82.08	£81.26	£81.26	(£0.82)	-1.0%
3 Bedroom Bungalow	2	£95.38	£95.38	£94.43	£94.43	(£0.95)	-1.0%
3 Bedroom House	756	£99.53	£99.53	£98.53	£98.54	(£1.00)	-1.0%
3 Bedroom Flat	110	£92.37	£92.65	£91.44	£91.73	(£0.92)	-1.0%
4 Bedroom House	28	£108.11	£108.11	£107.03	£107.03	(£1.08)	-1.0%
5 Bedroom House	2	£120.82	£124.54	£119.61	£123.30	(£1.21)	-1.0%
Sheltered Bedsit for the Disabled	9	£61.50	£61.50	£60.89	£60.89	(£0.61)	-1.0%
Sheltered Bedsit	183	£61.50	£61.50	£60.89	£60.89	(£0.61)	-1.0%
1 Bedroom Sheltered	71	£69.37	£69.38	£68.68	£68.69	(£0.69)	-1.0%
2 Bedroom Sheltered	5	£80.20	£80.56	£79.39	£79.75	(£0.81)	-1.0%
3 Bedroom Sheltered	1	£89.05	£89.05	£88.16	£88.16	(£0.89)	-1.0%
1 Bedroom Sheltered Bungalow	17	£72.00	£72.09	£71.28	£71.37	(£0.72)	-1.0%
Overall Average*	3,015	£84.28	£84.32	£ 83.44	£ 83.48	(£0.84)	-1.0%
*(Total rental income / total number of properties)							

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY (52 Weeks)

	Average Weekly Service Charge 2015/16 £	Proposed Percentage Increase for 2016/2017 %	Proposed Average Weekly Service Charge 2016/2017 £	Projected Weekly Variation 2015/2016 to 2016/2017 £	Projected (Surplus)/ Deficit 2016/2017 £'000
a) Eligible for Housing Benefit					
Adult Services Facilities	0.00	0.0%	0.00	0.00	0
Estate Services (Caretaking)	5.71	(14.8%)	4.87	(0.84)	0
Communal Electricity	0.99	4.7%	1.04	0.05	0
Grounds Maintenance	0.67	0.8%	0.68	0.01	0
Sheltered Helpline	2.80	15.1%	3.22	0.42	13
Sheltered Management	20.28	6.4%	21.58	1.30	0
Window Cleaning	0.30	3.1%	0.31	0.01	0
Council Tax	9.01	4.0%	9.37	0.36	0
b) Not Eligible for Housing Benefit					
Cooker	0.35	1.1%	0.35	0.00	0
Fridge	0.36	1.2%	0.36	0.00	0
Communal Heating	8.25	0.0%	8.25	0.00	0
Water Rates	3.67	3.7%	3.81	0.14	0
Average sections a & b (52 Weeks)	4.37	2.1%	4.49	0.12	13
c) Housing Related Support Eligible Charges					
Community Alarm	8.63	0.0%	8.63	0.00	0
SP Helpline	2.37	0.0%	2.37	0.00	0
Sheltered Support	5.40	0.0%	5.40	0.00	0
Average sections c	5.47	0.01%	5.47	0.00	0
Average all sections (52 Weeks)	4.59	1.7%	4.68	0.10	13

Description	Budget 2015/16			R3 Forecast 2015/16			Proposed Budget 2016/17		
	Exp	Income	Net	Exp	Income	Net	Exp	Income	Net
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
HRA Working Balance B/F			(2,235)			(2,235)			(2,280)
Centralised Accounts	253	0	253	216	0	216	253	0	253
HRA Capital Development Programme	95	0	95	61	0	61	98	0	98
Client Side Team	1,843	0	1,843	1,714	0	1,714	1,860	0	1,860
Community Development	148	0	148	211	0	211	130	0	130
Tenancy Services	1,787	(160)	1,627	1,658	(160)	1,498	1,685	0	1,685
Housing Maintenance	2,192	0	2,192	2,242	0	2,242	2,204	0	2,204
Homes for Independent Living	642	(2)	640	613	(2)	611	608	(2)	606
Estate Services	574	(4)	570	519	(10)	509	515	(4)	511
Housing Benefits	50	0	50	0	0	0	50	0	50
Capital Financing Costs	6,166	(12)	6,154	6,192	(12)	6,180	6,396	(12)	6,384
Rent Income	0	(14,457)	(14,457)	0	(14,419)	(14,419)	0	(14,390)	(14,390)
Other Income	0	(101)	(101)	0	(206)	(206)	0	(199)	(199)
Total Housing Revenue Account	13,750	(14,736)	(986)	13,426	(14,809)	(1,383)	13,799	(14,607)	(808)
Revenue Contribution to Capital Expenditure			1,254			1,254			938
Non Dwellings Impairment			84			84			24
HRA Working Balance C/F			(1,883)			(2,280)			(2,126)

Diversity impact assessment

TITLE <i>Name/description of the issue being assessed</i>	HRA Budget Setting 2016/17
DATE <i>Date the DIA is completed</i>	December 2015
LEAD OFFICER <i>Name and title of person responsible for carrying out the DIA.</i>	Emma Ditton

- 1 Summary description of the proposed change
- *What is the change to policy/service/new project that is being proposed?*
 - *How does it compare with the current situation?*

In setting its budget, the Council is exercising a public function and must therefore comply with the duties in section 149 Equality Act 2010.

The Budget report for 2016/2017 presents the Housing Revenue Account (HRA) revenue budget for 2016/17 and:

- provides details of proposed rent and service charges levels for 2016/17;
- provides an update on the HRA Business Plan that is an integral part of the strategic planning and setting of priorities for the HRA Service.

Only the parts of the report that will have a **direct** financial impact on existing tenants are included for comment in this DIA. The main budgetary changes that will impact on tenants over the coming year and which the budget report and DIA will consider are:

- The introduction of Universal Credit in Medway (The Welfare Reform Act 2013)
- Dwelling rent decrease by 1% (Summer Budget 2015)
- Move from 50 week to 52 week rent cycle
- Garage rent increase by 2%
- Service Charges

Exceptions

The following items have been included in the budget report as they have an effect on the business plan; however they have not been included for consideration in the DIA as they do not have a direct effect on existing tenants.

The **Pay to stay** Policy is due to come into force as part of the Housing and Planning Bill 2015. As at 16/12/2015 the clause is under consultation and the Housing and Planning Bill has not yet been passed as an act. However it has

Diversity impact assessment

been determined that once the bill has passed, pay to stay will not come into affect until April 2017. Pay to Stay will therefore be considered in the 2017/18 budget report and DIA.

The Housing and Planning Bill 2015 introduces Vacant High Value Local Authority Housing payments to the Secretary of State. Local Authorities will have to make an annual payment to the Secretary of State for high value properties that are predicted to become vacant during the year. This will place a duty on local authorities to consider selling off High Value vacant assets that become void. As of December 2015 the Government has not made explicit the terms of this payment. Whilst this process will not have a direct financial impact on residents, it will potentially have financial implications on the business plan. Therefore this DIA will need to be reviewed once the term for payment has been stated and we are aware of the financial implications on the Business plan.

Whilst there are no direct financial implications for tenants, the constraints on the headroom budget in 2016/17 means it is unlikely that any new property development will commence in 2016/17. Discontinuation of the Development Programme will not have a direct effect on existing tenants as they will already have secured accommodation.

Description of changes to the budget that will have financial implications on tenants

The introduction of Universal Credit in Medway

Universal Credit is a Government initiative introduced in Medway from October 2015. Universal Credit is a new single payment for people who are looking for work on a low income and will replace a number of existing welfare payments. Tenants who currently have Housing Benefit payed directly to Housing Services will now be responsible for managing their universal credit payment (that may include a housing element towards their rent) ensuring their rent is paid in full and on time.

Dwelling rent decrease

In 2015/16 we increased our baseline annual rent to meet 'target rent' using the recommended calculation (Consumer Price Index (CPI) at September of the previous year + 1%). Following the 2015 Summer Budget, new guidance now suggests that from April 2016 social housing rent should decrease by 1% each year for the next four years. This will help to decrease Housing Benefit payments.

Diversity impact assessment

Garage rents

It is proposed that all garage rents will increase by 2% from April 2016 and the new charges will be as follows:

Occupier	Current Annual Rent	New Weekly rent	New Annual rent
Council tenant	£326.50	£6.41	£333.32
Non Council tenant	£435.00 + VAT	£8.54 + VAT	£444.08 + VAT

Based on current letting rates it is estimated that this will generate an additional income of approximately £3,500 per annum. The garage rent charges will remain consistent across all Council sites.

Service Charges

The average service charges increase for 2016/17 (excluding housing related support eligible charges and charges for new properties releasing in 2016/17) will be 1.9% or £0.11 per week

50 to 52 week rent cycle

Historically, the Council has charged rent on a 50 week cycle per year, which includes 2 non payment weeks during December. It is proposed that the Council now moves to a 52 week rent cycle. Over the course of the year this will not affect the total amount payable, but spread the cost across evenly all weeks of the year.

For example if the annual rent payable for a property is £5,200 this would previously have worked out at £104 per week. Under a 52 week cycle the rent would be £100 per week.

The 50 to 52 week cycle will be applicable to housing rents, garage rents and Service Charges.

Housing benefit Cap

On July 8 2015 the Government announced further reductions to the benefit cap. The total amount a household will be able to claim in benefits is:

- £442 a week in London
- £385 a week outside London

These changes will take effect from April 2016.

Diversity impact assessment

The following are exempt from the benefit cap

- Families who receive working tax credits or who work enough hours to claim tax credits are exempt.
- If you have been employed continuously for 12 months, and you lose your job through no fault of your own, the benefit cap won't apply to you for the first 39 weeks of your claim.
- The cap doesn't apply if you are of pension age, or you receive war widows' or war widowers' pension.
- You are also exempt if you or your family receive:
 - disability living allowance or the personal independence payment
 - attendance allowance
 - support component of employment and support allowance
 - industrial injuries benefits

These benefits count towards the cap:

- housing benefit (unless you live in supported housing)
- income support (IS)
- jobseeker's allowance (JSA)
- employment and support allowance (ESA) (unless you are in the support group)
- incapacity benefit
- child benefit and child tax credits
- guardian's allowance
- carer's allowance
- maternity benefits and widows benefits paid by the Department for Work and Pensions
- severe disablement allowance
- universal credit

2 Summary of evidence used to support this assessment

- *Eg: Feedback from consultation, performance information, service user records etc.*
- *Eg: Comparison of service user profile with Medway Community Profile*

Consultation

A tenant and leaseholder budget consultation event is held annually and the next one is planned for January 2016. Invitations will be sent to residents and also promoted via our Facebook page and in Housing Matters.

The Housing Act 1985 requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that rent changes become operative. For 2016/17 the latest date for posting the notices is 4 March 2016.

A letter informing current residents of the 50 to 52 week rent change was sent in October 2015. Tenants were also consulted on the 52 week rent change at the customer catch up day on the 13 October.

Diversity impact assessment

The introduction of Universal Credit in Medway

Universal Credit will only affect claimants of working age. Currently the HRA receives approximately 69% of rental income via Housing Benefit of which 44% is in respect of working age tenants and 25% of which is in respect of state pension age tenants or £5,681,763 and £3,310,736 respectively for 2016/17 budgeted income. Universal credit will go on a phased roll out so it will not impact on all potentially affected tenants at once. Our star survey asked tenants if they felt they would be affected by universal credit, and if so would they be able to do an application on line by themselves. Results show 69% of people were satisfied with advice about claiming housing benefit and other welfare benefits (27% were neither satisfied nor dissatisfied). 69% of people were satisfied with the advice given on Managing their finances and paying rent and service charges (28% were neither satisfied nor dissatisfied)

Dwelling rent decrease

Although this is likely to have a positive impact on residents paying rent, this change will affect the HRA Business Plan forecasts in terms of the budgets allocated to delivering the service. It has been calculated that the rent reduction will mean a 6 million impact on delivery on services over the next 4 years. The HRA will manage this impact within current resources

Garage Rents

As of September 2015 there were 175 garages let to Council tenants and 261 garages let to non-Council tenants. All garage tenants will be informed in writing at least 4 weeks prior to the increase informing them of payment changes. Garage rents will be increased for everyone renting a garage, not just specific customers.

Service Charges

Currently 21% of our tenants pay their rent without any contribution from Housing Benefit. A breakdown of their age is as follows:

Under 20 – 4
20 to 29 – 87
30 to 39 – 135
40 to 49 – 195
50 to 59 – 185
60 and over – 24

As at December 2015 it is too early to identify the specific tenants that will be affected by increased service charges in 2016/17. Service charges for 2016/17 will have been calculated by the end of December 2015 and analysis will be undertaken. This DIA will be updated at that point and if any adverse impacts are identified mitigating actions will be implemented. However it is currently expected that any increases are thought, at this stage, to be minimal and if claimed, this will be covered by Housing Benefit.

Information regarding benefit entitlements for leaseholders is not held.

Diversity impact assessment

However as a result of the new NORSE contract it has been estimated that for existing leaseholders there will be an overall saving of £6,333 over the 2016/17 financial year.

Housing Benefit Cap

Analysis has shown that the benefit cap will mostly affect households with three children or more. Households with two children may be very slightly affected depending on the rent liability of the household. Households with three children or more may be significantly affected. We are unable to breakdown households by type on Academy, a report from Housing benefits has been requested that will give us a better ides of the numbers affected.

3 What is the likely impact of the proposed change?

Is it likely to :

- Adversely impact on one or more of the protected characteristic groups?
- Advance equality of opportunity for one or more of the protected characteristic groups?
- Foster good relations between people who share a protected characteristic and those who don't?

(insert ✓ in one or more boxes)

Protected characteristic groups	Adverse impact	Advance equality	Foster good relations
Age	✓		
Disability			
Gender reassignment			
Marriage/civil partnership			
Pregnancy/maternity			
Race			
Religion/belief			
Sex			
Sexual orientation			
Higher income groups	✓		

Diversity impact assessment

4 Summary of the likely impacts

- *Who will be affected?*
- *How will they be affected?*

The introduction of Universal Credit in Medway

Working age tenants are more likely to be impacted by Universal credit and in turn more likely to be at risk of rent arrears etc. Resources and support will need to be targeted to ensure they are not adversely affected. Universal Credit will also have to be claimed on line. This may mean that some of our residents with barriers to internet access will struggle to make UC claims.

Housing Benefit Cap

It is likely that families with 3 dependant children that fall under the benefit cap will be affected. This means that they may struggle to pay their rent to the Council.

5 What actions can be taken to mitigate likely adverse impacts, improve equality of opportunity or foster good relations?

- *Are there alternative providers?*
- *What alternative ways can the Council provide the service?*
- *Can demand for services be managed differently?*

The majority of the changes being implemented are Government directed, and out of Medway Councils control. Housing Services will follow Government process in order to ensure that compliance is met, and any negative impact is kept to a minimum. Consultation with tenants will take place informing them of changes to rents.

The introduction of Universal Credit in Medway

Where Universal Credit or money problems impact on our tenants we will signpost them to the HRA Welfare Reform Team who will provide them with help and advice. The service also has a communications strategy via the internet, leaflets and tenants handbook for advertising the impact of UC. Where residents struggle to claim UC through barriers to internet access housing service will provide training through MACLS. A pilot for free Wi-Fi was rolled out at Benenden Manor in 2014 and potentially this could be rolled out to other areas identified as having a high number of UC claimants without internet access.

Service Charges

Tenant and leaseholders who pay services charges have all been written to informing them of the exact changes to their contributions.

Leaseholders can also apply to Housing Services for a mandatory or discretionary loan to help them manage the payback of their service charges.

Housing Benefit Cap

Where financial problems impact on our tenants we will signpost them to the HRA Welfare Reform Team who will provide them with help and advice. This team can also sign post tenants to other debt advice agencies.

Diversity impact assessment

6 Action plan <ul style="list-style-type: none"> Actions to mitigate adverse impact, improve equality of opportunity or foster good relations and/or obtain new evidence 		
Update DIA with Housing Benefits analysis once report has been provided	Jan 2016	Policy and Business Development Manager
Update DIA with Service Charge analysis once Service Charges for 2016/17 have been calculated	Jan 2016	Policy and Business Development Manager
If changes agreed, update the Rent Setting Policy to reflect everything highlighted in HRA Budget Report.	Mar 2016	Policy and Business Development Manager
Consult with residents on changes and potential impact	Jan 2016	Policy and Business Development Manager
Continue to identify, support and prevent financial hardship	Ongoing	Income Manager
Review HRA Business Plan in light of proposed changes	Jan 2016	Policy and Business Development Manager

7
The recommendation by the lead officer should be stated below. This may be:

- to proceed with the change, implementing action plan if appropriate
- consider alternatives
- gather further evidence

If the recommendation is to proceed with the change and there are no actions that can be taken to mitigate likely adverse impact, it is important to state why.

To proceed with implementing the proposed budget.
 To review this DIA in light of changes in Government legislation

8 Authorisation
The authorising officer is consenting that:

- the recommendation can be implemented
- sufficient evidence has been obtained and appropriate mitigation is planned
- the Action Plan will be incorporated into service plan and monitored

Assistant Director

Date

Contact your Performance and Intelligence hub for advice on completing this assessment

RCC:	phone 2443	email: annamarie.lawrence@medway.gov.uk
C&A: (Children's Social Care)	contact your normal P&I contact	
C&A (all other areas):	phone 1481	email: paddy.cahill@medway.gov.uk
BSD:	phone 2472/1490	email: corppi@medway.gov.uk
PH:	phone 2636	email: david.whiting@medway.gov.uk

Send completed assessment to the Corporate Performance & Intelligence Hub (CPI) for web publication (corppi@medway.gov.uk)