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BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE
31 JANUARY 2019

HOUSING REVENUE ACCOUNT CAPITAL AND REVENUE BUDGETS 2019/20

Report from: Phil Watts, Chief Finance Officer
Mark Breathwick Head of Strategic Housing

Summary

This report presents the Housing Revenue Account (HRA) capital and revenue budgets for 2019/20 and provides details of proposed rent and service charge levels for 2019/20.

The report also contains the latest revised forecasts of the HRA Business Plan.

The comments of this Committee will be collated for onward despatch to the Cabinet on 5 February 2019 and Council on 21 February 2019.

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 were then abolished. For the most part, at the time, 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 2019/20 including:

- Rent and Service Charges
- Performance Management – voids, welfare reform and debt collection
- Expenditure assumptions
- Housing repairs
- 3 Year Capital Budget
- Revised forecasts of the HRA Business Plan
- Borrowing
- New House Building Programme update
- Revenue Budget for 2019/20

3. Rent

3.1 As members will be aware, the Government introduced new rent setting measures under the ‘Welfare Reform and Work Act 2016’, for social housing landlords to reduce the rent payable by individual tenants each year between 2016 and 2019. This superseded Government’s previous 10 year rent increase policy implemented in April 2015.

3.2 The main change was to move the annual weekly rent increase from the previous arrangement of Consumer Price Index (CPI), plus a maximum of 1% to reduce current weekly rent by 1%, starting from 2016/17 rent year and so on for the following 3 years.

3.3 The new directive above means, in essence a 4% reduction to rental income each year over the 4 years (as Business Plan assumed prior to rent reduction 3% rent increase each year). The impact of which would be a reduction in income of approximately £5.7million.

3.4 The fourth and final year of the rent decrease will commence from April 2019. The 1% reduction results in a budgeted rent income loss against the current year’s income from dwellings of £149,000 based on 52 rent weeks. However as the year 2019/20 is a 53 week rent cycle and during autumn 2019, six new HRA properties will be completed and let, the actual income budget will increase by £104,000 when compared against 2018/19.

3.5 Appendix A has the details of the proposed average rent decrease by property type, which is based on social housing rent, and is in line with Government’s current guidance as detailed above.

3.6 The proposed charges will give an average rent of £80.96 (1% reduction to 2018/19 proposed weekly rent) per week, based on 53 weekly payments on current properties.

3.7 During 2019, six new build one bedroom bungalows will be added to the HRA stock which will be built as part of the HRA new build programme. The average rent for these six new build properties will be £82.47 per week based on 53 weekly payments.

3.8 Rents under this arrangement exclude service charges, which are charged separately and are based on actual expenditure. Details are set out in section 5 of this report.

3.9 As of 1 April 2019, with the proposed decreases implemented, Medway HRA will have moved 98.5% of their rent to formula rent. This will leave 1.5% or 45 properties below the formula rent.

3.10 As Members were advised last year in terms of future rent setting the Government has announced a return to CPI plus 1% rent rise for five years from 2020/21. This has been reflected in the revision of the HRA Business Plan.

4. Garage Rents

4.1 The current rent charged for garages is £422.24 (£8.12 x 52 weeks) per annum for council tenants and £489.32 (£9.41 x 52 weeks) per annum, plus VAT for other residents.

4.2 As of 10 September 2018 the Council rented 156 garages to residents who also rented a home from the Council. Traditionally council tenants have been charged a lower baseline rent than non-Council Tenants.

4.3 Last year Members agreed to address this anomaly and approved the commencement and realignment of this anomaly commencing 2 April 2018. It was approved that over the three years starting April 2018 on a cascade approach, base line garage rents would be realigned and will be charged at the same level regardless of tenure type. Also, as approved from April 2018 all new garage lets regardless of tenure type have been let at the same base line rent.

4.4 It is therefore proposed that for 2019/20 the baseline rent for council tenants be raised by £1 to £9.12. Following which for all residents renting a garage a 5% garage rent increase be applied.

4.5 (All new garage lettings are charged at the higher 'non Council tenant' rate of £9.41 from 02 April 2018, therefore these will increase to £9.88 from 01 April 2019).

4.6 It is proposed that garage rents will increase by 5% from April 2019 and the new charge will be £507.74 (£9.58 x 53 weeks) per annum for council tenants and £523.64 (£9.88 x 53 weeks) per annum, plus VAT for other residents.

4.7 It is estimated that this will generate an additional income of approximately £18,340 based on current letting rates.

5. Service Charges

5.1 Service charges for 2019/20 have been calculated using estimated costs based on the actual charges for previous years and any known increases or decreases.

5.2 Guidance states that whilst increases should be confined to inflation (plus 1%), they also state 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.

5.3 It is acknowledged that Members preference has been not to increase any individual charge by more than 15% in any given year, even if a larger increase is needed to fully recover costs.

5.4 Some service charges have increased above the previously agreed 15% cap. These are namely for cookers, fridges, communal lifts and communal electric costs due to the award of new corporate contracts or renewal of appliances that reflect the actual costs incurred by the HRA. Due to the cap on increase, the total shortfall to fully recover these costs will be £51,000 during 2019/20. These service charges over the next few years will increase in order to eventually fully recover true costs.

5.5 It has been identified that during 2018-19, the service charge for sheltered helpline had incorrectly been treated as an eligible service charge for housing benefit purposes. Whilst this has been corrected for 2018-19 it needs to be reflected for 2019-20 from the outset. To ensure existing tenants are not financially disadvantaged by this change, a review has been undertaken and some legitimate changes made to existing service charges. For example the charge for heating and water has been split across communal and individual flats. The communal element can now legitimately be treated as an eligible charge and housing benefit applied. This still leaves a short fall of £14,000 and to assist, the housing related support fund will be increased to cover this shortfall in 2019/20 for existing tenants. New tenants will pay this new charge.

5.6 Overall the average weekly service charge decrease for 2019/20 (excluding housing related support eligible charges), will be 24 pence per week (paid over 53 weekly basis) when compared with 2018/19 (paid over 52 weekly basis). Appendix B details the percentage increase/decrease required against each type of projected weekly service charge in comparison to 2018/19.

5.7 Some charges for Sheltered Housing are funded through a Housing Related Support fund via a Service Level Agreement (SLA). If this fund is discontinued, the charges will be payable by the tenants. As at 5 November 2018 this would affect 211 tenants.

5.8 As per previous years it is proposed to continue the process of rounding service charges to the nearest 5p or 10p for 2018/19. This exercise saves approximately 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 The target for void property rent loss for 2018/19 was set at 0.37% of the rent debit, equating to £47,337. As at 5th November 2018, performance was actually at 0.49%, which would produce a slightly higher financial rent loss than anticipated of around £61,261, if performance remains at this level for the remainder of 2018/19. The reason for this slight increase is mainly due to more vacant properties occurring than had been predicted.

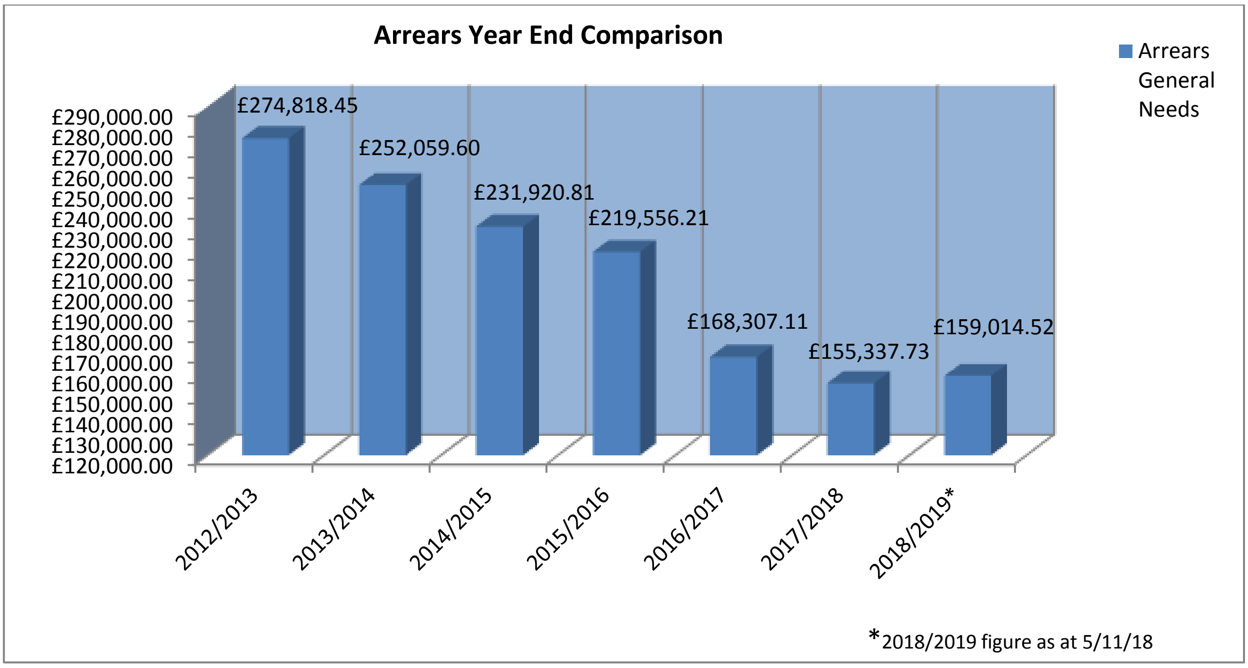
6.2.3 Provision for void rent loss for 2019/20 has been set at 0.40%, against the 2019/20 rent debit or in financial terms £52,000. This gives a slightly higher rent loss, comparable with 2018/19 budgeted performance, as noted in the paragraph above, but lower than the current years target and remains in top quartile. The rationale to set the budget at slightly higher than 2018/19 budget is that a third phase of new build HRA homes (bungalows) are due to completed in 2019/20. Under a local lettings plan the proposal is that these will all be let to existing tenants under occupying much needed family housing which will then be let to households from the Housing Register. This has the potential for increasing the number of voids during 2019/20.

6.3 Rent Collection/Bad Debt Provision

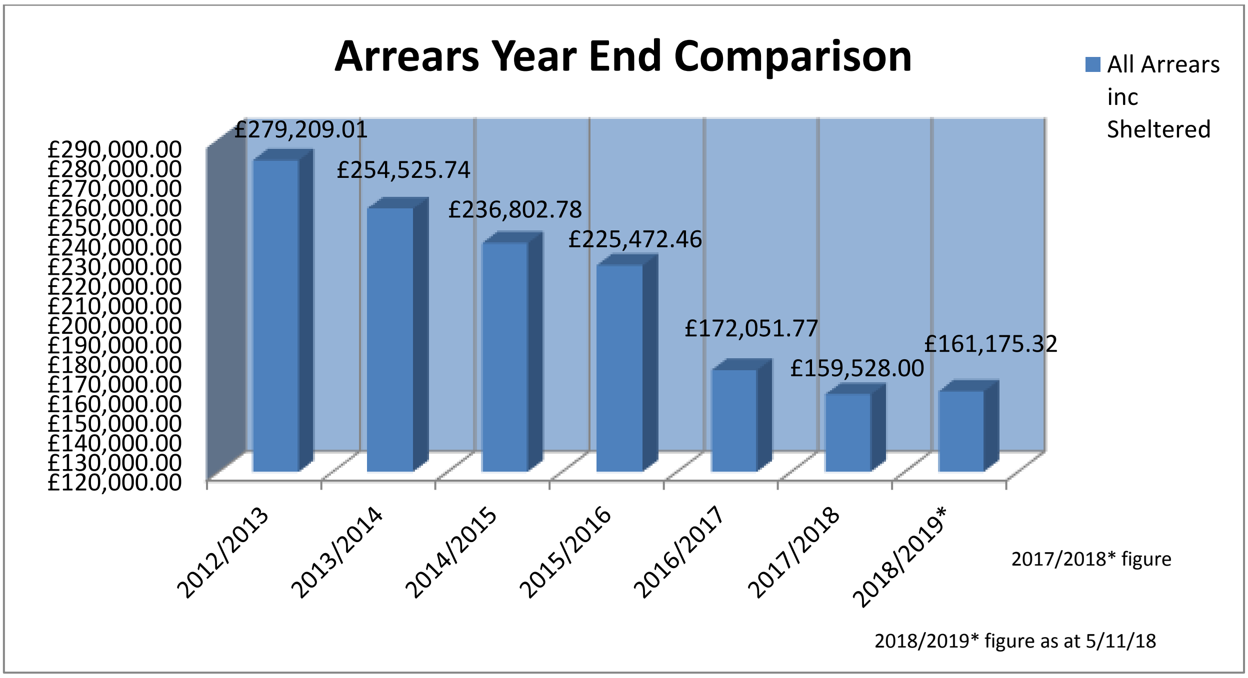
6.3.1 The collection rate for rent and service charges and the performance in managing rent debt is critical to the financial position of the HRA and has a direct impact on the amount of bad debt provision that has to be set aside.

6.3.2 The rent collection rates and current arrears position within the HRA is very favourable in terms of performance against other similar organisations. This is having a positive impact in terms of income.

6.3.3 The chart below shows the year end comparison for arrears in the general needs stock, excluding HFIL (sheltered housing). Although historically there has been a year on year reduction since 2012, arrears have risen slightly in 2018/19; as of 5 November 2018, this is due mainly to the effects of Universal Credit



6.3.4 The chart below shows the year end comparison for arrears in the general needs stock, including HFIL (sheltered housing). Universal Credit is not having an adverse impact in sheltered as the majority of sheltered tenants are over the ordinary retirement age, as a result they remain eligible for Housing Benefit should they need assistance with their housing costs.



6.3.5 It has been calculated, as at 5th November 2018 that the estimated collection level of rent (dwellings and non dwellings) and service charges for 2018/19 will be £14,017,000, which will result in estimated current tenant rent arrears at 1 April 2019 of approximately £161,127. However, it is projected that total arrears, both current and former tenants, will be in the region of £537,700 which is in line with previous year's forecast.

6.3.6 It is estimated that as at 31 March 2019, the projected yearly requirement for bad debt provision will be £26,000. As a result of this current favourable collection rate and effective income management, the bad debt provisions budget for 2019/20 has been reduced to £50,000 from £55,000. This budget is set at higher than current bad debt provisions requirement to take into account the impact of Universal Credit being rolled out fully over the next 4 years.

6.4 Universal Credit (UC)

6.4.1 UC was introduced in Medway on a cascade approach on 12 October 2015. Members will be aware that the full roll out commenced on 30 May 2018. It had originally been anticipated that full migration of tenants entitled to Universal Credit would be completed by 2023. In October 2018 the Government announced a slowdown of migration and that the national migration date would now not be until 2024. In Medway the commencement of migration to Universal Credit was anticipated to commence in March 2019. This date has also been delayed probably until at the earliest late 2019. More details about the impact of Universal Credit and Welfare Reform on all residents across Medway are reported to Members every six months to Business Support Overview and Scrutiny Committee.

6.4.2 As of 5th November 2018, there were 159 known tenants receiving UC. Due to delays and new payment methods in receiving income from DWP, of the overall arrears figure £46,397 (as at 5th November 2018) have been identified for all of these tenants on UC. This demonstrates that the roll out of UC is having a direct impact on the income to the HRA and to its tenants in Medway.

6.4.3 UC will be paid directly to tenants in equal 12 monthly payments across the year.

6.5 Direct Payments – Housing Benefit (HB)

6.5.1 Historically, all tenants eligible for help with housing costs had payments of HB credited directly to rent accounts at no cost. The introduction of UC has begun a gradual shift of the current arrangement to payments of state assistance in respect of housing costs going directly to tenants, which will then have to be collected by the HRA. This is already having an impact and this impact is expected to increase through the 2019/20 financial year.

6.5.2 UC currently only affects working age claimants. Currently the HRA receives approximately 62.87% of rental income via Housing Benefit, of which 37.43% is in respect of working age tenants, and 25.44% of which is in respect of state pension age tenants resulting in £4,808,000 and £3,268,000 respectively for 2019/20 budgeted income.

6.5.3 As reported in previous years and described above, the proposed changes would result in housing benefit being paid directly to working aged tenants and these will be the additional costs to the authority to collect this rent from tenants, in terms of transaction processing costs. These costs will increase as UC is fully rolled out over the next 4 years. It is also likely that arrears and the consequent provision for bad debt will increase.

6.5.4 Work is continuing 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 DWP, work streams agreed around communication, identifying vulnerable customers, and the development of digital inclusion initiatives. Weekly UC advice surgeries for tenants have been launched at the Twydall Hub.

7. HRA Expenditure

7.1 Generally, all expenditure will remain at 2018/19 levels for 2019/20 to reflect the current economic climate and reduction in rental income, in line with the Medium Term Financial Plan, including any corporate determination of staff salaries. Where through streamlining and service improvement some budgets have regularly underspent these have been revised down, as these budget reductions have been achieved through genuine savings. Following the conclusion of the current five year external decorating programme, all properties due for potential decorating next year have been surveyed. This identified that not all the dwellings required work and therefore next year's budget has been reduced to reflect this.

7.2 Generally the only exceptions in terms of budget increases will be contracts that are subject to contractual annual uplifts and contracts which are due to be re-tendered. A budget for a new ICT system of £400,000 has been created as the current software provider has advised they will be withdrawing support and issuing a formal 18 month notice in early 2019.

7.3 For 2019/20, it has been agreed that generally there will be no uplift to the existing SLA recharges between the HRA and the 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 to reflect the level of service and the management support provided to ensure that the HRA operates effectively. This increase excludes management fees for the planned decorating and capital maintenance programme, which is currently an 8% and 12.5% respectively on the actual programme delivery. These charges are reviewed annually internally.

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 2019/20, 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 2019, a provision of £30,000 has been made in the budget, the same as for 2018/19.

8. Housing Repairs

8.1 Members will be aware that following formal tendering, a new repairs and maintenance contract was awarded to Mears Ltd for five years, from 1 September 2014. The fourth year of the contract, which concluded in August 2018, has performed well both in terms of financial benefit to the Council and service delivery to residents. One of the main reasons for the financial benefits is the fixed price per property model with Mears which brings savings to both the repairs service and voids. As a result of this excellent performance and value for money aspects of delivering the service Cabinet approved, on 7 August 2018, the recommendation to extend the contract with Mears Ltd until August 2024.

8.2 As a result of the fixed price model and a reduction in the number of voids for the past few years, the voids budget, for works to bring properties to the lettable standard, has been reduced by £20,000 for 2019/20.

8.3 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.

8.4 Based on the proposed combined capital and revenue work programmes, the financial split in 2019/20 is anticipated as follows:

- Responsive maintenance £2.138m
- Planned/Capital maintenance £5.113m (excluding new build and carried forward budgets)

This split will equate to 29:71 spend ratio for 2019/20. This meets good practice guidelines of 30:70.

8.5 Responsive Repairs and Voids Budget

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

8.6 Three-Year Capital Works Budget

8.6.1 Prior to 2015/16, the capital works budget was set on an annual basis. This approach led to initial on site delays 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 opportunities 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 terms of procurement for those tendering, to bring savings via reduction in longer term work programmes and overheads, as well as reduction in administrative costs. Last year Members approved a second three year capital and planned works programme. There are no new budgetary requirements for capital works to maintain the housing stock this year following this three year approval. The current 3-year capital works budget will be complete at the end of 2020/21.

8.6.2 The table below shows the projected 3-year (2018/19 to 2020/21) HRA capital works programme budget (including disabled adaptations and the new house building programme). Any under-spend on the 2018/19 planned maintenance, adaptations capital programme and new build programme will be added to the 2019/20 capital programme. Round 2 capital budget monitoring forecast for 2018/19 predicts underspend of £1.3m on the capital programme, due to the fact that the phase three new build programme will not be completed within 2018/19 as well as some of the planned maintenance programmes. These budgets will be carried forward and will be in addition to the budget provisions detailed below for 2019/20.

8.6.3 Three year Planned and Capital Maintenance Programme.

	2018/19 £000	**2019/20 £000**	**2020/21 £000**
Planned Maintenance	£4,660	£4,497	£4,488
Disabled Adaptations	£200	£200	£200
New build programme	£1,000	£3,300	£0
Total	**£5,860**	**£7,997**	**£4,688**

*** New Build programme 2020/21 this will be reviewed in light of the new borrowing cap being lifted.

8.6.4 Three-Year proposed Capital Programme Funding:

	2018/19 £000	2019/20 £000	2020/21 £000
Major Repairs Reserves	£3,781	£3,875	£3,972
Revenue Contribution to Capital	£1,080	£821	£716
Contribution from Revenue Reserves for new build programme	£700	£0	£0
Contribution from 1-4-1 RTB Capital Receipts for new build programme	£300	£681	£309
Borrowing	£0	£2,619	-£309
Total	**£5,860**	**£7,997**	**£4,688**

9. House Building Development Programme

9.1 The first and second phase of development programme of building 56 new council homes was successfully completed at the end of 2016/17 costing a total of £7.59m against a budget of £8.56m which was agreed by the Council on the 17 October 2013. This was funded from borrowing by making use of available headroom and ring fenced Right to Buy (RTB) 1-4-1 capital receipts.

9.2 Last year members approved the third phase of new build housing programme. Good progress has been made to design a small scheme of six one bedroom bungalows at Petham Green, Twydall to complement the existing bungalows in the area. This scheme of works was tendered in the autumn 2018 and has been awarded. Works are due to commence on site early 2019 and it is estimated that these properties will be ready to let by the autumn 2019.

9.3 Members will be aware that the Government has announced the lifting of the HRA debt cap which fundamentally will allow the Council to borrow more to build. More details about this can be found in section 11.

9.4 In terms of future new build programmes a number of other schemes on three garage sites and a car park area have been identified and officers are in the process of these being designed. The monies set out in this report for building the fourth phase of new build programme which will consist overall of 17 new houses, was identified prior to the removal of the debt cap and was to be funded utilising the old former “headroom” which the previous HRA Business Plan identified could sustain this borrowing.

10. HRA Working Balances

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 of April 2018, the working balance stood at £4.911 million. For a number of years the actual HRA balance has exceeded the recommended good practice guideline of £450,000.

10.2 Round 2 (2018/19) budget monitoring predicts a balance as at 31 March 2019 of £5.056 million, which is similarly in excess of the guidelines, however, given that the balance of reserves is also to cater for future investment, it is recommended that a minimum reserve balance of £750,000 would be appropriate. The Business Plan has been amended to take account of these forecasted reserves.

10.3 The proposed 2019/20 HRA Budget as presented at Appendix C, produces a projected surplus of £0.216m for the year, leaving the forecasted revenue working balances (which includes contribution of £0.455m to fund the carried forward programme of phase three new build) of £4.818m as at 31 March 2020.

11. New Self-Finance Arrangements - Borrowing and Headroom

11.1 Members will be aware that since 2012 each year the Council has been required to calculate the 'Capital Financing Requirement', which formed 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 amount was £45.846m. The difference between the borrowing cap and the actual amount of borrowing was the 'headroom' for further borrowing.

11.2 In terms of the current HRA Debt cap, as described above the Chancellor announced in his Autumn Budget Statement that the HRA borrowing cap would be scrapped from 30 October 2018, which means that stock retained local authorities can now borrow without a debt limit. Full guidance is still awaited at the time of producing this report in terms of what and how the borrowing may be utilised. Where necessary it might also be possible to seek grant funding to accompany this new HRA borrowing from the Affordable Homes Programme which was also increased in the Chancellors budget. Work is now underway to analyse and understand the sustainability and level of borrowing the Council can afford to undertake more extensive new house building programme in the future. This analysis will be completed by early 2019.

11.3 In 2012 the HRA began a programme of repaying its debt by a minimum revenue payment (MRP). This payment was calculated at 2% on the HRA opening outstanding debt, however to be in line with Medway Council's provision for debt repayment policy, since 2017/18, the HRA debt repayment is made on annuity basis, therefore 2019/20 estimated MRP repayment will be £0.326m.

11.4 As at 1 April 2019, it is estimated that the HRA opening debt will be £42.504m, subject to repayment of 2018/19 MRP payment of £0.303m. With further borrowing for phase 4 of new build programme and subject to 2019/20 MRP payment, closing debt for year 2019/20 is estimated to be £44,798m. As there will not be enough funds in the 1-4-1 RTB capital receipts in 2019/20, £0.309m will be drawn down in the following year as funds are built up again from RTB sales, which will then be used towards repaying the debt.

12. HRA Business Plan Update

12.1 Local authorities are required to produce and maintain a HRA Business Plan that meets the Government's 'fit for purpose' criteria. The Business Plan is also a statement of the viability of the 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.

12.2 The housing stock represents one of Council's highest value assets and its repairs and maintenance is a significant liability, therefore planning for its sustainable future is important.

12.3 Effective and efficient management of the housing assets play an important part in delivering many of Council's corporate priorities and strategic objectives and the Asset Management Strategy (AMS) provides the long term planning, provision and viability of assets.

12.4 The Council maintains a set of long term financial forecasts for its Housing Revenue Account. These forecasts inform the HRA Business Plan, and enable the authority to model the impact of potential changes on Authority's ability to manage its housing stock as well as identifying and helping to mitigate the potential risks it faces.

12.5 The HRA Business Plan was last approved by Members of Full Council in February 2018. The HRA Business Plan has recently been revised by Savills Consultancy and details of the 30 year business income and expenditure charts can be found at Appendix D. The assumptions are based on the following optional aspects:

- Rent will rise (at the end of the current 4 year rent decrease period) from 2020/21 by CPI plus a maximum of 1% and for the proceeding 4 years after.
- Repayment of debt (MRP) is made on annuity basis.
- Current HRA operational front line service model to be sustained.
- Baseline rents for garages for Council tenants rise by £1 per week.
- Increase in garage rents for 2019/20 by 5%.
- Service charge levies set out in this report will be approved.
- The financial Asset Management data is based on known data within the Planned Maintenance Module of future stock investment requirements with data continually being improved upon.

12.6 As can be seen the Business Plan shows the plan is sustainable over the next 30 years and that the overall trend is upwards towards the end of the 30 year period. It also demonstrates that the current capital stock investment and backlog can be accounted for.

13. Nationwide Benchmarking

13.1 As part of the HRA business plan review, the HRA service took part in a nationwide benchmarking exercise with Housemark, a well-known and respected benchmarking organisation. The purpose was to understand costs and performance levels against other similar sized housing organisations as at year end 2017/18, a summary of results is as follows:

13.2 Medway results were compared with other similar sized organisations and a summary of results is as follows:

- Satisfaction with the last repair– 98.9% - top quartile
- Percentage of properties vacant 0.4% - top quartile
- Percentage Void loss 0.36% - top quartile
- Percentage of dwellings with a valid gas safety certificate - 100% - top quartile
- Percentage of repairs completed at the first visit - 99.1% - top quartile
- Percentage of repair appointments kept - 99.6% - top quartile
- Percentage of Current tenant arrears - 1.14% - top quartile
- Percentage of Write offs - 0.15% - top quartile
- Overheads as a % of turnover - top quartile
- Total cost per property of void works (management) - top quartile
- Total cost per property of cyclical maintenance (management) - top quartile
- Total cost per property of responsive repairs (management) - top quartile

14. Engagement and Information

14.1 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 2019/20 the latest date for posting the notices is 25 February 2019.

14.2 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 16 November 2018. There were no significant issues of feedback to add to this 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 undertaken to provide a sound basis on which to model future repairs investment. Regular monitoring by senior officers of the budgets and actions agreed to avoid deficit occurring.
Changes brought about by Welfare Reform.	If fully implemented Government proposals to introduce UC would mean approximately £4.808 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	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.
No up to date Business Plan in place.	Local authorities are required to produce and maintain a HRA business plan that meets the Governments 'fit for purpose' criteria.	The adoption of the business plan following the full implications of the housing and planning bill, as understood, would allow the Council to continue to meet this requirement.
Significant change in income from rent or service charges affects business plan.	Arrears escalate above predicted 'bad debt' provision. The reduction by 1% each year from 2016/17 until 2019/20 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.	Dedicated team in place to manage income. Weekly reports produced to robustly monitor performance and take prompt and effective action. Weekly and monthly reporting in place for arrears and other income. HRA business plan reviewed annually. Regular reviews undertaken of alternative methods of delivery, which may improve customer service and value for money.

Change of stock Number	Significant change in stock numbers due to increase in Right to Buy or Strategies to review stock retention and assets such as garages.	Significant changes will be monitored and business plan refreshed as necessary.

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 'breakeven' 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 the Cabinet, this Committee 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 annexed to this report at appendix E to assist committee members to fulfil these duties.

16.6 The committee 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 generating income that can be invested back into social housing so that more people in need can benefit from it.

17. Recommendations

17.1 The Committee is asked to recommend to the Cabinet:

a) A proposed rent decrease of 1% for the housing stock as set out in Appendix A (based upon 53 collection weeks) with effect from 1 April 2019.

b) A proposed average rent of £82.47 per week based on a 53 week rent cycle be agreed for the six new build one bedroom bungalows at Petham Green Twydall (estimated let date Autumn 2019)

c) The baseline garage rent for Council tenants be increased by £1 from £8.12 to £9.12 with effect from 1 April 2019 per week.

d) A rent increase for all garage tenure types of 5% will be applied with effect from 1 April 2019 per week.

e) That the service charges and increases as set out in Appendix B of the report for 2019/20 be approved.

f) That the revenue budget for the HRA Service for 2019/20 as per Appendix C be approved.

g) That the proposed capital budget of £3.3m be approved for the fourth phase of new build programme on various garage sites to be funded from borrowing and 1-4-1 capital receipts as set out in sections 8.6.4.

h) That the provision for the repayment debt based on annuity based payment on the HRA outstanding debt to be £0.326m for 2019/20 be approved.

i) That members approve the revised 30 year HRA Business Plan model as attached at appendix D.

Lead officer contacts

Phil Watts, Chief Finance Officer
Telephone 01634 332220 Email: phil.watts@medway.gov.uk

Dawn Hudd, Assistant Director, Physical and Cultural Regeneration
Telephone (01634) 331192 E-mail: dawn.hudd@medway.gov.uk

Mark Breathwick, Head of Strategic Housing
Telephone (01634) 334382 E-mail: mark.breathwick@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 2019/20
Appendix D – Summary of HRA Business Plan
Appendix E – Diversity Impact Assessment

APPENDIX A - AVERAGE RENT BY PROPERTY TYPE (53 WEEKS)

Property Type	No of Properties	Proposed Rent 2018/19	Formula Rent 2018/19	Proposed Rent 2019/20	Formula Rent 2019/20	Average Decrease 2018/19 to 2019/20	Average Percentage Decrease 2018/19 to 2019/20
Bedsit Bungalow	45	£64.92	£65.00	£64.27	£64.35	(£0.65)	-1.0%
Bedsit Flat	67	£61.54	£61.54	£60.92	£60.92	(£0.62)	-1.0%
1 Bedroom Bungalow	199	£75.39	£75.68	£74.64	£74.92	(£0.75)	-1.0%
1 Bedroom Flat	479	£71.35	£71.36	£70.64	£70.64	(£0.71)	-1.0%
2 Bedroom Bungalow	20	£92.19	£92.19	£91.27	£91.27	(£0.92)	-1.0%
2 Bedroom House	499	£86.65	£86.67	£85.78	£85.81	(£0.86)	-1.0%
2 Bedroom Flat	538	£79.62	£79.62	£78.82	£78.82	(£0.79)	-1.0%
3 Bedroom Bungalow	2	£92.56	£92.56	£91.63	£91.63	(£0.93)	-1.0%
3 Bedroom House	732	£96.55	£96.56	£95.59	£95.59	(£0.97)	-1.0%
3 Bedroom Flat	110	£89.67	£89.90	£88.78	£89.01	(£0.90)	-1.0%
4 Bedroom House	29	£104.90	£104.90	£103.85	£103.85	(£1.05)	-1.0%
5 Bedroom House	2	£117.23	£120.84	£116.06	£119.64	(£1.17)	-1.0%
Sheltered Bedsit for the Disabled	8	£59.68	£59.68	£59.08	£59.08	(£0.60)	-1.0%
Sheltered Bedsit	187	£59.73	£59.73	£59.13	£59.13	(£0.60)	-1.0%
1 Bedroom Sheltered	71	£67.31	£67.32	£66.64	£66.65	(£0.67)	-1.0%
2 Bedroom Sheltered	6	£77.87	£78.16	£77.09	£77.38	(£0.78)	-1.0%
3 Bedroom Sheltered	-	£0.00	£0.00	£0.00	£0.00	£0.00	0.0%
1 Bedroom Sheltered Bungalow	17	£69.86	£69.95	£69.16	£69.25	(£0.70)	-1.0%
Overall Average*	**3,011**	**£81.77**	**£81.81**	**£ 80.96**	**£ 81.00**	**(£0.82)**	**-1.0%**
*(Total rental income / total number of properties)							

APPENDIX B - SERVICE CHARGES

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY (53 Weeks)

	Average Weekly Service Charge 2018/19 (52 weeks)	Proposed Percentage Increase/(decrease) for 2019/20	** Proposed Average Weekly Service Charge 2019/20 (53 weeks)	** Projected weekly increase/ (decrease) fr 2018/19 to 2019/20	Projected (Surplus)/ Deficit 2019/20
	£	%	£	£	£'000
a) Eligible for Housing Benefit					
Adult Services Facilities	0.00	0.0%	0.00	0.00	0
Estate Services (Caretaking)	5.01	0.5%	4.94	(0.07)	0
Communal Electricity	1.03	14.7%	1.16	0.13	45
Grounds Maintenance	0.73	(16.2%)	0.60	(0.13)	0
Sheltered Management	21.58	(10.4%)	18.97	(2.61)	0
Window Cleaning	0.30	7.5%	0.32	0.02	0
Council Tax	10.22	4.6%	10.48	0.27	0
Laundry Room Sheltered	0.74	(39.4%)	0.44	(0.30)	0
Laundry Room General	0.77	1.9%	0.77	0.00	0
Heating - Communal	0.00	0.0%	0.00	0.00	0
Water - Communal	0.00	0.0%	0.00	0.00	0
Communal Lifts	0.36	15.0%	0.41	0.05	2
Communal TV Aerials	0.05	1.9%	0.05	0.00	0
CCTV	1.40	2.6%	1.41	0.01	0
b) Not Eligible for Housing Benefit					
Cooker	0.35	12.4%	0.39	0.04	2
Fridge	0.36	13.2%	0.40	0.04	2
Heating - Residential	6.71	(16.3%)	5.51	(1.20)	0
Water - Residential	4.00	(12.91%)	3.42	(0.58)	0
Average sections a & b (weekly)	**2.98**		**2.74**	**(0.24)**	**51**
c) Housing Related Support Eligible Charges					
Sheltered Helpline	3.20	1.8%	3.20	(0.00)	0
Community Alarm	8.63	0.0%	8.47	(0.16)	0
SP Helpline	2.37	0.0%	2.33	(0.04)	0
Sheltered Support	5.40	1.9%	5.40	0.00	0
Average sections c (weekly)	**4.90**		**4.85**	**(0.05)**	**0**
Average all sections (weekly)	**3.33**		**3.12**	**(0.21)**	**51**

****** *It should be noted that it is not directly possible to compare the average weekly charge from 2018/19 and 2019/20 as year 2019/20 is a 53 week rent cycle and year 2018/19 was a 52 week rent cycle*

Appendix C –Budget Summary

HOUSING REVENUE ACCOUNT- BUDGET SUMMARY 2019-20

Description	Budget 2018/19			R2 Forecast 2018/19			Proposed Budget 2019/20		
	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			**(4,447)**			**(4,911)**			**(5,056)**
HOUSING MAINTENANCE	2,351	0	2,351	2,379	0	2,379	2,146	0	2,146
HOMES FOR INDEPENDANT LIVING	604	(3)	601	584	(3)	582	601	(3)	598
TENANCY SERVICES	1,488	0	1,488	1,375	0	1,375	1,456	0	1,456
ESTATE SERVICE	556	(4)	552	522	(4)	518	551	(4)	547
COMMUNITY DEVELOPMENT	125	0	125	119	0	119	126	0	126
CENTRALISED ACCOUNTS	219	0	219	169	0	169	214	0	214
CLIENT SIDE	1,774	0	1,774	1,785	0	1,785	2,177	0	2,177
CAPITAL DEVELOPMENT PROGRAMME	54	(54)	0	84	(59)	25	54	(54)	0
HOUSING BENEFITS	30	0	30	0	0	0	30	0	30
CAPITAL FINANCING	7,042	(12)	7,031	7,019	(12)	7,008	6,933	(12)	6,921
RENTAL INCOME	0	(14,082)	(14,082)	0	(14,052)	(14,052)	0	(14,139)	(14,139)
OTHER INCOME	0	(278)	(278)	0	(298)	(298)	0	(291)	(291)
Total HOUSING REVENUE ACCOUNT	**14,242**	**(14,433)**	**(191)**	**14,036**	**(14,427)**	**(391)**	**14,287**	**(14,503)**	**(216)**
Revenue Contribution to Capital Expenditure			**700**			**245**			**455**
HRA Working Balance C/F			**(3,938)**			**(5,056)**			**(4,818)**

APPENDIX D

MEDWAY COUNCIL
HOUSING REVENUE ACCOUNT BUSINESS PLAN 2018/19: COMMENTARY

Introduction and methodology

The Housing Revenue Account (HRA) Business Plan has been comprehensively updated with effect from the 2018.19 financial year.

Officers have worked with external advisers Savills to create a new model and approach to modelling future financial and planning options; the model has been through 2 iterations to date and now represents an established position based on initial assumptions and upon which the Council is able to base future decisions around investment.

The model is launched from April 2018 (2018.19 financial year) and runs for 30 years to March 2048. The first year of the plan is balanced exactly to the revised HRA Revenue Budget for 2018.19 based on the Round 2 review and balanced exactly to the HRA Capital Programme for 2018.19. For 2019.20 the HRA Revenue Budget reflects the budget process for next year. Assumptions have been made about the following "big picture" factors, all of which fundamentally affect the level of viability and sustainability of the plan. These are:

- No requirement for the Council to pay a High Value Voids Levy
- The loss of properties through the Right to Buy.
- The investment into two Development Phases a total investment in 6 bungalows and 17 houses
- The latest capital investment requirements which total £200.9million (£148.6million without inflation and adjustments for stock reductions) on its existing properties
- Repayment of loans through an MRP mechanism, based on annuity values.

In terms of government policy, the plan allows for the completion of the current 4-year 1% rent cut by 2020 followed by five years of CPI+1% rent increases. Our modelling then works on the basis of CPI only after this basis, which is a prudent assumption.

Furthermore, the Government has announced the abolition of the HRA debt cap, to enable the delivery of additional affordable housing, with details to be finalised shortly.

A consultation has recently closed on the used of right to but receipts, of which the proposed changes or options, have not been modelled within this plan.

Overall headlines

In overall terms, the plan is able to be funded over the 30-year term, generating revenue surpluses in the HRA totalling £26.261million, and a closing debt balance of

£51.002million. This compares to an opening HRA balance of £4.911million and debt of £41.641million.

The plan therefore generates the capacity to invest additional sums towards the delivery of new homes and/or improved services.

In addition, we have demonstrated the impact of modelling in a further 26 properties for development under the future development heading, which shows a marginal improvement to the base position.

The main assumptions, outputs and a number of scenarios and sensitivities are summarised below.

Key Assumptions

The following schedule is not exhaustive - however this lists the main assumptions affecting the viability of the plan.

HRA Budget assumptions

The table below shows the 2018.19 budgets and proposed budgets for 2019.20 to which the plan is based upon:

	2018.19	**2019.20**
Dwelling rents	12,742,424	12,836,391
Non-dwelling rents	191,807	218,097
Service charge income	1,358,637	1,295,082
Other income and contributions	15,000	25,000
Total income	**14,307,868**	**14,374,570**
Repairs & maintenance	2,379,000	2,146,000
Management (incl RRT)	4,573,000	5,148,000
Bad debts	0	0
Depreciation	3,780,697	3,875,000
Debt management	57,813	57,813
Total costs	**10,790,510**	**11,226,813**
Net income from services	**3,517,358**	**3,147,757**
Interest payable	-1,768,773	-1,841,000
Interest income	42,674	55,213
Net income/expenditure before appropriations	1,791,259	1,361,970
Set aside for debt repayment	-312,794	-326,051
Revenue contributions to capital	-1,779,631	-821,000
Allocation to/from other reserves	0	0
Other appropriations	0	0
Net HRA Surplus/Deficit	**-301,166**	**214,919**
	0	0
HRA Balance brought forward	**4,911,000**	**4,609,834**
HRA surplus/deficit	-301,166	214,919
HRA Balance carried forward	**4,609,834**	**4,824,753**

The main change to 2018.19 budgets following the Round 2 reviews is the level of capital contribution to match the level of expenditure required in year. The opening HRA balance reflects the actual position as at the beginning of this year.

Property assumptions

1. Opening properties 3,016 (both general needs, sheltered and recently completed properties)
2. RTB sales 10 pa for the first five years then reducing by 1 every five years throughout the plan – total loss 225 properties over the 30 years of the plan.
3. No Stock disposals
4. Stock additions total 23 for the development scheme due to be delivered next year
5. Net stock loss over the term is therefore 7%, though at this stage the model does not assume a reduction in base costs for management, repair costs for these losses.

Revenue income assumptions

6. Average stock rents are £81.83/week at April 2018, reducing by 1% to 2020, increasing by CPI+1% to 2024 then CPI only for the remainder of the plan. The model recognises the 53-week period for 2019.20 and every six years following this.
7. An assumption has been made within the model for stock (2% per annum and reducing) to move from the outgoing rent upon re-let to the formula level.
8. Long-term void rates are 0.5% and bad debt provision of £50,000 is included within the management costs equivalent to 0.4% of net rental income and within the sensitivities we have shown how an increase to this affects the viability of the plan.
9. Service charges and other income increase with inflation only.

Revenue expenditure assumptions

10. The management costs for 2019.20 are used as a basis for forecasting forward, at CPI only, which matches future rent increases, with a reduction applied in 2020.21 in respect of the ICT replacement expenditure included within the 2019.20 proposed budgets.
11. Repairs expenditure is not reduced in line with net reducing stock levels as a prudent assumption and is inflated at 0.5% above CPI for 5 years and then 0.25% above CPI beyond this for the duration of the plan. The current repairs contract protects the Council from increases above 4%. Due to the reduction of planned painting programme in 2019.20 we have reinstated an annual provision for this of £200,000 in 2020.21.

Existing stock capital maintenance

12. The stock condition survey-based capital maintenance expenditure into the existing stock is based on outputs from the Codeman database, which is continually updated, with additions for capitalised salaries and uplift of 3% to bring to 2019.20 costs levels, reflecting the first year. The required levels of works are summarised below and are without any inflation or uplift allowances, with a full appendix attached at the end of this commentary:

Category	**Backlog**	**2019.20**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**Yrs 6-10**	**Yrs 11-15**	**Yrs 16-20**	**Yrs 21-25**	**Yrs 26-30**	**TOTAL**
Cost of Low Priority Works	£1,608,542	£919,282	£1,206,051	£1,014,423	£878,837	£1,320,068	£3,811,992	£2,142,060	£1,356,473	£1,795,584	£2,709,469	**£18,762,781**
Cost of Medium Priority Works	£2,092,498	£1,679,219	£1,480,624	£2,046,290	£2,037,123	£2,067,156	£4,512,763	£2,934,197	£1,872,955	£1,524,430	£2,233,485	**£24,480,740**
Cost of High Priority Works	£3,428,047	£2,396,565	£2,862,295	£2,999,681	£2,603,746	£2,232,041	£14,385,618	£18,495,571	£12,246,530	£14,603,329	£11,708,959	**£87,962,382**
Contingency		£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	£200,000	**£2,000,000**
Fees	£891,136	£574,383	£643,621	£707,549	£639,963	£652,408	£2,688,797	£2,796,479	£1,784,495	£2,090,418	£1,931,489	**£15,400,738**
Total	**£8,020,223**	**£5,769,449**	**£6,392,591**	**£6,967,943**	**£6,359,669**	**£6,471,673**	**£25,599,170**	**£26,568,307**	**£17,460,453**	**£20,213,761**	**£18,783,402**	**£148,606,641**

13. The inputs into the business plan model reflect the latest forecast for the capital programme:

	2018.19	**2019.20**	**2020.21**
Planned Works	£4,860,328	£4,697,000	£4,688,000
New-Build Programme	£1,000,000	£3,300,000	£-
TOTAL	**£5,860,328**	**£7,997,000**	**£4,688,000**

14. The stock condition table commences 2019.20 but the modelling undertaken follows latest estimates and scheduled programme for 2020.21

15. Therefore, the differences between levels of expenditure from the Codeman data base for 2019.20 and 2020.21 and the £8.020million of backlog investment needs to be factored into the plan.

16. The suggested approach is detailed in the following table based on values that have not had the 3% uplift applied, nor future inflation:

	2021.22	**2022.23**	**2023.24**	**2024.25**	**2025.26**
Base Expenditure	£6,967,943	£6,359,669	£6,471,673	£5,119,834	£5,119,834
Shortfall in Expenditure 2019.20	£1,072,449				
Shortfall in Expenditure 2020.21		£1,704,591			
Allocation of Backlog	£1,604,045	£1,604,045	£1,604,045	£1,604,045	£1,604,045
Total Revised Expenditure	**£9,644,437**	**£9,668,305**	**£8,075,718**	**£6,723,879**	**£6,723,879**

17. These values have been fed into the model with the 3% uplift applied and annual inflation at CPI plus 0.5%. Future inflation follows the assumption applied to repairs of CPI plus 0.5% for 5 years followed by CPI plus 0.25%, with the protection of the current contract not allowing inflation to go above 4%.

18. Given that stock losses are estimated at 7% the investment costs have not been adjusted to reflect stock losses, which provides a small level of contingency.

19. Total investment into existing stock is £200.9m throughout the plan (£148.6million at current prices) and equates to £49.2k per unit over 30 years. This is based on all categories of work (including the three levels of priority) to establish the base position for the model and test its viability in order meet these investment needs.

20. Depreciation to finance existing stock improvements is charged to the HRA at an equivalent £1,253 per unit, which is adjusted for inflation on a unit-cost basis throughout the plan. The amount charged to the HRA is sufficient to sustain investment programmes into the longer term with the Major Repairs Reserve balanced at the end of the 30-year term. The Council will need to consider its depreciation provisions in the future in the light of any update to stock survey information (see above).

Development Programme

21. There are only two development phases modelled into the business plan at this stage, the six bungalows due to be delivered in 2019.20 and seventeen houses in 2020.21.

22. Rent income from the development is included, with a standard range of costs added to existing management, repair and investment budgets.

23. The schemes are 30% funded, where possible, via retained ‘1-4-1’ receipts for which the Council has sufficient balances of.

Economic assumptions

24. Core CPI inflation is 2.0% pa in line with government forecasts. The only real inflation drivers to differ from the CPI baseline in the business plan relate to rent income (1% cash reduction for 2019.20 followed by 1% real terms increase for 5 years).

25. Additional inflation has been allowed for both capital works and repairs of CPI plus 0.5% for 5 years, then 0.25% for the following years of the plan.

26. The average interest rate applied to the HRA debt level is 4.23% throughout. Any new borrowing as identified with the above table is likely to be at c3%, therefore offering the potential for the overall interest rate to reduce. The average earned interest rate on credit balances is assumed to average 1% on all revenue balances for the first 5 years, then increasing to 1.25%

Financing and Funding assumptions

27. In line with previous iterations, the business plan does make provision for the part-repayment of loans as part of an MRP mechanism. The values have been calculated on annuity values. It should be recognised that there is no statutory requirement for the repayment of debt, but given the ‘one-pool’ nature of the Council’s treasury management for both the HRA and General Fund, there may be need to revisit this if future borrowing is required.

28. Opening reserves are £4.911million for the HRA, and nil for the Major Repairs Reserve. No other capital receipts are accounted for within the modelling, with the exception of ‘1-4-1’ right to buy receipts as identified above.

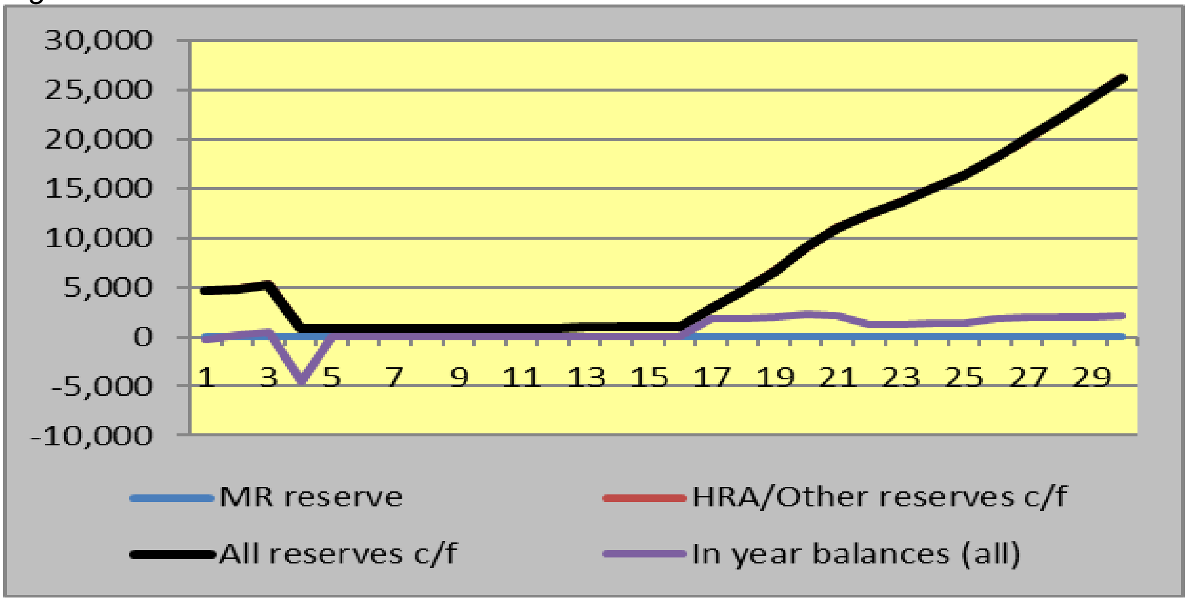
In summary, the assumptions made within the business plan are prudent without being excessively restrictive; they provide for inflation on income and costs at prevailing rates which are aligned, allow a considerable investment in existing stock, whilst increasing debt by 22%.

The peak debt of the plan is £56.210million, which equates to £18,640 per unit, with the national average currently being £18,254.

Summary Outputs

The charts below summarise the forecast:
- Revenue reserves forecast over 30 years
- Capital programme forecast over 30 years
- HRA Debt forecast over 30 years.

Figure 1 - Revenue Reserves forecast 2018-2048



The main outputs from the revenue forecast are as follows.

1. There is a call on revenue reserves in the very early years - this is to assist the financing of the stock investment in existing stock and backlog of £8million.

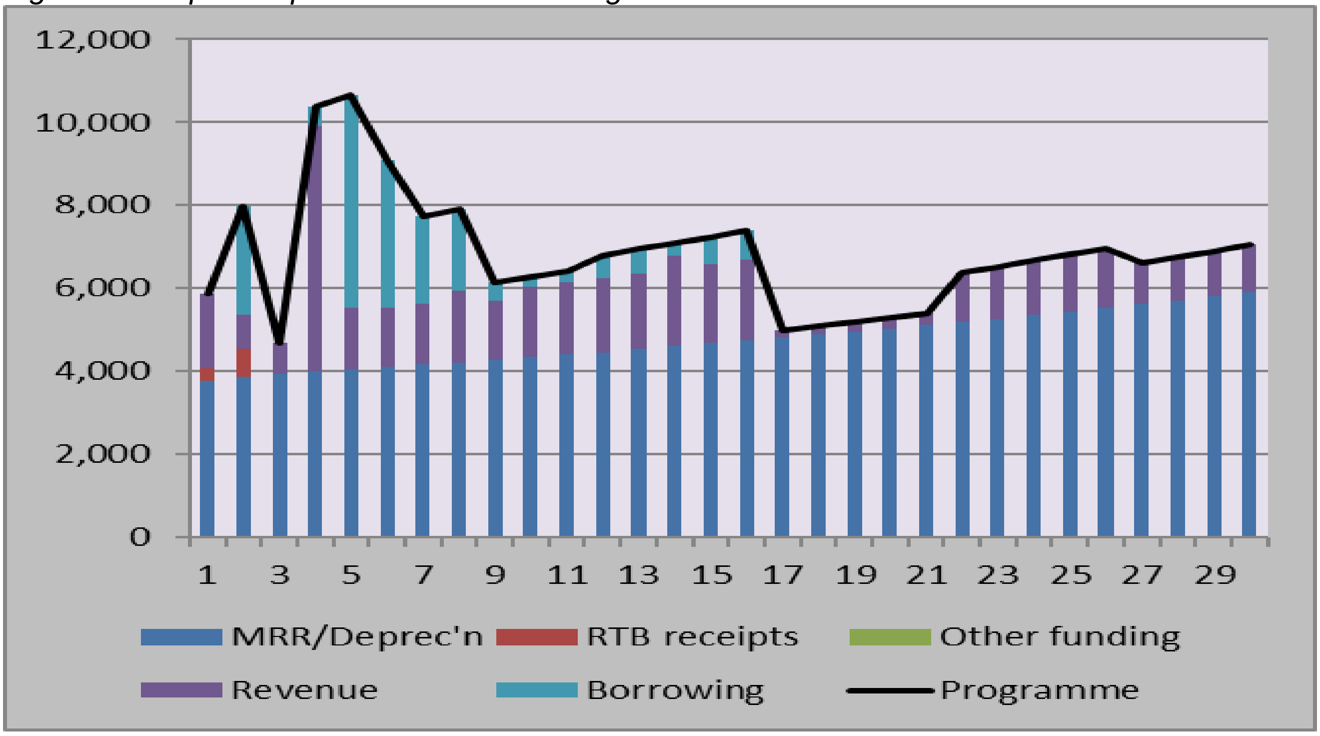
2. The HRA does not go below the pre-set minimum balance of £0.750million (inflated on an annual basis) in any year of the plan. The overall trajectory of revenue reserves is however upwards towards the end of the 30-year term.

3. Revenue reserves are part-called on to repay loans through the MRP mechanism, but this could be revisited to increase the level of debt repaid thus reducing revenue balances but also the level of debt at the end of the plan.

4. The Major Repairs Reserve is fully utilised in the early years of the plan to assist in the funding of the Codeman in-year works and backlog repairs; thereafter the trajectory (blue line) is upwards suggesting that long-term investment costs are able to be covered more than fully until later in the plan. Balances are forecast to return to zero at the end of the 30-year term suggesting an overall long-term match between reserves and capital maintenance; this is an area the Council could reconsider in the light of any update of its stock survey data on Codeman.

5. The overall level of reserves (black line) is positive at the end of term highlighting that the plan generates sufficient revenue to meet all its obligations (but could not fully repay the full value of the HRA debt outstanding if the Council so wished).

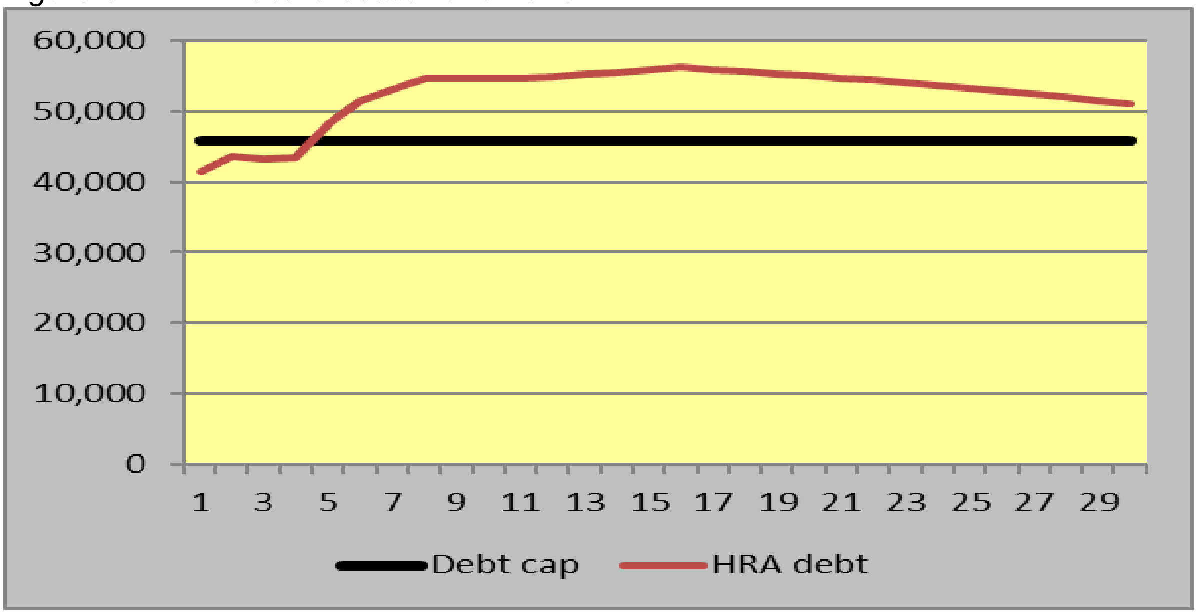
Figure 2 - Capital expenditure and financing forecast 2018-2048



The capital forecast is fully financed as follows.

1. The total programme over 30 years is £200.9million (at outturn prices - which is £148.6million at today's prices), excluding the £4.3million budgeted for the 6 bungalow and 17 houses.
2. Between years 4 and 16 borrowing is required to cover the backlog of investment in the stock identified in section 12 above.

Figure 3 - HRA Debt forecast 2018-2048



In summary, the debt forecast highlights the following.

1. Following a short to medium period in which borrowing is drawn to assist in financing the stock investment programme, loan repayments are scheduled based on the annuity calculations.

2. The graph does highlight the out-going debt cap to demonstrate what impact it would have on the plan. During the years of borrowing the debt cap would have in fact been breached by £10.41million, if it were to remain in place. This would have resulted in a similar value of investment work being delayed for a substantial number of years with the HRA maintaining a minimum revenue balance of £0.750million as a contingency. The abolition of the debt cap has a positive impact for Medway in being able to fully meet its investment needs.

3. There are alternative approaches to the repayment of loan balances based on the treasury management position for the Council. An alternative plan, such as increasing the annuity payments would affect the level of reserves, debt and funding/investment profile within the plan.

4. However, the plan provides for the repayment of c£10.2million of loans, set against borrowing of £19.6million during the term which is in addition to the generation of c£26million of revenue reserves.

5. Taken together, this presents a positive position in that 51% of debt balances can potentially be covered (or repaid) over the duration of the plan.

Future Development

1. Whilst the baseline model has development of 23 homes, a couple of further sites are currently being identified by Officers which are appropriate for the Council to build upon for affordable housing. This may include General fund sites. Within the modelling we have assumed an appropriation between the CFRs of £35,000, recognising the land value.

2. In total 19 1 bed and 7 2 bed bungalows could be built at a total cost of £3.783million spread over years 2019.20 and 2020.21. We have made the assumption that 1-4-1 receipts will be available to fund 30% of these costs with the balance funded from borrowing.

3. Rents will be at affordable levels for these properties (below or at LHA levels) with appropriate allowances for management, repairs and future improvements.

4. The resulting impact of the HRA for delivering these units over 30 years is an increase to HRA balances of £1.31million (to £27.571million) and debt increase of £1.183million (to £52.185million). Therefore, there is an overall net benefit to the HRA for building these 26 homes of £0.127million over 30 years.

Summary of baseline plan

The forecast identifies that borrowing will be required, driven primarily by the need to cover the backlog of investment needs. Scenarios could be run to identify what reduction of stock investment would need to be made, for example delaying some of the low priority works. Alternatively, the Council could consider bringing forward the backlog of repairs to provide for a more level spread of investment over the next five years, depending on the actual capacity of contractors to deliver.

The plan also demonstrates that an additional 26 units could be delivered with a resulting net benefit to the HRA.

Key Sensitivities

The baseline Business Plan has been subject to a standard range of stress testing to test the sensitivity of the outputs to changes in key assumptions. These are summarised in the table below.

The main headlines from the table are:

- The plan is generally resilient to changes in its key inflationary and expenditure drivers.

- The plan does rely upon the management of revenue expenditure in line with rent income - variations in management and maintenance costs above inflation sustained over time represent a call on resources which the plan would not be able to sustain.

- The plan also relies upon the management of the capital programme within the inflationary drivers provided by a small margin above income inflation.

- Were rent policy to be extended to CPI+1% increases in all years from 2020, including from 2024, the outlook for the plan would be much improved.

Figure 4: Key Sensitivities

	30 yr Reserves		**Closing Debt**	
Baseline plan	**£26m**		**£51m**	
Inflation CPI - 1% // 3%	£13m	£43m	£53m	£49m
Management Costs increase CPI+0.25%pa	£19m		£53m	
Repairs & Investment increase CPI+1% pa	£1m		£64m	
Rents CPI+1% all years from 2024	£85m		£47m	
Right to Buys at 10 per Year throughout	£22m		£51m	
Interest Rate Increase 1%	£10m		£61m	
Bad Debt Provision +0.5% of rents	£24m		£52m	
Spread of £8million backlog over 10 years	£27m		£50m	
50% Low Priority Works Removed all years	£41m		£44m	

Simon Smith
December 2018
Savills

Appendix 1 – HRA Cashflows

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Financial Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31	2031.32	2032.33
	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
HRA 30 YEAR SUMMARY															
Dwelling rents	12,742	12,836	13,023	13,369	13,724	14,091	14,470	14,997	14,964	15,216	15,476	15,743	16,014	16,601	16,570
Non-dwelling rents	192	218	219	223	227	232	237	241	246	251	256	261	266	272	277
Service charge income	1,359	1,295	1,321	1,347	1,374	1,402	1,430	1,458	1,488	1,517	1,548	1,579	1,610	1,642	1,675
Other income and contributions	15	25	26	26	27	27	28	28	29	29	30	30	31	32	32
Total income	**14,308**	**14,375**	**14,588**	**14,965**	**15,352**	**15,752**	**16,164**	**16,725**	**16,726**	**17,014**	**17,310**	**17,613**	**17,921**	**18,547**	**18,554**
Repairs & maintenance	2,379	2,146	2,418	2,478	2,540	2,604	2,662	2,722	2,783	2,846	2,910	2,975	3,042	3,111	3,181
Management (incl RRT)	4,573	5,148	4,814	4,910	5,009	5,109	5,211	5,315	5,421	5,530	5,640	5,753	5,868	5,986	6,105
Bad debts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	3,781	3,862	3,946	3,998	4,050	4,105	4,162	4,219	4,277	4,336	4,397	4,460	4,542	4,608	4,674
Debt management	58	58	58	58	58	58	58	59	60	61	63	64	65	66	68
Total costs	**10,791**	**11,214**	**11,235**	**11,444**	**11,657**	**11,875**	**12,093**	**12,315**	**12,542**	**12,773**	**13,010**	**13,253**	**13,518**	**13,771**	**14,028**
Net income from services	**3,517**	**3,161**	**3,352**	**3,521**	**3,696**	**3,877**	**4,071**	**4,409**	**4,184**	**4,241**	**4,300**	**4,360**	**4,403**	**4,777**	**4,526**
Interest payable	-1,769	-1,841	-1,853	-1,837	-1,842	-2,044	-2,180	-2,251	-2,316	-2,326	-2,327	-2,328	-2,341	-2,355	-2,358
Interest income	43	55	48	53	8	10	10	10	11	11	11	11	11	12	12
Net income/expenditure before appropriations	**1,791**	**1,375**	**1,548**	**1,737**	**1,862**	**1,842**	**1,902**	**2,168**	**1,878**	**1,926**	**1,984**	**2,043**	**2,074**	**2,433**	**2,180**
Set aside for debt repayment	-313	-326	-340	-354	-369	-385	-401	-418	-436	-210	-218	-228	-237	-247	-258
Revenue contributions to capital	-1,780	-821	-727	-5,921	-1,477	-1,441	-1,484	-1,734	-1,425	-1,699	-1,748	-1,797	-1,819	-2,167	-1,904
Net HRA Surplus/Deficit	**-301**	**228**	**481**	**-4,539**	**16**	**16**	**16**	**17**	**17**	**17**	**18**	**18**	**18**	**19**	**19**
HRA Balance brought forward	**4,911**	**4,610**	**4,838**	**5,319**	**780**	**796**	**812**	**828**	**845**	**862**	**879**	**896**	**914**	**933**	**951**
HRA surplus/deficit	-301	228	481	-4,539	16	16	16	17	17	17	18	18	18	19	19
HRA Balance carried forward	**4,610**	**4,838**	**5,319**	**780**	**796**	**812**	**828**	**845**	**862**	**879**	**896**	**914**	**933**	**951**	**970**
HRA CAPITAL PROGRAMME															
Stock capital investment	4,860	4,689	4,672	10,385	10,653	9,106	7,741	7,903	6,144	6,272	6,404	6,787	6,948	7,095	7,245
Other improvements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Development/acquisition	1,000	3,300	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital programme	**5,860**	**7,989**	**4,672**	**10,385**	**10,653**	**9,106**	**7,741**	**7,903**	**6,144**	**6,272**	**6,404**	**6,787**	**6,948**	**7,095**	**7,245**
Financed by...															
Major Repairs Reserve	-3,781	-3,862	-3,946	-3,998	-4,050	-4,105	-4,162	-4,219	-4,277	-4,336	-4,397	-4,460	-4,542	-4,608	-4,674
RTB receipts	-300	-682	0	0	0	0	0	0	0	0	0	0	0	0	0
Other receipts and grants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue contributions	-1,780	-821	-727	-5,921	-1,477	-1,441	-1,484	-1,734	-1,425	-1,699	-1,748	-1,797	-1,819	-2,167	-1,904
HRA borrowing	0	-2,624	0	-466	-5,126	-3,560	-2,095	-1,950	-441	-237	-260	-529	-587	-320	-667
Capital financing	**-5,860**	**-7,989**	**-4,672**	**-10,385**	**-10,653**	**-9,106**	**-7,741**	**-7,903**	**-6,144**	**-6,272**	**-6,404**	**-6,787**	**-6,948**	**-7,095**	**-7,245**
Net balance on capital programme	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Year	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
Financial Year	2033.34	2034.35	2035.36	2036.37	2037.38	2038.39	2039.40	2040.41	2041.42	2042.43	2043.44	2044.45	2045.46	2046.47	2047.48
	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's	£'000's
HRA 30 YEAR SUMMARY															
Dwelling rents	16,857	17,153	17,454	17,760	18,417	18,391	18,719	19,054	19,394	19,740	20,481	20,462	20,834	21,213	21,599
Non-dwelling rents	283	288	294	300	306	312	318	325	331	338	345	352	359	366	373
Service charge income	1,709	1,743	1,778	1,813	1,850	1,887	1,924	1,963	2,002	2,042	2,083	2,125	2,167	2,211	2,255
Other income and contributions	33	34	34	35	36	36	37	38	39	39	40	41	42	43	44
Total income	**18,882**	**19,218**	**19,560**	**19,908**	**20,609**	**20,626**	**20,999**	**21,379**	**21,766**	**22,160**	**22,949**	**22,979**	**23,402**	**23,832**	**24,271**
Repairs & maintenance	3,252	3,326	3,400	3,477	3,555	3,635	3,717	3,801	3,886	3,974	4,063	4,154	4,248	4,343	4,441
Management (incl RRT)	6,228	6,352	6,479	6,609	6,741	6,876	7,013	7,153	7,297	7,442	7,591	7,743	7,898	8,056	8,217
Bad debts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	4,743	4,814	4,887	4,960	5,035	5,112	5,193	5,274	5,357	5,441	5,529	5,619	5,712	5,805	5,900
Debt management	69	70	72	73	75	76	78	79	81	83	84	86	88	89	91
Total costs	**14,292**	**14,562**	**14,838**	**15,119**	**15,406**	**15,700**	**16,001**	**16,308**	**16,621**	**16,940**	**17,267**	**17,603**	**17,945**	**18,294**	**18,650**
Net income from services	**4,590**	**4,656**	**4,722**	**4,789**	**5,203**	**4,926**	**4,998**	**5,071**	**5,145**	**5,220**	**5,682**	**5,376**	**5,457**	**5,538**	**5,621**
Interest payable	-2,375	-2,394	-2,381	-2,368	-2,355	-2,340	-2,326	-2,310	-2,294	-2,278	-2,260	-2,242	-2,223	-2,203	-2,183
Interest income	12	12	35	59	83	113	139	154	171	187	204	227	251	276	302
Net income/expenditure before appropriations	**2,227**	**2,274**	**2,376**	**2,480**	**2,932**	**2,699**	**2,811**	**2,916**	**3,022**	**3,130**	**3,626**	**3,361**	**3,485**	**3,611**	**3,740**
Set aside for debt repayment	-269	-280	-292	-304	-317	-331	-345	-359	-375	-390	-407	-424	-442	-461	-480
Revenue contributions to capital	-1,939	-158	-191	-226	-261	-297	-1,201	-1,256	-1,314	-1,373	-1,432	-990	-1,041	-1,094	-1,148
Net HRA Surplus/Deficit	**19**	**1,836**	**1,893**	**1,950**	**2,353**	**2,071**	**1,266**	**1,300**	**1,333**	**1,366**	**1,787**	**1,946**	**2,002**	**2,057**	**2,112**
HRA Balance brought forward	**970**	**990**	**2,826**	**4,719**	**6,669**	**9,021**	**11,092**	**12,358**	**13,658**	**14,991**	**16,358**	**18,145**	**20,091**	**22,093**	**24,150**
HRA surplus/deficit	19	1,836	1,893	1,950	2,353	2,071	1,266	1,300	1,333	1,366	1,787	1,946	2,002	2,057	2,112
HRA Balance carried forward	**990**	**2,826**	**4,719**	**6,669**	**9,021**	**11,092**	**12,358**	**13,658**	**14,991**	**16,358**	**18,145**	**20,091**	**22,093**	**24,150**	**26,261**
HRA CAPITAL PROGRAMME															
Stock capital investment	7,398	4,972	5,078	5,186	5,296	5,410	6,394	6,531	6,671	6,814	6,961	6,610	6,753	6,899	7,048
Other improvements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Development/acquisition	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital programme	**7,398**	**4,972**	**5,078**	**5,186**	**5,296**	**5,410**	**6,394**	**6,531**	**6,671**	**6,814**	**6,961**	**6,610**	**6,753**	**6,899**	**7,048**
Financed by...															
Major Repairs Reserve	-4,743	-4,814	-4,887	-4,960	-5,035	-5,112	-5,193	-5,274	-5,357	-5,441	-5,529	-5,619	-5,712	-5,805	-5,900
RTB receipts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other receipts and grants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue contributions	-1,939	-158	-191	-226	-261	-297	-1,201	-1,256	-1,314	-1,373	-1,432	-990	-1,041	-1,094	-1,148
HRA borrowing	-716	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital financing	**-7,398**	**-4,972**	**-5,078**	**-5,186**	**-5,296**	**-5,410**	**-6,394**	**-6,531**	**-6,671**	**-6,814**	**-6,961**	**-6,610**	**-6,753**	**-6,899**	**-7,048**
Net balance on capital programme	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

APPENDIX E Diversity impact assessment

TITLE Name / description of the issue being assessed	HRA Budget Setting 2019/20
DATE Date the DIA is completed	December 2018
LEAD OFFICER Name, title and dept of person responsible for carrying out the DIA.	Emma Ditton – Policy and Partnership Manager (HRA)

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 of the Equality Act 2010.

The Budget report for 2019/2020 presents the Housing Revenue Account (HRA) revenue and capital budget for 2019/2020 and:

- provides details of proposed rent and service charges levels for 2019/2020;
- 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 ongoing roll out of Universal Credit in Medway (introduced by The Welfare Reform Act 2013)
- Dwelling rent decrease by 1% (introduced by The Welfare Reform and Work Act 2016)
- Garage rent increase by 5% (internal decision)
- Service Charges (internal decision)

Government implementations and changes to the budget that will directly impact on residents.

Universal Credit (UC) in Medway

Universal Credit is a single payment for people who are looking for work on a low income and replaces a number of existing welfare payments. Universal Credit is a Government initiative that commenced full roll out in Medway on 30 May 2018. Tenants on Universal Credit who previously had Housing Benefit payed directly to Housing Services are now responsible for managing their Universal Credit payment (that may include a housing element towards their rent) and ensuring their rent is paid in full and on time.

Dwelling rent decrease

The Welfare Reform and Work Act 2016 introduced measures that meant that from April 2016 registered social housing providers rent must decrease by 1% each April between 2016 and 2019, exclusive of service charges. Housing Services will continue to decrease its rents by 1% in 2019/20.

Garage rents
At last year's budget it was approved that on a cascade approach over three years, base line garage rents would be realigned and will be set to the same level regardless of tenure type. Additionally as approved since 2 April 2018 all new garage lets regardless of tenure type have been let at the same base line rent. It is therefore proposed that for 2019/20 the baseline rent for Council tenants be raised by £1 to £9.12. Following which for all residents renting a garage a 5% garage rent increase be applied.

Occupier	Current Annual Rent 18/19	New Weekly rent 19/20	New Annual rent 19/20
Council tenant	£422.24	£9.58	£507.74
Non Council tenant	£489.32 VAT	£9.88 + VAT	£523.64 + VAT

It is estimated that this will generate an additional income of approximately £18,340 based on current letting rates.

Any existing Council tenants that apply to rent a garage from April 2018 will pay the same charge as a non-council tenant from the offset. The garage rent charges will remain consistent across all Council sites.

Service Charges
Overall the average service charge for 2019/20 (excluding housing related support eligible charges), has decreased by £0.23 pence per week[1]. Appendix B details the percentage increase required against each type of projected weekly service charge in comparison to 2018/19.

In previous years the service charge for sheltered helpline has been covered by Housing Benefit. However from 2019 this will not be the case and tenants will need to pay for the charge. Existing tenants will not be affected by this as some legitimate changes have been made to existing service charges to offset the costs and housing related support will be increased to cover any shortfall. New sheltered housing tenants on Housing Benefit will be affected as they will have to pay the non Housing Benefit eligible service charge.

Whilst there have been some changes made to the way service charges are applied for 2019/20 there have been no new additional service charges implemented in 2019/20 that would affect existing tenants.

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
Tenant Consultation on the budget was held at the Estate Champion Meeting on the 16 November. There were no challenges to the proposed budget.

[1] It should be noted that it is not directly possible to compare the average weekly charge from 2018/19 and 2019/20 as year 2019/20 is a 53 week rent cycle and year 2018/19 was a 52 week rent cycle.

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 2019/20 the latest date for posting the notices is 25 February 2018.

Universal Credit (UC) in Medway
UC in its current form would only affect working age claimants. Currently the HRA receives approximately 62.87% of rental income via Housing Benefit, of which 37.43% is in respect of working age tenants, and 25.44% of which is in respect of state pension age tenants resulting in £4,713,692 and £3,203,805 respectively for 2019/20 budgeted income.

In October 2018 the Government announced that the national migration date would now not be until 2024. In Medway the commencement of migration to Universal Credit has also been delayed probably until at the earliest late 2019. As of 5 November 2018, there were 159 tenants receiving UC (compared to 25 tenants as of 20 November 2017). Due to delays in payments by DWP, arrears of £46,397 (as at 5 November 2018) have been identified for all of these tenants (compared to £5,324.82 as at 22nd November 2017). This demonstrates that the roll out of UC is having a direct impact on the income to the HRA and to its tenants in Medway.

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 introduced in April 2016, will mean a 5.7 million impact on delivery on services from April 2016 to March 2020. The HRA will manage this impact within current resources by regularly reviewing the business plan, conducting service reviews, joint working and implementing digital transformation.

Service Charges[2]
Service charges are applied to all applicable residents regardless of protected characteristics. All service charges are covered for those in receipt of housing benefit, except for cookers, fridges, heating (non-communal) and water rates (non-communal) charges. Residents receiving supporting people elements have their charges covered by Housing Related Support funding.

	2018/19 (November)
Total Number Tenants(7 Nov 18)	2,974 (including ending tenancies)
Non-claiming Tenants	38.6% (1149)
HB Claimants	61.4 (1825 - including full and partial claimants)
HB Claimants Working Age16-65	59% (1077)
HB Claimants Pensioners 65 plus	40% (732)
HB Claimants Age not known	1% (16)

[2] Please note 2019/20 is a 53 week rent year. In order to make variance in figures comparable to last year, analysis is based on 2019/20 being a 52 week rent year.

Changes to Service Charges

Service Charge	Average Increase from 2018/19 to 2019/20	HB Eligible
Care Taking	-£0.07	Yes
CCTV	£0.01	Yes
Communal Electricity	£0.13	Yes
Grounds maintenance	-£0.13	Yes
SHEL Cooker	£0.04	No
SHEL Fridge	£0.04	No
SHEL Heating	-£1.07	No
SHEL Heating communal	N/A – New communal charge Average £1.35. If the heating charge had not been split there would have been an overall increase in the heating charge of £0.28 per week	Yes
SHEL Helpline	£0.0	No
SHEL Lift	£0.05	Yes
SHEL Laundry	-£0.28	Yes
TV Aerial	£0.0	Yes
SHEL Water	-£0.51	No
SHEL Water communal	N/A – New communal charge Average £0.90. If the water charge had not been split there would have been an overall increase in the water charge of £0.39 per week	Yes
SHEL Management	-£2.61	Yes
Window cleaning	£0.02	Yes
Council tax	£0.27	Yes

Analysis has been conducted on the 2019/20 service charges to determine whether in light of the 1% rent decrease any tenant would be negatively impacted by changes to service charges. Analysis has identified that the majority of people not on Housing Benefit will be on average £56 better off financially. There are three people that are not entitled to Housing Benefit that would be paying on average an extra £43.28 per year.

For people on Housing Benefit, on average there will be a decrease of £0.24p on non Housing Benefit eligible service charges. There are 15 tenants that are on Housing Benefits that will be slightly worse off overall due to changes in non Housing Benefits eligible charges (water, cooker etc.). Of these 15 people, 10 would be £2.08 worse off each year due to a raise in cooker charges and 5 of these people would be £79.04 worse of due to an increase in water charges.

In previous years the service charge for sheltered helpline has been covered by housing benefit. However from 2019 this will not be the case. Existing tenants will not be affected by this as some legitimate changes have been made to existing service charges to offset the costs and housing related support will be increased to cover any shortfall.

New sheltered housing tenants on Housing benefit will be affected as they will have to pay the non housing eligible service charge of £3.20 per week. There are around 35-40 Sheltered Scheme lets per year.

Garage Rents[3]
As of November 2018 there were 153 garages let to Council tenants and 271 garages let to non-Council tenants.

In April 2019 147 council tenants will have their garage rent increased by £1 + 5% to start the second year of aligning their rents with non-council tenants.

Analysis has identified that all council tenants renting a garage will see their overall payment increase despite the 1% rent reduction. The only exception to this is the 5 tenants that have rented a garage since April 2018, whose overall payment will decrease as they started on the same rate as non-council tenants. For the 107 council tenants renting 1 garage the increase will range from £21.92 to £40.61 per year. However 58 of the 107 are in receipt of some form of Housing Benefit for their residential property.

There are 17 Council tenants that have more than one garage linked to their tenancy. In these cases they will be worse off by £75.92 for each additional garage they rent. However 11 of the 17 are in receipt of some form of Housing Benefit for their residential property.

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 (Equality Act 2010)	Adverse impact	Advance equality	Foster good relations
Age	✔		
Disabilty			
Gender reassignment			
Marriage/civil partnership			
Pregnancy/maternity			
Race			
Religion/belief			
Sex			

[3] Please note 2019/20 is a 53 week rent year. In order to make variance in figures comparable to last year, analysis is based on 2019/20 being a 52 week rent year.

Sexual orientation			
Other (e.g. low income groups)	✓		

4 Summary of the likely impacts
- Who will be affected?
- How will they be affected?

Universal Credit in Medway
Medway Council is already starting to see the impact of Universal Credit on tenant arrears, largely due to delays in payments. The arrears level of the 159 tenants on UC is £46,397 as at 5 November. 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 need to be targeted to this age group to ensure they are not adversely affected.

Universal Credit will 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.

Garage rent increase
Analysis conducted in November 2018 shows that based on a 52 week rent year the majority of Council tenants with garages will see an increase in their overall rent payment due to the garage rent alignment and the 5% rent garage increase; this is despite the 1% rent decrease. Tenants that rent 1 garage will be minimally affected by the increase overall, by around £21.92 to £40.61 per year. Some of these tenants will have the financial impact lessened through Housing Benefit contribution to the rent of their residential property.

Council tenants that have more than one garage linked to their tenancy will be more significantly impacted by an additional garage rent payment of £75.92 per year for each additional garage rented. Non Council tenants renting a garage may be negatively affected but the increase would be minimal, by 47p (+VAT) per week.

Service Charges
Service charges will be applied to all applicable residents regardless of their protected characteristics. Whilst some of the service charges are optional for tenants the majority of charges are for a necessary service that would be charged for regardless of the characteristics of the household or the type of housing provider.

Some charges for Sheltered Housing are funded through a Housing Related Support fund via a Service Level Agreement (SLA). This funding has been agreed to for 2019/20, but if future funding were to be withdrawn tenants would be liable for the costs (As at 5th November 2018, this would affect 211 tenants)

Overall there is an average decrease in service charges and in most cases tenants will be better off financially. For those households that receive either partial or no Housing Benefit, in the majority of cases any increases would be offset by a decrease in another service charge or the 1% rent decrease.

It has been identified that there will be 18 tenants (15 on Housing Benefit) that will be negatively affected by changes to service charges in 2019/20. For 10 of these individuals the effect would be minimal (£2.12 extra per year). For 8 of the tenants the effect will be greater (£43 to £79 extra per year) and this will need to be monitored by Housing Staff.

The charge for new sheltered tenants on Housing Benefit for the helpline may disadvantage low income tenants. They will be more financially disadvantaged than existing tenants on Housing Benefit that will have the service charge cost offset. Mitigating actions will need to be implemented to ensure that any new tenant does not fall into arrears due to payment of the service charge.

Summary of impacts

The majority of changes that will be brought into effect in the 2019/20 Budget Report will not impact on our tenants in terms of the protected characteristics. Changes to charges and service delivery will be applied to all relevant tenants, not on an individual basis.

Where service charges and garage rents have been increased there may be some negative impact on lower income groups, but this is expected to be minimal and where applicable will be covered by Housing benefit. There will need to be some extra monitoring and support for those 18 tenants for whom it has been identified will be negatively impacted by increased service charges.

Additionally new tenants to sheltered housing on housing benefit that pay for the helpline service charges may need extra support to ensure that they are not negatively financially impacted.

Legislation brought in by Government around Universal Credit may have a negative impact on working age residents and lower income household. It could also have a negative impact on rental income which would adversely affect the Business Plan. Whilst these changes are however outside our jurisdiction it will be up to the Council to implement the necessary mitigating actions to reduce this impact.

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

- What alternative ways can the Council provide the service?
- Are there alternative providers?
- 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 implement the following mitigating action to ensure that any negative impacts are kept to a minimum.

Consultation
To ensure tenants are informed of the changes tenants will be consulted on any changes to their rents and service changes in the November Estate Champion meeting.

Additionally each tenant will receive a written notification a minimum of four weeks in advance of the date any rent charge adjustments become operative.

Universal Credit (UC)
Where Universal Credit or financial problems impact on our tenants Housing Services will signpost them to the HRA Welfare Reform Team who will provide them with help and advice. This team also sign post tenants to other debt advice agencies. The HRA has a communications strategy via the internet, leaflets and tenants handbook for advertising the impact of benefit changes. The HRA Housing Team is a prominent member of the Corporate Welfare Reform Steering Group where partnership working has been developed with the Department of Works and Pensions and work streams agreed around communication, identifying vulnerable customers and development of digital inclusion initiatives.

The Welfare Reform Team have started weekly drop in surgeries at Twydall Hub to provide advice on Welfare Reform issues. This will make the service more accessible for tenants.

Where residents struggle to claim UC through barriers to internet access Housing Services will signpost to appropriate training agencies, in addition to signposting to free internet access sites like libraries. Housing Services will also work with providers to get resident help and guidance to get back into employment.

Housing Services can request direct payment of UC for the Housing element if it is identified that the tenant would struggle to pay their rent directly to the Council. This will help prevent vulnerable tenants from getting into rent arrears and face the possibility of eviction.

Rent and Service Charges
Any household struggling with rent payments or requiring debt advice will be signposted to our Welfare Reform Team. Housing Services produces publications, such as the tenants' handbook and Christmas rent campaign that promote debt advice helplines. We also have our own website and Facebook page that tenants can access for help and advice.

Tenant and Leaseholders who pay services charges will be written to informing them of the exact changes to their contributions.

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

Housing Services will need to proactively monitor the rent accounts of the 18 tenants that will see an increase in their overall service charges in 2019/20 and support offered to the tenant if applicable.

Mitigating actions will need to be implemented to ensure that there is not a negative impact on new tenants to sheltered housing that are in receipt of Housing Benefit but are required to pay the helpline service charge. Rent accounts will need to be proactively monitored and referrals made to the Welfare Reform team where required. If monitoring identifies that there is a consistent negative impact on new residents compared to existing residents due to this charge then other mitigating actions may need to be considered. This DIA may need to be revised as a result. Consideration will need to be given to how this service charge is applied in the future to ensure it is consistent for all residents regardless of their tenancy start date.

6 Action plan

- Actions to mitigate adverse impact, improve equality of opportunity or foster good relations and/or obtain new evidence

Action	Lead	Deadline or review date
Consult tenants on the budget at the November Estate Champion meeting	Marc Blowers	November - Completed
If changes agreed, update the Rent Setting Policy to reflect everything highlighted in HRA Budget Report.	Policy and Business Development Manager	Policy and Business Development Manager
Continue to identify, support and prevent financial hardship	Income Manager/Welfare Reform Team	Ongoing
Monitor new tenants to sheltered housing on HB that are required to pay the sheltered helpline charge to ensure they are not financially impacted. Implement mitigating actions where necessary.	Income Manager/Welfare Reform Team/ Head of Housing Services	Ongoing

7 Recommendation

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

- to proceed with the change, implementing the 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.

The recommendation is to proceed with implementing the proposed budget and Action plan and mitigating actions in this DIA.

APPENDIX D Diversity impact assessment

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 the relevant 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 usual P&I contact**	
C&A (all other areas):	**phone 4013**	**email: jackie.brown@medway.gov.uk**
BSD:	**phone 2472/1490**	**email: corppi@medway.gov.uk**
PH:	**phone 2636**	**email: david.whiting@medway.gov.uk**