CABINET

4 FEBRUARY 2020

HOUSING REVENUE ACCOUNT CAPITAL AND REVENUE BUDGETS 2020/21

Portfolio Holder:	Councillor Howard Doe, Deputy Leader and Portfolio Holder for Housing and Community Services
Report from/Author:	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 2020/21 and provides details of proposed rent and service charge levels for 2020/21

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

The report will be considered by the Business Support Overview and Scrutiny Committee on 30 January 2020 and its comments will be circulated to the Cabinet in an addendum report.

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 2020/21 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 and Debt
- New House Building Programme update
- Revenue Budget for 2020/21

3. Rent

3.1. In October 2017, the Government announced in the Housing White Paper 'Fixing our Broken Housing Market', that social housing landlords are permitted to increase social and affordable rent by Consumer Price Index (CPI) plus 1% each year from April 2020 for a period of 5 years. This makes a return to the rent setting approach which was to apply for 10 years from 2015, before it was replaced with rent reduction from April 2016 for 4 years in 'Welfare Reform and Work Act 2016'.

3.2. The rent reduction over the period of these 4 years, in essence was a 4% reduction per annum to rental income (the business plan assumed prior to rent reduction 3% rent increase each year) resulting in a reduction in income of approximately £5.7million.

3.3. The increase in weekly rent of CPI plus 1% will result in an increase in total budgeted rental income from dwellings against 2019/20 yearly rental income budget of £42,237 based on 52 rent weeks. Despite a weekly increase of 2.7%, the lower increase in total budgeted rental income is due to the year 2019/20 being 53 weekly rent cycle.

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

3.5. The proposed charges will give an average rent of £83.13 (2.7% increase to 2019/20 proposed weekly rent) per week, based on 52 weekly payments on current properties.

3.6. 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.

3.7. As of 1 April 2020, with the proposed increases implemented, Medway HRA will have moved 98.5% of their rent to formula rent. This will leave 1.5% or 44 properties below the formula rent.

4. Garage Rents

4.1. Garage rents are currently £9.58 per week for council tenants (with garage tenancies starting pre-April 2018), and £9.88 per week for non-council tenants, and council tenants with garage tenancies starting April 2018 onwards. Non-council tenants also pay VAT.

4.2. As of November 2019, the Council rented 191 garages to council tenants and 240 to non-council tenants.

4.3. Traditionally council tenants have been charged a lower rent than non-council tenants. During 2018/19 budget build process, members agreed to address this issue and approved the commencement and realignment of garage rents commencing 2 April 2018. It was approved that over the three years starting April 2018, base line garage rents would be realigned and be charged at the same level regardless of tenure type. As approved from April 2018 all new garage lets regardless of tenure type have been let at the same base line rent.

4.4. For council tenants, garage tenancies starting prior to April 2018, garage rents are now only £0.30p less than the ‘standard’ rent.

4.5. It is therefore proposed that for 2020/21 the baseline garage rent for council tenants be raised by £0.30 to £9.88. Following which, the rent for all garages be increased by 5%.

4.6. If approved, the new charge from April 2020 for all garage rents will be £10.37 per week, or £539.24 per annum (£10.37x 52 weeks). Non-council tenants will also pay VAT.

4.7. It is estimated that this will generate an additional income of approximately £13,000 based on current letting rates. However, this will offset the loss of garage rental income for approximately 52 garages that are due to be demolished for the planned phase 4 new build programme.

5. Service Charges

5.1. Service charges for 2020/21 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 social landlords should aim to confine service charge increases to inflation plus 1%, 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 average service charges 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 which is 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 £42,000 during 2020/21. These service charges over the next few years will increase in order to eventually fully recover true costs.

5.5. Overall the average weekly service charge decrease for 2020/21 (excluding housing related support eligible charges), will be 2 pence per week (paid over 52 weekly basis) when compared with 2019/20 (paid over 53 weekly basis). Appendix B details the average percentage increase/decrease required against each type of projected weekly service charge in comparison to 2019/20.

5.6. Some charges for Sheltered Housing are funded through the Housing Related Support fund via a Service Level Agreement (SLA). If this fund were discontinued, the charges would be payable by the tenants. As at November 2019 this would affect 216 tenants.

5.7. As per previous years, it is proposed to continue the process of rounding service charges to the nearest 5p or 10p for 2020/21. 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 2019/20 was set at 0.40% of the rent debit, equating to £52,000. As at 28th October 2019, performance was estimated at 0.56% for the year, which would produce a slightly higher financial rent loss than anticipated of around £ 61,200, if performance remains at this level for the remainder of 2019/20.

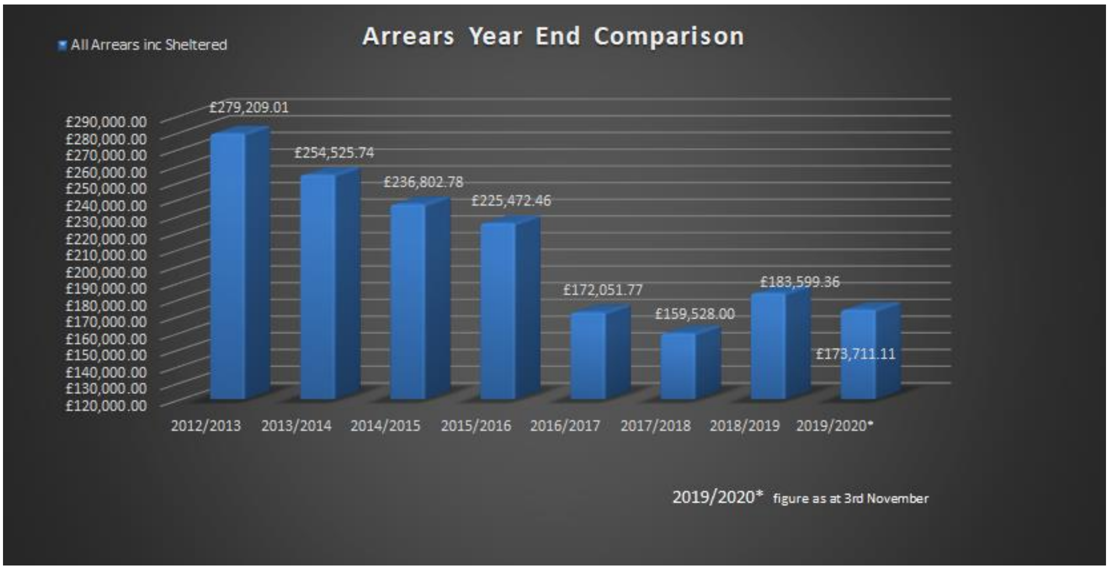
6.2.3. Provision for void rent loss for 2020/21 has been set at 0.37%, against the 2020/21 rent debit or in financial terms £48,100. This gives a slightly lower rent loss, comparable with 2019/20 budgeted and forecasted performance, as noted in the paragraph above. However, the budget is based on the potential for a lower number of voids than in 2019/20 as there will be no new build properties releasing during 2020/21. As under a local lettings plan, one or two bedroom new build properties are to let to existing tenants who are under occupying much needed bigger family houses. This then creates a “Trickle” effect of larger vacant properties arising and an impact on the void budget as well as void rent loss.

6.2.4. Rent Collection/Bad Debt Provision

6.2.5. 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.

6.2.6. The rent collection rates and current arrears position within the HRA is favourable in terms of performance against other similar organisations.

6.2.7. The chart below shows the year-end comparison for arrears in the general needs stock, including Homes for Independent Living. Although there has been a year on year reduction since 2012, rent arrears rose slightly in 2018/19, and stand at £173,000 as at 3 November 2019. Analysis of this performance indicates that this is mainly due to the ongoing roll out of Universal Credit.



6.2.8. It is anticipated that former tenancy rent arrears at Year-End 2019/20 will be £290,000, giving a combined (current and former tenancy) arrears figure of £490,000. This is better than last year's forecast of £537,000.

6.2.9. As at 31 March 2020, the projected yearly requirement for bad debt provision will be £472,000 (rent and other housing related debt). Due to an effective income management by the officers, the bad debt provisions budget for 2020/21 will remain at £50,000. 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 few years.

6.3. Universal Credit (UC)

6.3.1. UC has been 'live' in Medway since May 2018. It currently affects new claimants or existing benefit claimants who have a change in circumstances that triggers a move from the old benefits system to UC. As at the end of November 2019, there were approximately 400 (13% of all tenancies) council tenants on UC.

6.3.2. It is well known that nationally the introduction of UC is leading to increased rent arrears for social landlords, and this is proving to be the case in Medway. This is due in part to processing delays but mainly due to the way the housing element of UC is paid. As at 3 November 2019, 53% of all current rent arrears are attributable to the 13% of council tenants on UC (total arrears, £173,000 of which £92,000 attributable to tenants on UC).

6.4. Direct Payments – Housing Benefit (HB)

6.4.1. 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 with the housing element of UC being paid directly to tenants, which then must be collected by the HRA. This is already having an impact as shown in 6.4.2 above and this impact is expected to increase through the 2020/21financial year.

6.4.2. UC currently only affects working age claimants. Currently the HRA receives approximately 54.8% of rental income via Housing Benefit, (down from 62.9% same period last year) of which 29.3% is in respect of working age tenants, and 25.5% of which is in respect of state pension age tenants. As at November

2019 HB income accounts for approximately £123,000 per week, approximately £6,270,000 of projected annual income for 2019/20.

6.4.3. As described above, the changes result in housing benefit being paid directly to working aged tenants and there 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 few years. It is also likely that arrears and the consequent provision for bad debt will increase.

6.4.4. Work is continuing by the HRA team to mitigate against the effects of UC, this work includes having two specialist Welfare Reform Officers within the Income Team, working to maintain good links with staff and management at DWP, and developing new ways to target effective communications.

7. HRA Expenditure

7.1. Generally, all expenditure will remain at 2019/20 levels for 2020/21 to reflect the current economic climate and in line with the Medium Term Financial Plan, including any corporate and Government determinations such as increase in rent and staff salaries. Through streamlining and service improvement some budgets have regularly underspent, these have been revised downwards, 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 for next year have been surveyed. This identified that not all the dwellings required work and therefore next year's budget will reflect this.

7.2. 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. In 2019/20 an initial year one budget of £400k was allocated to allow for the procurement of a replacement housing management ICT system. It is anticipated that this commitment will not be required until 2020/21 and therefore will be carried forward as an addition to the budget for 2020/21.

7.3. For this budget report, the proposed SLA recharges between the HRA and the General Fund (GF) services for 2020/21 will be based upon existing budgets for 2019/20. However, there has not been a detailed review of these charges since 2015/16 and therefore this will be undertaken in the near future, and could result in changes to the 2020/21 SLA charges, which if required, will be reported to Members through the appropriate reporting channels. Any changes to the SLA recharges will exclude management fees for the planned decorating and capital maintenance programme, which is currently an 8% and 12.5% respectively on the actual programme delivery

7.4. From April 2020, the Government has abolished the Rent Rebate limitation, which means a provision of budget will no longer be required for this. Current yearly budget of £30,000 for this provision has now been realigned to NIL for 2020/21.

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 a period of five years from 1 September 2014. The five year contract, which concluded in August 2019, has performed well both in terms of financial benefit to the Council and service delivery to residents. As a result of this excellent performance and value for money, in August 2018, the Cabinet approved to extend the contract with Mears Ltd until August 2024. Through strong negotiation, under new terms of the contract, Mears Ltd will only receive an uplift on the contract, should BMI rise above 5% in a year. It is currently estimated that BMI is not likely to go above 5% in the next 5 years, therefore over the extension period, this contract will deliver approximate savings of £0.5m.

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

8.3. Based on the proposed combined capital and revenue work programmes, the financial split in 2020/21 is anticipated as follows:

- Responsive maintenance £2.146m
- Planned/Capital maintenance £5.14m (excluding new build/acquisition and carried forward budgets)

8.4. This split will equate to 29:71 spend ratio for 2020/21. This meets good practice guidelines of 30:70.

8.5. <u>Responsive Repairs and Voids Budget</u>

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.

8.5.2 As a result of recent increase in average cost of voids, the voids budget, for works to bring properties to the lettable standard, has been increased by £25,000 for 2020/21.

8.6. <u>Three-Year Capital Works Budget</u>

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 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 reductions in administrative costs. Two years ago Members approved a second three year capital and planned works programme. There are no new budgetary requirements for planned capital works to maintain the housing stock this year following this three-year approval. The current 3-year planned 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/acquisition programmes). Any under-spend on the 2019/20 planned maintenance, adaptations capital programme and new build/acquisition capital programmes will be added to the 2020/21 capital programme. Round 2 capital budget monitoring forecast for 2019/20 predicts an underspend of £4.5m on the capital programme, due to the fact that the phase four new build programme will not be completed within 2019/20 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 2020/21. An addition of £4.1m to the Phase 4 new build programme was sought during 2019/20 due to the increase in number of houses to be built from the initial estimate of 17 to 32. The additional budget has been added to the budgets below.

8.6.3 During 2019/20, an opportunity arose to acquire a property, previously sold under RTB with a clawback of some of the discount given on the sale of this property. A decision was made to request for an addition of £0.3m budget to complete the purchase as well any further purchases during the year. Any underspend on this budget will be carried forward to 2020/21. To give officers the flexibility to be able to purchase properties if similar types of opportunities arise again in the future, or if officers find a property that is a good value to purchase, it is recommended a further £0.3m budget be added to the existing current year's budget from 2020/21. This budget will be used as and when required and will be funded from the HRA revenue reserves and 1-4-1 RTB capital receipts.

8.6.4 Three-year Capital Programme Budget.

	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	£7,400	£0
Buyback/Acquisition	£0	£300	£300
Total	**£5,860**	**£12,397**	**£4,988**

8.6.5 Three-Year proposed Capital Programme Budget 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 Reveue Reserves for new build/acquisition programmes	£700	£216	£216
Contribution from 1-4-1 RTB Capital Receipts for new build/acquisition programmes	£300	£2,156	£84
Borrowing	£0	£5,328	£0
Total	**£5,860**	**£12,397**	**£4,988**

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. This was funded from borrowing and ring fenced Right to Buy (RTB) 1-4-1 capital receipts.

9.2. In year 2018/19, Members approved the third phase of new build housing programme for building 6 new bungalows at Petham Green, which have now been completed and released at the end of November 2019.

9.3. Members will be aware that the Government has announced the lifting of the HRA debt cap last year which fundamentally will allow the Council to borrow more to build.

9.4. A budget approval was sought during last year's budget build (with further additional budget of £4.1m in the current year) for phase 4 new build programme for building 32 houses/bungalows at 4 different sites within Medway. Officers are currently in the process of developing the plans with a view to tender this programme during Q4 of 2019/20. It is anticipated that the contractor will start on site at the beginning of 2020/21 and the programme will run for two years.

9.5. Further consideration is being given to additional sites within the HRA as well as opportunities to explore estate regeneration.

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 2019, the working balance stood at £5.114m. For a number of years the actual HRA balance has exceeded the recommended good practice guideline of £450,000. This is 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.

10.2 Round 2 (2019/20) budget monitoring predicted a balance as at 31 March 2020 of £4.958m, with a contribution of £0.597m to fund phase 3 new build programme and with a projected in year surplus of 0.441m.

10.3 The proposed 2020/21 HRA Budget as presented at Appendix C, produces a projected in year surplus of £0.224m for the year 2020/21. With a budgeted contribution £0.371m from the balances towards the buyback/acquisition budget, the budgeted revenue working balances will be £4.8m as at 31 March 2021.

11. New Self-Finance Arrangements - Borrowing and Debt

11.1. The Chancellor announced in his 2018 Autumn Budget Statement that the HRA borrowing cap would be scrapped from 30 October 2018, which means that the stock retaining local authorities can now borrow without a debt limit as long as the authority's HRA is able to service the debt. Work is now underway to analyse and understand the sustainability and level of borrowing the Council can afford to undertake further new house building programme in the future.

11.2. In line with the new self-financing arrangements introduced in 2012, the HRA began a programme of repaying its debt by a minimum revenue payment (MRP).

Initially 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 2020/21 estimated MRP repayment will be £0.340m.

11.3. As at 1 April 2020, it is estimated that the HRA opening debt will be £41.182m, subject to repayment of 2019/20 MRP payment of £0.326m. With further borrowing for the phase 4 new build programme and subject to 2020/21 MRP payment, closing debt for year 2020/21 is estimated to be £43,871m.

11. 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 2019. The HRA Business Plan has recently been revised and details of the 30 year business income and expenditure charts can be found at Appendix D. The assumptions are based on the following assumptions:

- Rent will rise 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.
- Increase in garage rents for 2020/21 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. 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 2018/19, 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% - top quartile
- % of Rent collected = 100.82% - top quartile
- % of current tenant arrears = 1.33% - top quartile
- Average re-let time = 13.6 days – top quartile
- % Void loss = 0.55% - top quartile
- % of dwellings with a valid gas safety certificate = 100% - top quartile
- % of repairs completed at the first visit = 99% - top quartile
- % of repair appointments kept = 99.65% - top quartile
- ASB cases per 1,000 properties = 17.97 – top quartile
- Total cost per property of responsive repairs and void works (management) £698.48- top quartile
- Total cost per property of responsive repairs (management) - £81.37 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 2020/21 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 8 January 2020. 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	Ongoing stock condition surveys undertaken to provide a sound basis on which to model future repairs investment.

	requirement, is the level of expenditure required for housing repairs.	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 £4m (based on current figures) being paid direct to tenants, which 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.	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. 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 Cabinet is asked to consider the comments of the Business Support Overview and Scrutiny Committee, as set out in the Addendum Report.

17.2. The Cabinet is asked to recommend the following to Full Council for approval::

a) A proposed rent increase of CPI plus 1% for the housing stock as set out in Appendix A (based on 52 collection weeks) with effect from 6 April 2020.

b) The baseline garage rent for Council tenants be increased by 30 pence per week to bring in line with non council tenants garage rent with effect from 6 April 2020.

c) That a rent increase of 5% to be applied to all garage tenure types with effect from 6 April 2020.

d) That the service charges increases/decreases as set out in Appendix B of the report for 2020/21 to be approved.

e) That the revenue budget for the HRA Service for 2020/21 as per Appendix C be approved.

f) That the proposed capital budget of £0.3m be approved for buying ex council or/and acquiring properties from the open market to be funded from the HRA revenue reserves and 1-4-1 capital receipts as set out in section 8.6.

g) That the provision for the repayment of debt based on annuity based payment on the HRA's outstanding debt to be £0.340m for 2020/21 be approved.

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

18. Suggested reasons for decisions

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

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Background Papers
None

Appendices:
Appendix A – Average Rent Increases by Property Type
Appendix B – HRA Average Service Charges Summary
Appendix C – Revenue Budgets for HRA Service for 2020/21
Appendix D – Summary of HRA Business Plan
Appendix E – Diversity Impact Assessment

APPENDIX A - AVERAGE RENT

AVERAGE RENT INCREASES BY PROPERTY TYPE (52 WEEKS)

Property Type	No of Properties	Actual Rent 2019/20	Formula Rent 2019/20	Proposed Rent 2020/21	Formula Rent 2020/21	Average Increase 2019/20 to 2020/21	Average Percentage Increase 2019/20 to 2020/21
Bedsit Bungalow	45	£64.27	£64.35	£66.00	£66.09	£1.73	2.7%
Bedsit Flat	70	£60.98	£60.98	£62.63	£62.63	£1.65	2.7%
1 Bedroom Bungalow	205	£74.88	£75.14	£76.90	£77.17	£2.02	2.7%
1 Bedroom Flat	475	£70.64	£70.64	£72.54	£72.55	£1.91	2.7%
2 Bedroom Bungalow	20	£91.27	£91.27	£93.73	£93.73	£2.46	2.7%
2 Bedroom House	496	£85.77	£85.80	£88.09	£88.11	£2.31	2.7%
2 Bedroom Flat	536	£78.79	£78.79	£80.92	£80.92	£2.13	2.7%
3 Bedroom Bungalow	2	£91.63	£91.63	£94.10	£94.10	£2.47	2.7%
3 Bedroom House	727	£95.59	£95.61	£98.19	£98.20	£2.60	2.7%
3 Bedroom Flat	109	£88.82	£89.05	£91.22	£91.45	£2.40	2.7%
4 Bedroom House	29	£103.85	£103.85	£106.65	£106.65	£2.80	2.7%
5 Bedroom House	2	£116.06	£119.64	£119.19	£122.87	£3.13	2.7%
Sheltered Bedsit for the Disabled	8	£59.08	£59.08	£60.68	£60.68	£1.60	2.7%
Sheltered Bedsit	184	£59.08	£59.08	£60.68	£60.68	£1.60	2.7%
1 Bedroom Sheltered	71	£66.64	£66.65	£68.43	£68.44	£1.79	2.7%
2 Bedroom Sheltered	6	£77.09	£77.38	£79.17	£79.47	£2.08	2.7%
3 Bedroom Sheltered	-	£0.00	£0.00	£0.00	£0.00	£0.00	0.0%
1 Bedroom Sheltered Bungalow	17	£69.16	£69.25	£71.03	£71.12	£1.87	2.7%
Overall Average*	**3,002**	**£80.94**	**£80.98**	**£ 83.13**	**£ 83.17**	**£2.19**	**2.7%**

*(Total rental income / total number of properties)

APPENDIX B – AVERAGE SERVICE CHARGES

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY (52 Weeks)

	Average Weekly Service Charge 2019/20 (53 weeks) £	Average Percentage Increase/(decrease) for 2020/21 %	** Proposed Average Weekly Service Charge 2020/21 (52 weeks) £	weekly increase/ (decrease) fr 2019/20 to 2020/21 £	Projected (Surplus)/ Deficit 2020/21 £'000
a) Eligible for Housing Benefit					
Adult Services Facilities	0.00	0.0%	0.00	0.00	0
Estate Services (Caretaking)	4.95	(3.5%)	4.77	(0.18)	0
Communal Electricity	1.17	14.9%	1.34	0.17	38
Grounds Maintenance	0.60	1.7%	0.61	0.01	0
Sheltered Management	18.97	3.8%	19.69	0.72	0
Window Cleaning	0.32	2.2%	0.33	0.01	0
Council Tax	10.49	6.0%	11.12	0.63	0
Laundry Room Sheltered	0.44	6.8%	0.47	0.03	0
Laundry Room General	0.77	(58.4%)	0.32	(0.45)	0
Heating - Communal	1.35	(23.0%)	1.04	(0.31)	0
Water - Communal	0.90	0.1%	0.90	0.00	0
Communal Lifts	0.40	14.7%	0.46	0.06	1
Communal TV Aerials	0.05	0.0%	0.05	0.00	0
CCTV	1.41	2.1%	1.44	0.03	0
b) Not Eligible for Housing Benefit					
Cooker	0.39	13.4%	0.44	0.05	1
Fridge	0.40	10.0%	0.44	0.04	2
Heating - Residential	5.64	(21.8%)	4.41	(1.23)	0
Water - Residential	3.49	1.2%	3.53	0.04	0
Average sections a & b (weekly)	**2.87**		**2.85**	**(0.02)**	**42**
c) Housing Related Support Eligible Charges					
Sheltered Helpline	3.20	4.1%	3.33	0.13	0
Community Alarm	8.63	0.0%	8.63	0.00	0
SP Helpline	2.37	0.0%	2.37	0.00	0
Sheltered Support	5.40	0.0%	5.40	0.00	0
Average sections c (weekly)	**4.90**		**4.93**	**0.03**	**0**
Average all sections (weekly)	**3.24**		**3.23**	**(0.01)**	**42**

*** It should be noted that it is not directly possible to compare the average weekly charge from 2019/20 and 2020/21 as year 2020/21 is a 52 week rent cycle and year 2019/20 was a 53 week rent cycle*

Appendix C – Budget Summary

HOUSING REVENUE ACCOUNT- BUDGET SUMMARY 2020-21									
	Budget 2019/20			R2 Forecast 2019/20			Proposed Budget 2020/21		
Description	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			**(5,056)**			**(5,114)**			**(4,958)**
HOUSING MAINTENANCE	2,146	0	2,146	2,142	0	2,142	2,175	0	2,175
HOMES FOR INDEPENDANT LIVING	601	(3)	598	598	(3)	595	607	(2)	605
TENANCY SERVICES	1,456	0	1,456	1,435	0	1,435	1,496	0	1,496
ESTATE SERVICE	551	(4)	547	522	(4)	518	552	(4)	548
COMMUNITY DEVELOPMENT	126	0	126	117	0	117	142	0	142
CENTRALISED ACCOUNTS	214	0	214	267	0	267	248	0	248
CLIENT SIDE	2,177	0	2,177	2,011	(5)	2,007	2,096	(5)	2,091
CAPITAL DEVELOPMENT PROGRAMME	54	(54)	0	64	(54)	10	114	(64)	50
HOUSING BENEFITS	30	0	30	0	0	0	0	0	0
CAPITAL FINANCING	6,933	(12)	6,921	6,826	(10)	6,817	6,885	(10)	6,875
RENTAL INCOME	0	(14,139)	(14,139)	0	(14,134)	(14,134)	0	(14,163)	(14,163)
OTHER INCOME	0	(291)	(291)	0	(213)	(213)	0	(291)	(291)
Total HOUSING REVENUE ACCOUNT	**14,288**	**(14,503)**	**(215)**	**13,982**	**(14,423)**	**(441)**	**14,315**	**(14,539)**	**(224)**
Revenue Contribution to Capital Expenditure			**455**			**597**			**371**
HRA Working Balance C/F			**(4,817)**			**(4,958)**			**(4,811)**

APPENDIX D

MEDWAY COUNCIL
HOUSING REVENUE ACCOUNT BUSINESS PLAN 2020/21: COMMENTARY

Introduction

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 2019 (2019.20 financial year) and runs for 30 years to March 2049. The first year of the plan is balanced exactly to the revised HRA Revenue Budget for 2019.20 based on the Round 2 review and balanced exactly to the HRA Capital Programme for 2019.20, with the additional allocation of £0.3million for acquisitions. For 2020.21 the HRA Revenue Budget reflects the initial 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:

- The loss of properties through the Right to Buy.
- The investment into two Development Phases a total investment in 38 new homes
- The latest capital investment requirements which total £200.0million (£150.9million without inflation) 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.

Overall headlines

In overall terms, the plan is able to be funded over the 30-year term, generating revenue surpluses in the HRA totalling £24.5million, and a closing debt balance of £54.3million. This compares to an opening HRA balance of £5.1million and debt of £41.328million. The plan therefore generates the capacity to invest additional sums towards the delivery of new homes and/or improved services.

Key Assumptions

1. The model is launched with opening properties of 3,005 with right to buy sales of 10 per annum then reducing by 1 every five years throughout the plan – total loss 225 properties over the 30 years of the plan. Stock additions total 6 for the development scheme due to be delivered this year and a further 32 in 2021.22.
2. Net stock loss over the term is therefore 6.2%, though at this stage the model does not assume a reduction in base costs for management, repair costs for these losses.
3. Average stock rents are £81.01/week at April 2019, increasing by 2.7% to 2020, and then increasing by CPI+1% to 2024 following by CPI only for the remainder of the plan.
4. 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.
5. The management costs for 2019.20 are used as a basis for forecasting forward, at CPI only, which matches long-term future rent increases. Service charges and other income increase with inflation only.

6. 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 2021.22.
7. 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.

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**

8. For 2019.20 and 2020.21 we have matched the actual and provisional capital expenditure and funding for both investment in existing stock and new developments.
9. Shortfalls between expenditure in table in note 8. above are factored into 2021.22 capital expenditure in the plan for a five-year period.
10. Given that gross stock losses are estimated at 7.5% the investment costs have been adjusted to reflect stock losses by a 50% variable factor, which provides a small level of contingency.
11. Total investment into existing stock is £200.0m throughout the plan (£150.9million at current prices) and equates to £50.2k 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.
12. Depreciation to finance existing stock improvements is charged to the HRA at an equivalent £1,231 per unit, which is adjusted for inflation on a unit-cost basis throughout the plan.
13. There are only two development phases modelled into the business plan at this stage, the six bungalows delivered this year which forms phase 3. Phase 4 consists of 23 houses and 9 bungalows. Rent income from the development is included, with a standard range of costs added to existing management, repair and investment budgets. Phase 4 is 30% funded, where possible, via retained '1-4-1' receipts for which the Council has sufficient balances of.
14. 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% real terms increase for 5 years). CPI for 2020.21 has been modelled at 1.7%.
15. The average interest rate applied to the HRA debt level is 4.24% 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%
16. 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.

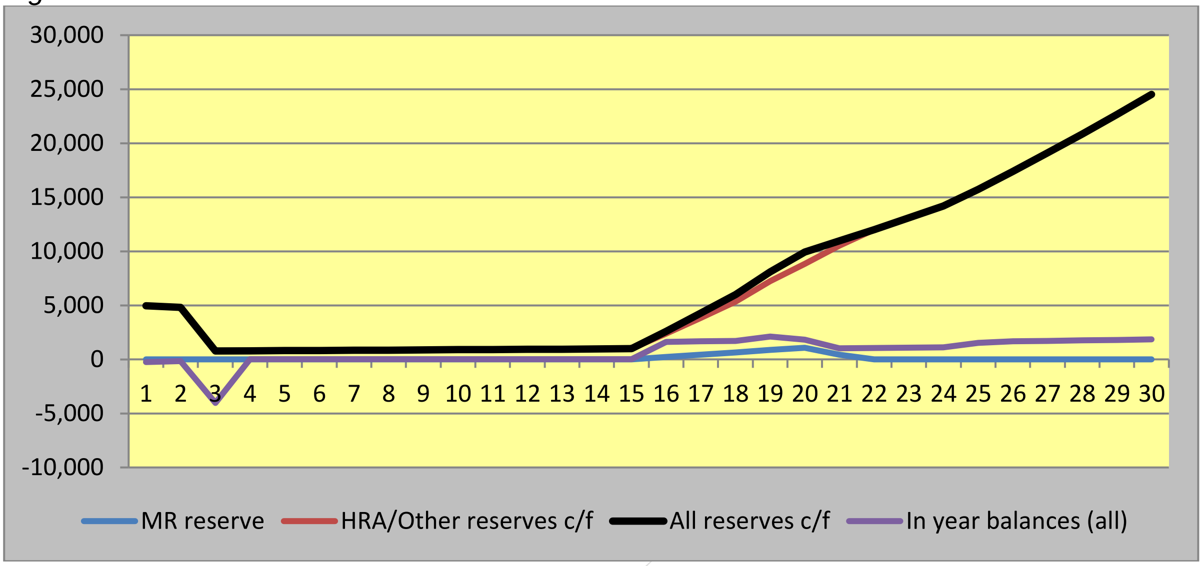
In summary, the assumptions made within the business plan are prudent without being excessively restrictive; they provide for inflation on income and costs at prevailing rates which are aligned, allow a considerable investment in existing stock, whilst increasing debt by 26%.

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.

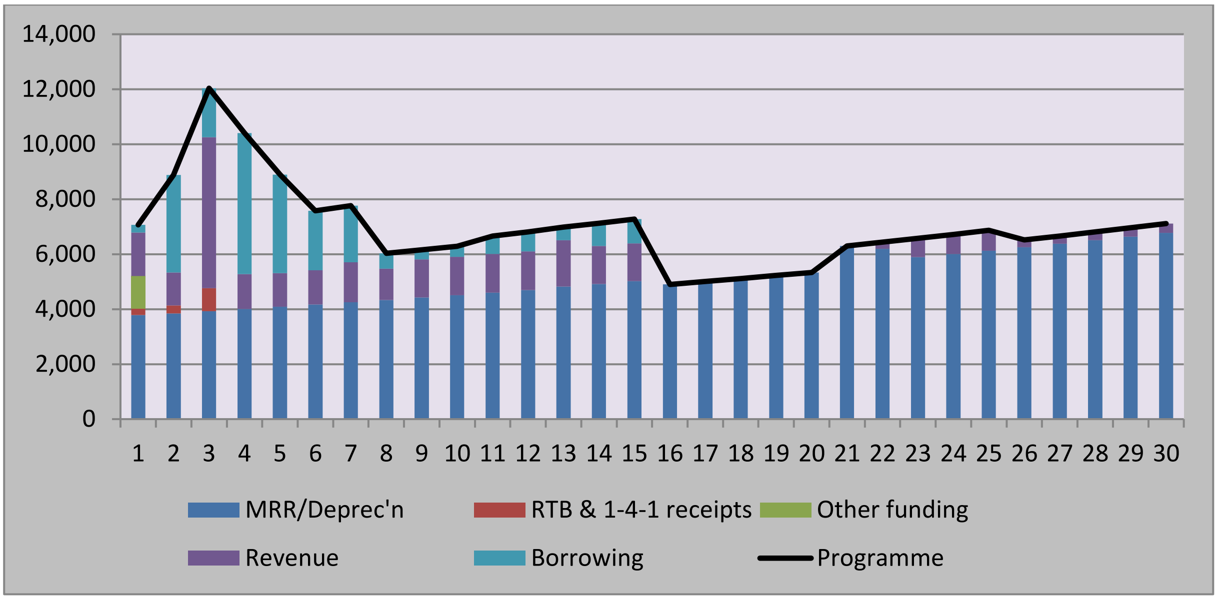
Figure 1 - Revenue Reserves forecast 2019-2049



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. 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. 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.
2. 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.
3. 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).

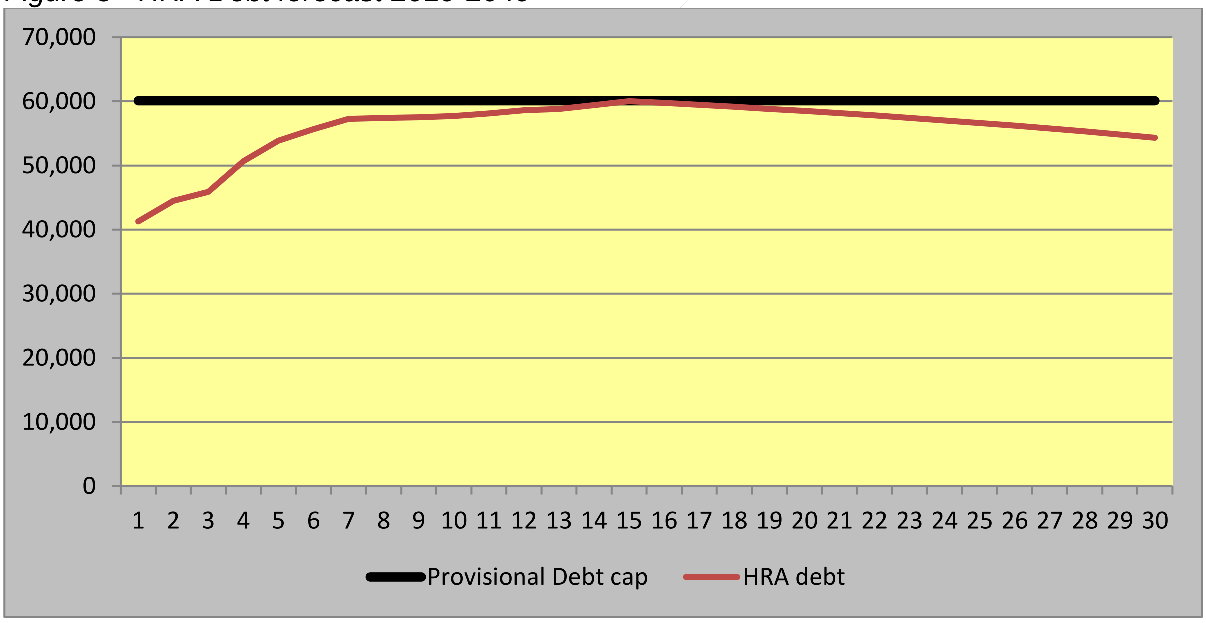
Figure 2 - Capital expenditure and financing forecast 2019-2049



The capital forecast is fully financed as follows.

1. The total programme over 30 years is £200.0million (at outturn prices - which is £150.9million at today's prices), excluding the £8.217million budgeted for development phases 3 & 4 and the 2019.20 acquisition programme of £0.3million.
2. Between years 1 and 15 borrowing is required to cover the backlog of investment in the stock identified in section 12 above and development phases 3 &4.

Figure 3 - HRA Debt forecast 2019-2049



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 highlights a provisional debt cap of £60 million for demonstration purposes only. The proposition within this analysis is that, whilst there is theoretically now no limit to borrowing within the HRA, the existing asset and operating base generates a net income

stream that does offer a logical limit on sustainable borrowing levels. This has not been modelled but can be a future consideration.

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£10.4million of loans, set against borrowing of £23.4million during the term which is in addition to the generation of c£25million of revenue reserves. Taken together, this presents a positive position in that 45% of debt balances can potentially be covered (or repaid) over the duration of the plan.

Summary of baseline plan

The forecast identifies that borrowing will be required, driven primarily by the need to cover the backlog of investment needs and new housing developments. 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.

APPENDIX E - Diversity impact assessment

TITLE Name / description of the issue being assessed	HRA Budget Setting 2020/21
DATE Date the DIA is completed	18th December 2019
LEAD OFFICER Name, title and dept of person responsible for carrying out the DIA.	Aisling Sims – 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 2020/2021 presents the Housing Revenue Account (HRA) revenue and capital budget for 2020/2021 and details and updates:

- On the proposed rent and service charges levels for 2020/2021;
- The HRA Business Plan which 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 increase of CPI plus 1% (as directed by the Housing White Paper 'Fixing our Broken Housing Market' 2017)
- Garage rent increase by 5% and the levelling out of tenant and non-tenant rates (internal decision)
- Service Charge increase (internal decision)

<u>Government implementations and changes to the budget that will directly impact on residents.</u>

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 increase

In October 2017, the Government announced in the Housing White Paper 'Fixing our Broken Housing Market', that social housing landlords are permitted to increase social and affordable rent by Consumer Price Index (CPI) plus 1% each year from April 2020 for a period of 5 years. This makes a return to the rent setting approach which was to apply for 10 year from 2015, before it was replaced with rent reduction from April 2016 for 4 years in 'Welfare Reform and Work Act 2016'.

From the April 2020 it is proposed to increase rents by CPI plus 1%. This is following 4 consecutive years of rent decreases for tenants.

Garage rents

In 2018, 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 2020/21 the baseline rent for Council tenants be raised by 30p to £9.88 at which point all rents will be equal. Following this, for all residents renting a garage will be subject to a 5% rent increase

Occupier	Current Annual Rent 18/19	New Weekly rent 19/20	New Annual rent 19/20
Council tenant	£507.74	£10.37	£539.42
Non Council tenant	£523.64 + VAT	£10.37 + VAT	£539.42 + VAT

It is estimated that this will generate an additional income of approximately £13,000 based on current letting rates.

Service Charges

Overall the average service charge for 2020/21 (excluding housing related support eligible charges), will increase by £0.02 pence per week. Appendix B details the percentage increase required against each type of projected weekly service charge in comparison to current charges.

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 £42,000 during 2020/21. These service charges over the next few years will increase in order to eventually fully recover true costs.

Some charges for Sheltered Housing are funded through a Housing Related Support fund via a Service Level Agreement (SLA). If this fund were discontinued, the charges would be payable by the tenants. As at November 2019 this would affect 216 tenants.

There will be no new additional service charges implemented in 2020/21 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 is held annually and this information is due to be presented at the Estate Champions meeting on 08 January 2020.

In addition, 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 2020/21 the latest date for posting the notices is 25 February 2020.

Universal Credit (UC) in Medway
UC has been 'live' in Medway since May 2018, and it currently affects new claimants and existing benefit claimants who have submitted a change in circumstances. Currently the HRA receives approximately 54.8% of rental income via Housing Benefit, of which 29.3% is in respect of working age tenants, and 25.2% of which is in respect of state pension age tenants. As at 21/10/2019 HB accounts for roughly £123,000 of our weekly rental income

In October 2018 the Government announced that the national migration date would now not be until 2024. As of October 2019 there were a total of 358 tenants receiving UC (this is an increase of 77% compared to the same time last year) It is well known that nationally the introduction of UC is leading to increased rent arrears and this is likely to continue as more claims move to the system.

Dwelling rent increase
Following four consecutive years of rent decreases this is likely to have a negative impact on residents paying rent. From April the proposed rental increase will raise the average weekly rent to £83.13 based on 52 weekly payments. This is a 2.7% increase compared to current levels.

The effect of the dwelling rent increase will have most impact on those tenants who are not on full housing benefit. As of 17/12/2019 around 29.6% tenants are on full housing benefit which is paid directly to the service, with the other 70.4% receiving either partial or no housing benefit. The proposed average increase range from £1.60 per week (or £53.60 annually) to £3.13 per week (or £162.76 annually) depending on the type and size of property.

The dwelling rent increase will however, impact the HRA Business Plan forecasts in a positive way potentially increasing budgets. It is estimated that over the next year the rent increase could generate an additional £42,237 of income based on 52 rent weeks.

Service Charges
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. If this fund were discontinued, the charges would be payable by the tenants. As at November 2019 this would affect 216 tenants.

Changes to Service Charges

Service Charge	Average Increase from 2019/20 to 2020/21	HB Eligible
Care Taking	-£0.18	Yes
CCTV	£0.03	Yes
Communal Electricity	£0.17	Yes
Grounds maintenance	£0.01	Yes
SHEL Cooker	£0.05	No
SHEL Fridge	£0.04	No
SHEL Heating	-£1.23	No
SHEL Heating communal	-£0.31	Yes
SHEL Helpline	£0.13	No
SHEL Lift	£0.06	Yes
SHEL Laundry	£0.03	Yes
TV Aerial	£0.0	Yes
SHEL Water	£0.04	No
SHEL Water communal	£0.00	Yes
SHEL Management	£0.72	Yes
Window cleaning	£0.01	Yes
Council tax	£0.63	Yes

For people on Housing Benefit, on average there will be a decrease of £0.75 on non-Housing Benefit eligible service charges. There are 27 tenants that are on Housing Benefits that will be worse off due to charges in non-Housing Benefits eligible charges (water, cooker etc.). Of these 27 people the increases range from £6.76 to £15.08 extra per year.

Garage Rents

As of 22 November 2019 there were 135 garages let to Council tenants and 261 garages let to non-Council tenants.

In April 2020 council tenants will have their garage rent increased by £0.30 to complete the process of aligning their rents with non-council tenants. A 5% increase will then be applied to all residents renting a garage from us.

Analysis shows that this is an increase of approximately £41.08 for council tenants and £25.48 for private (before VAT) compared to current charges. There are 8 Council tenants that have more than one garage linked to their tenancy so they will be liable for the increase for each garage tenancy.

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			
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 358 tenants on UC is £83,900 as at 7 October. 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.

Dwelling rent increase

The dwelling rent increase will be applied to all tenants equally and as previously stated this is more likely to affect those who are not on full housing benefit claims.

Currently there are a total of 1298 tenants who receive no housing benefit and are the group who will feel the greatest impact. Additionally, with the gradual move to Universal Credit it is likely there is the potential for this number to increase over the coming year. These households will need to be monitored particularly and preventative actions undertaken to avoid financial hardship.

Rent charges are based on the property type and size, so the dwelling rent increase will also have more impact on larger households (perhaps families with children) who typically will reside in the larger properties.

Garage rent increase

Analysis conducted in November 2019 shows that based on a 52 week rent year Council tenants with garages will see a further increase in their overall rent payment due to the garage rent alignment and the 5% rent garage increase. For tenants who have had garages prior to April 2018 the increase will be around £0.79 per week or £41.08 per year per garage.

There is less impact on those privately renting garages with the increase for them around £25.48 per year.

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). If this fund were discontinued, the charges would be payable by the tenants. As at November 2019 this would affect 216 tenants.

Overall there is an average decrease of £0.02 per week in service charges so in most cases the impact should be minimal. The biggest increase has been forecast as £8.63 and the biggest decrease £3.85. For 587 households overall service charges will decrease and for 880 there will be an increase.

It has been identified that there are 53 tenants where the increase will be equal to or greater than £1.00 (with the increase ranging from £67.60 to £448.76 extra per year). Of these, 7 do not currently have a HB claim so would be liable to pay this difference and these will need to be monitored by housing staff.

Summary of impacts

The majority of changes that will be brought into effect in the 2020/21 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 dwelling rent charges, service charges and garage rents have been increased there may be some negative impact on lower income groups. The HRA Housing Service will continue to monitor and provide support to those in terms of income and welfare.

Legislation brought in by Government around Universal Credit may have a negative impact on working age residents and lower income households. 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 next Estate Champion meeting due to be held on 8 January 2020.

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

Housing Services will need to proactively monitor the rent accounts of those households that will see an increase in their overall rent and/or service charges in 2020/21 and support offered to the tenants where necessary.

The rent arrears policy sets out the process that will be taken by Housing Services should a rent account fall into arrears and this is available on the internet.

Any household struggling with rent payments or requiring debt advice will be signposted to our Welfare Reform Team. Housing Services also 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.

The service can assist with property moves including mutual exchanges to ensure that residents live in a property that best meets their household's needs and size.

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.

Garage rent increase

Garage rent arrears are monitored on a weekly basis, should a tenant (council or private) fall into arrears then the Housing Management Team will make contact within 1 week. If an account is still in debt after 4 weeks then repossession process will start.

The deposit can be retained if the tenancy is terminated with arrears on the account.

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 January Estate Champion meeting	Policy and Partnership Manager	January 2020
If changes agreed, update the Rent Setting Policy to reflect everything highlighted in HRA Budget Report.	Policy and Partnership Manager	February 2020
Continue to identify, support and prevent financial hardship	Income Manager/Welfare Reform Team	Ongoing
Monitor all arrears associated with Rent, service charges and garages	Housing Manager/Policy and partnership Manager	Ongoing
Monitor the number of households on Universal Credit and the impact on rent arrears	Housing Manager/Policy and partnership Manager	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.

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**