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BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE

28 JANUARY 2021

HOUSING REVENUE ACCOUNT
CAPITAL AND REVENUE BUDGETS 2021/22

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Summary

This report presents the Housing Revenue Account (HRA) capital and revenue budgets for 2021/22 and provides details of proposed rent and service charge levels for 2021/22.

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

The comments of this Committee will be reported to the Cabinet on 2 February 2021 and Council on 18 February 2021.

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 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 2021/22 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 2021/22

3. Rent

3.1. The Government announced in the Housing White Paper ‘Fixing our Broken Housing Market’, in October 2017 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 results in 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’. Consequently, 2021/22 will be the second year of this increase.

3.2. MHCLG’s Policy Statement on Rents for Social Housing (issued Feb 2019) states that, at the start of a new affordable rent tenancy, the rent must not exceed 80% of the market rent (inclusive of service charges) and should not be lower than the potential formula rent. It can then be increased by the social housing rent policy each year. When a dwelling of affordable rent is relet to a new tenant, rent must be recalculated again to ensure new rent is no more than 80% of the market rent at that time.

3.3. Appendix A (social rent) and Appendix B (affordable rent) set out the details of the proposed average rent increase by property type, which is based on social and affordable housing rent, and is in line with Government’s current guidance as detailed above.

3.4. The increase in weekly rent of CPI (0.5% CPI for September 2020) plus 1% will result in an increase in budgeted rental income from dwellings against 2020/21 yearly rental income of £352,936. This increase includes budgeted rental income of £210,943 from 27 affordable rent properties that are to be purchased (26 new build affordable rent properties at Ingram Road and purchase of one property previously sold under right to buy), costing just over £5m from the budget of £10m that was approved by the Council on 16 July 2020 as well as from the buy-back budget.

3.5. The proposed charges will give an average rent of £84.38 per week for social rent and £151.75 per week for affordable rent, based on 52 weekly payments on current properties. This is an increase of 1.5% to 2020/21 proposed weekly rent.

3.6. September 2020 CPI of 0.5% is lower than previously expected and forecasted CPI of 1.5% in the business plan, reducing rental income by approximately £150,000 in 2021/22. This loss will continue to impact upon the business plan for the remainder of its 30 years, meaning that the HRA is negatively impacted by £150,000 every year compared to previous projections.

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

3.8. As of 1 April 2021, with the proposed increases implemented, Medway HRA will have moved 98.6% of their social rent dwellings to formula rent. This will leave 1.4% or 43 properties below the formula rent.

4. Garage Rents

4.1. Garage rents are currently £10.37 per week for both council and non-council tenants.

4.2. It is proposed that for 2021/22, the baseline rent for all tenants will be increased by 5% to £10.89 per week or £566.20 per annum (£10.89x 52 weeks). Non-council tenants will also pay VAT at the standard rate.

4.3. It is estimated that this will generate an additional income of approximately £11,654 based on current letting rates.

5. Service Charges

5.1. Service charges for 2021/22 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. Due to the price rise of a new contract two years ago, communal lift service charges have been capped at the agreed 15%. This has resulted in a total shortfall of £1,000 to fully recover the actual costs during 2021/22. If required, these service charges over the next few years will increase eventually to fully recover true costs.

5.5. Overall, the average weekly service charge increase for 2021/22 (excluding housing related support eligible charges), will be £0.04 per week (paid over 52 weekly basis) when compared with 2020/21. Appendix C details the average percentage increase/decrease required against each type of projected weekly service charge in comparison to 2020/21.

5.6. During 2019/20 funding to the HRA from the general fund for Homes for Independent Living services was reduced by £100,000. The HRA now provides the same level of service at a cost to the wider HRA budget. Proposals will be brought forwards in the remainder of 2020/21 as to how services will be charged in the future to ensure that HFIL provision remains sustainable.

5.7. As per previous years to ensure administrative expediency and efficiency it is proposed to continue the process of rounding service charges to the nearest 5p or 10p for 2021/22.

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 2020/21 was set at 0.37% of the rent debit, equating to £48,100.

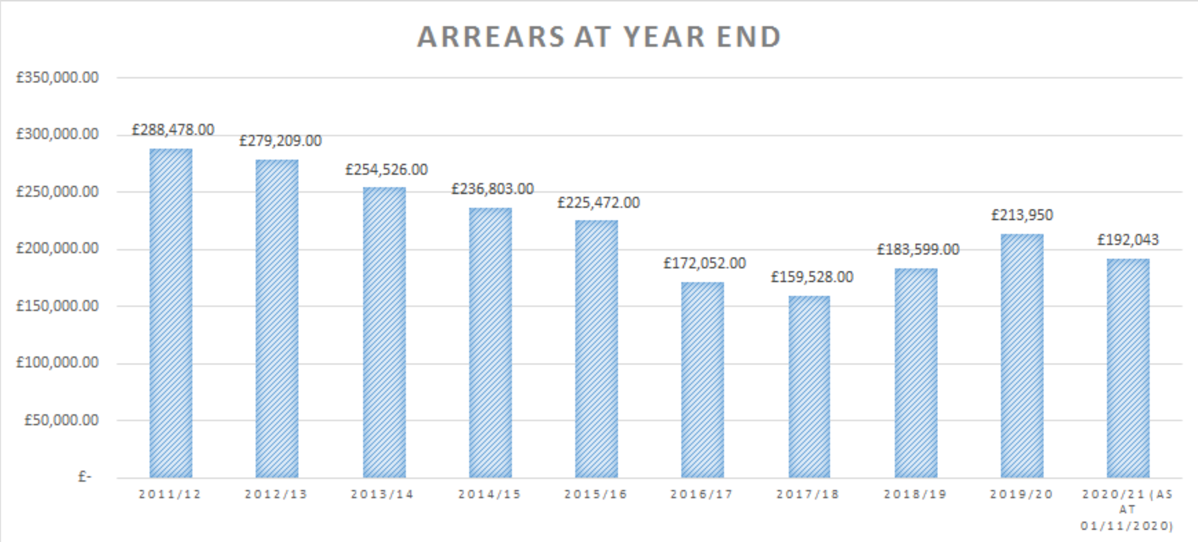
6.2.3 Provision for void rent loss for 2021/22 has been set at 0.35%, against the 2021/22 rent debit or in financial terms £45,500 based on 2020/21 R2 budget monitoring forecast. This gives a slightly lower rent loss, comparable with 2020/21 budgeted performance, as noted in the paragraph above.

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 favourable in terms of performance against other similar organisations.

6.3.3 The chart below shows the year-end comparison for current tenants' arrears in the general needs stock, including HFIL.



6.3.4 It is anticipated that current and former tenant rent arrears (rent and other housing related debt) at year end 2020/21 will be approximately £517,000.

6.3.5 As a result of effective income management, it is estimated that as at 31 March 2021, the projected yearly requirement for bad debt provision will be £424,000. Therefore, the bad debt provisions budget for 2021/22 will remain at £50,000 based on current year's performance

6.4 Universal Credit (UC)

6.4.1 UC has been 'live' in Medway since May 2018, and 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 end September 2020, there were 647 (23% of all tenancies) council tenants on UC.

6.4.2 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 01 November 2020, 70% of all current rent arrears are attributable to the 23% of council tenants on UC (total arrears, £192,000 of which £135,000 attributable to tenants on UC).

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 with the housing element of UC going 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 2021/22 financial year.

6.5.2 UC currently only affects working age claimants. Currently the HRA receives approximately 52% of rental income via Housing Benefit, (down from 54.8% over the same period last year) of these claims 27.5% is in respect of working age tenants, and 24.5% of which is in respect of state pension age tenants. As at November 2020, HB income accounts for approximately £130,600 per week or £6,791,000 per annum of projected income for 2020/21.

6.5.3 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.

6.5.4 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 2020/21 levels for 2021/22 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, staff salaries and cost of implementing various new regulations. 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.

7.2. Following the conclusion of a five-year external decorating programme last year, 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 will reflect this.

7.3. 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 £400,000 was allocated to allow for the procurement of a replacement housing management ICT system. Due to the delay in starting the project, £300,000 of this budget was moved to ICT reserves to be used during 2021/22.

7.4. For 2021/22, it has been agreed internally that there will be no uplift to the existing SLA recharges between the HRA and the General Fund (GF) services. Management fees for the planned decorating and capital maintenance programme, which is currently an 8% and 12.5% respectively are charged on the actual programme delivery.

7.5. 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.

7.6. Spend on voids budget for 2020/21 for works to bring properties to the let-able standard, has been static in the current year therefore the 2021/22 voids budget remains same as current year.

7.7. Planned maintenance to HRA stock is driven by stock condition data that determines when components need to be replaced or upgraded. Due to the increase in the planned capital programme, and to ensure that tenants homes are safe and repaired to a decent standard, an additional £1.1m budget will be required as a contribution to capital programme.

8. Housing Repairs

8.1. The repairs and maintenance contract that was awarded to Mears Ltd for a period of five years from 1 September 2014, concluded in August 2019, and has performed well both in terms of financial benefit to the Council and service delivery to residents. As a result of this excellent performance, this contract has been extended until August 2024. Through robust negotiation, under new terms of the contract, Mears Ltd will only receive an uplift on the contract, should the Building & Maintenance Index (BMI) rise above 5% in a year. It is currently estimated that BMI is not likely to go above 5% until the end of this contract, therefore over the extension period, the contract is projected to 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 2021/22 is anticipated as follows:

- Responsive maintenance £2.14m
- Planned/Capital maintenance £6.19m (excluding new build/acquisition and carried forward budgets)

8.4. This split will equate to 26:74 spend ratio for 2021/22. This is within the threshold to meet good practice guidelines of 30:70.

8.5 <u>Three-Year Capital Works Budget</u>

8.5.1 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 procure contracts for longer period 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. The current 3-year capital works budget will be complete at the end of 2020/21.

8.5.2 For the reasons set out above and that the current revised HRA Business Plan is sustainable, it is proposed that a new three-year capital works programme be approved as set out in the table below showing the projected 3-year (2021/22 to 2023/24) HRA capital works programme budget (including adaptations for tenants with disabilities and the new house building/acquisition programmes). Any under-spend/slippage on the 2020/21 planned maintenance, adaptations capital programme and new build/ acquisition capital programmes will be added to the 2021/22 capital programme.

8.5.3 Three year Planned and Capital Programme Budget.

	2021/22 £000	**2022/23 £000**	**2023/24 £000**
Planned Maintenance	£5,419	£5,175	£4,617
Disabled Adaptations	£200	£200	£200
Total	**£5,619**	**£5,375**	**£4,817**

8.5.4 Three-Year proposed Capital Programme Funding:

	2021/22 £000	**2022/23 £000**	**2023/24 £000**
Major Repairs Reserves	£3,608	£3,698	£3,791
Revenue Contribution to Capital	£2,011	£1,676	£1,026
Total	**£5,619**	**£5,375**	**£4,817**

8.5.5 Due to the delay in start of phase four new build programme until 2021/22, as well as carried forward from the new property purchases budget, 2020/21 round 2 capital budget monitoring forecast shows budgets carried forward to 2021/22 will be approximately £11.1m on the new build and house purchase budgets.

8.5.6 There will also be an underspend of £1.75m on planned maintenance capital programme. It is recommended that a budget of £1.4m from 2020/21 planned maintenance budget be reduced due to genuine underspend on various work streams in addition to carried forward contingency budgets from previous years. Funding relating to these underspends was utilised towards phase two and three new build programmes in previous years, to reduce the cost of interest payments on borrowed funds. If approved, this will reduce the carried forward planned maintenance budget for 2021/22 to £0.345m.

9. House Building Development Programme

9.1. Previous budget reports have detailed the previous three phases of HRA development. All previous programmes have been delivered from HRA reserves, borrowing and ring fenced Right to Buy (RTB) 1-4-1 capital receipts.

9.2. A budget approval was sought during 2019/20 budget build process (with further additional budget of £4.1m in year 2019/20) for a fourth phase of new development. In its most recent iteration this phase will deliver 28 houses/bungalows at 3 different sites within Medway. It is anticipated that the contractor will start on site during Q1 of the 2021/22 year and the programme will run for two years.

9.3. The removal of the debt cap provides a significant opportunity for Local Authorities to deliver additional rented, affordable housing. Officers have been working to establish a new theoretical headroom for the HRA to inform strategic targets for the HRA development.

9.4. Affordable housing delivery is predominantly achieved through the planning process, registered providers in Medway delivered 333 homes in 2019/20 with 180 forecast to be delivered in 2021/22. In addition to this delivery, the Council will aim to increase council owned housing by 1% year on year after projected right to buy sales over the next ten years. As the HRA has exhausted sites within existing ownership, further growth will be delivered through:

- Potential purchase opportunities. This relates to units that the HRA previously sold under RTB that have become available to re-purchase.
- Options to appropriate land and/or assets to the HRA from the general fund.
- Acquiring/purchasing private land to develop on.
- Purchasing units from the open market/S106 Units.
- Major estate regeneration.
- Joint ventures and partnership opportunities.

9.5 On 16 July 2020, the Council approved the addition of £10m budget to the HRA Capital Programme, in order to increase the stock of HRA affordable housing, funded from the borrowing against HRA rents, HRA reserves and Right to Buy 1-4-1 capital receipts or grant funding, where available. Officers are actively working to establish a pipeline of sites with a potential purchase of 26 units taking place towards the end of Quarter 3 2020/21.

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 2020, the working balance stood at £5.145m. For several years the actual HRA balance has exceeded the recommended good practice guideline of £450,000. This is similar to previous years and in excess of the guidelines, however, given that the balance of reserves is also designed to cater for future investment, it is recommended that a minimum reserve balance of £750,000 would be appropriate.

10.2 Round 2 (2020/21) budget monitoring predicts a balance at 31 March 2021 of £5.462m, with an estimated contribution of £0.123m to buyback a property previously sold under RTB.

10.3 The proposed 2021/22 HRA Budget as presented at Appendix D, produces a projected deficit of £0.353m for the year. The main reason for the deficit is an increase in the capital programme budget (see section 8 above). With a contribution funding of £0.241m to the buyback/acquisition budget, the budgeted revenue working balances will be £4.868m as of 31 March 2022.

11 Self-Finance Arrangements - Borrowing and Debt

11.1 To comply with Medway Council's provision for debt repayment policy, the HRA debt repayment or minimum revenue provision (MRP) is made on annuity basis. 2021/22 estimated MRP repayment will be £0.410m.

11.2 As per 2020/21 R2 budget monitoring, it is estimated that at 1 April 2021, the HRA opening debt will be £45.478m, subject to repayment of 2020/21 MRP payment of £0.340m. With further borrowing for phase 4 of new build and housing purchase programme and subject to 2021/22 MRP payment of £0.410m, closing debt for year 2021/22 is estimated to be £53.65m.

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 the 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 2020. 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 E. The assumptions are based on the following optional aspects:

- Rent will rise from 2020/21 by CPI plus a maximum of 1% and for the proceeding 4 years after. 2021/22 rent increase will be 1.5% (CPI 0.5%)
- Repayment of debt (MRP) is made on annuity basis.
- Current HRA operational front-line service model to be sustained.
- Increase in garage rents for 2021/22 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 that the HRA and its associated activities are sustainable over the next 30 years and that the overall trend is upwards towards the end of that 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 national 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 2019/20, 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 = 98.8% - top quartile
- % of Rent collected = 100.53% - top quartile
- % of current tenant arrears = 1.54% - top quartile
- Average re-let time = 21 days – median quartile
- % Void loss = 0.72% - median quartile
- % of dwellings with a valid gas safety certificate = 100% - top quartile
- % of repairs completed at the first visit = 99.9% - top quartile
- % of repair appointments kept = 98.57% - top quartile
- ASB cases per 1,000 properties = 8.69 – top quartile

13.3 Performance in relation to average relet times reduced from top quartile to median quartile in 2019/20. This issue is being discussed with Mears on a regular basis and benchmarking in Q1 of 2020/21 had seen a return to top quartile benchmarked performance.

14 Advice and analysis

14.1 A Diversity Impact Assessment (DIA) has been completed at Appendix F.

14.2 The DIA recommends that proposed budget with the actions detailed put in place to ensure that any adverse impacts are mitigated.

14.3 The majority of changes that will be brought into effect in the 2021/22 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.

14.4 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.

14.5 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 outside of the Council's control it will be up to the Council to implement the necessary mitigating actions to reduce this impact.

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 £4m (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.	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 Consultation

16.1 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 2021/22 the latest date for posting the notices is 3rd March 2021.

16.2 The Council has developed a resident engagement strategy detailing how officers consult and engage with tenants in partnership with tenants' forums. To ensure tenants are informed of the changes tenants will be consulted on any changes to their rents and service charges. Due to current restrictions this year consultation will be via an update pack for tenant representatives from the Estate Champions Group.

17. Climate change implications

17.1 The Council declared a climate change emergency in April 2019 - item 1038D refers and has set a target for Medway to become carbon neutral by 2050.

17.2 Housing stock represents a significant contributor to Co2 emissions. Improvement to the thermal efficiency and energy consumption of homes presents a significant opportunity to reduce emissions whilst also making homes warmer, more cost efficient and healthier for those that live in them.

17.3 The HRA continues to ensure that its properties have decent windows, doors, loft insulation as well as many other components that will help tenants to reduce the amount of energy they consume. Further work is taking place to assess how the HRA stock can become carbon neutral by 2050. It is expected that the cost of achieving this will be significant and difficult to achieve without subsidy from central government.

18. Financial implications

18.1 The financial implications are contained within the body of this report and the appendices.

19. Legal implications

19.1 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.

19.2 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.

19.3 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.

19.4 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.

19.5 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.

20. Recommendations

20.1 The Committee is asked to recommend to the Cabinet:

a) A proposed social rent increase of CPI plus 1% for the housing stock as set out in Appendix A (based on 52 collection weeks) with effect from 05 April 2021.

b) A proposed affordable rent increase of CPI plus 1% for the housing stock as set out in Appendix B (based on 52 collection weeks) with effect from 05 April 2021.

c) A proposed rent increase of 5% to be applied to all garage tenure types with effect from 05 April 2020 as stated in section 4.

d) That the service charges increases/decreases as set out in Appendix C of the report for 2021/22 be approved.

e) That the revenue budget for the HRA service for 2021/22 as per Appendix D be approved.

f) That the proposed 3 year planned maintenance capital programme budget and the funding be approved as set out in section 8.5.3 & 8.5.4.

g) To approve the reduction in 2020/21 planned maintenance underspend capital budget of £1.4m as set out in section 8.5.6.

h) That the provision for the repayment of debt based on annuity-based payment of £0.410m, on the HRA's outstanding debt for 2021/22 be approved.

i) That members approve the revised 30-year HRA Business Plan model as attached at Appendix E.

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Appendices

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

Background papers

None

Appendix A

AVERAGE WEEKLY SOCIAL RENT INCREASES BY PROPERTY TYPE (52 WEEKS)

Property Type	No of Properties	Actual Rent 2020/21	Formula Rent 2020/21	Proposed Rent 2021/22	Formula Rent 2021/22	Average Increase 2020/21 to 2021/22	Average Percentage Increase 2020/21 to 2021/22
Bedsit Bungalow	45	£66.00	£66.09	£66.99	£67.08	£0.99	1.5%
Bedsit Flat	67	£62.57	£62.57	£63.50	£63.50	£0.94	1.5%
1 Bedroom Bungalow	205	£76.92	£77.17	£78.08	£78.33	£1.15	1.5%
1 Bedroom Flat	474	£72.54	£72.55	£73.63	£73.64	£1.09	1.5%
2 Bedroom Bungalow	20	£93.73	£93.73	£95.14	£95.14	£1.41	1.5%
2 Bedroom House	492	£88.08	£88.11	£89.40	£89.43	£1.32	1.5%
2 Bedroom Flat	535	£80.92	£80.92	£82.13	£82.13	£1.21	1.5%
3 Bedroom Bungalow	2	£94.10	£94.10	£95.51	£95.51	£1.41	1.5%
3 Bedroom House	724	£98.18	£98.19	£99.65	£99.66	£1.47	1.5%
3 Bedroom Flat	109	£91.22	£91.45	£92.58	£92.82	£1.37	1.5%
4 Bedroom House	29	£106.65	£106.65	£108.26	£108.26	£1.60	1.5%
5 Bedroom House	2	£119.19	£122.87	£120.98	£124.71	£1.79	1.5%
Sheltered Bedsit for the Disabled	8	£60.68	£60.68	£61.59	£61.59	£0.91	1.5%
Sheltered Bedsit	184	£60.68	£60.68	£61.59	£61.59	£0.91	1.5%
1 Bedroom Sheltered	71	£68.43	£68.44	£69.46	£69.47	£1.03	1.5%
2 Bedroom Sheltered	6	£79.17	£79.47	£80.36	£80.66	£1.19	1.5%
3 Bedroom Sheltered	-	£0.00	£0.00	£0.00	£0.00	£0.00	0.0%
1 Bedroom Sheltered Bungalow	17	£71.03	£71.12	£72.10	£72.19	£1.07	1.5%
Overall Average*	**2,990**	**£83.13**	**£83.17**	**£ 84.38**	**£ 84.41**	**£1.25**	**1.5%**
*(Total rental income / total number of properties)							

Appendix B

AVERAGE WEEKLY AFFORDABLE RENT INCREASES BY PROPERTY TYPE (52 WEEKS)									
Property Type	Nujmber of Propertie s	2020/21 Local Housing Allowance	2020/21 Average Target Rent	2020/21 Actual Affordable Rent	2021/22 Local Housing Allowance	2021/22 Average Target Rent	2021/22 Proposed Affordable Rent	Average Increase 2020/21 to 2021/22	Average Percentage Increase 2020/21 to 2021/22
1 Bedroom Flat	6	£136.93	£80.63	£125.90	£136.93	£81.84	£127.78	£1.88	1.5%
2 Bedroom Flat	20	£172.60	£93.28	£155.11	£172.60	£94.68	£157.44	£2.33	1.5%
3 Bedroom Flat	1	£195.62	£105.22	£179.18	£195.62	£106.80	£181.86	£2.68	1.5%
Overall Average*	**27**	**£165.53**	**£90.91**	**£149.51**	**£165.53**	**£92.27**	**£151.75**	**£2.24**	**1.5%**
*(Total rental income / total number of properties)									

Appendix C

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY (52 Weeks)

	Average Weekly Service Charge 2020/21 (52 weeks) £	Proposed Percentage Increase/(decrease) for 2021/22 %	** Proposed Average Weekly Service Charge 2021/22 (52 weeks) £	weekly increase/ (decrease) fr 2021/21 to 2021/22 £	Projected (Surplus)/ Deficit 2021/22 £'000
a) Eligible for Housing Benefit					
Adult Services Facilities	0.00	0.0%	0.00	0.00	0
Estate Services (Caretaking)	4.77	7.5%	5.13	0.36	0
Communal Electricity	1.34	(2.2%)	1.31	(0.03)	0
Grounds Maintenance	0.61	0.1%	0.61	0.00	0
Sheltered Management	19.69	3.5%	20.37	0.68	0
Window Cleaning	0.33	4.9%	0.35	0.02	0
Council Tax	11.12	4.0%	11.56	0.44	0
Laundry Room Sheltered	0.47	10.6%	0.52	0.05	0
Laundry Room General	0.32	12.5%	0.36	0.04	0
Heating - Communal	1.04	(8.7%)	0.95	(0.09)	0
Water - Communal	0.90	(12.2%)	0.79	(0.11)	0
Communal Lifts	0.46	15.0%	0.53	0.07	1
Communal TV Aerials	0.05	0.0%	0.05	0.00	0
CCTV	1.44	0.0%	1.44	0.00	0
b) Not Eligible for Housing Benefit					
Cooker	0.44	0.0%	0.44	0.00	0
Fridge	0.44	0.0%	0.44	0.00	0
Heating - Residential	4.41	(8.3%)	4.05	(0.37)	0
Water - Residential	3.53	(11.5%)	3.13	(0.41)	0
Average sections a & b (weekly)	**2.85**		**2.89**	**0.04**	**1**
c) Housing Related Support Eligible Charges					
Sheltered Helpline	3.33	1.8%	3.39	0.06	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)	**4.93**		**4.95**	**0.01**	**0**
Average all sections (weekly)	**3.23**		**3.26**	**0.03**	**1**

Appendix D

HOUSING REVENUE ACCOUNT- BUDGET SUMMARY 2021/22	Budget 2020/21			R2 Forecast 2020/21			Proposed Budget 2021/22		
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			**(4,958)**			**(5,145)**			**(5,462)**
HOUSING MAINTENANCE	2,175	0	2,175	2,153	0	2,153	2,265	0	2,265
HOMES FOR INDEPENDENT LIVING	607	(2)	605	550	0	550	613	(2)	611
TENANCY SERVICES	1,496	0	1,496	1,475	0	1,475	1,520	0	1,520
ESTATE SERVICE	552	(4)	547	540	(4)	536	594	(4)	590
COMMUNITY DEVELOPMENT	142	0	142	140	0	140	144	0	144
CENTRALISED ACCOUNTS	248	0	248	235	0	235	239	0	239
CLIENT SIDE	2,095	(5)	2,090	1,952	(5)	1,947	2,052	(306)	1,746
CAPITAL DEVELOPMENT PROGRAMME	114	(64)	50	89	(64)	25	115	(65)	50
CAPITAL FINANCING	6,885	(10)	6,875	6,838	0	6,838	7,978	0	7,978
RENTAL INCOME	0	(14,163)	(14,163)	0	(14,109)	(14,109)	0	(14,546)	(14,546)
OTHER INCOME	0	(291)	(291)	0	(229)	(229)	0	(246)	(246)
Total HOUSING REVENUE ACCOUNT	**14,315**	**(14,539)**	**(224)**	**13,972**	**(14,412)**	**(439)**	**15,521**	**(15,169)**	**352**
Revenue Contribution to Capital Expenditure			**371**			**123**			**241**
HRA Working Balance C/F			**(4,811)**			**(5,462)**			**(4,869)**

Appendix E

MEDWAY COUNCIL
HOUSING REVENUE ACCOUNT BUSINESS PLAN 2020/21:
UPDATED REVIEW ON PROJECTIONS & CAPACITY

Introduction

This revisit of the plan comes after the last review of the plan undertaken in June 2020 taking into account the latest forecasts, assumptions and stock investment requirements.

The model is launched from April 2020 (2020.21 financial year) and runs for 30 years to March 2050. The first year of the plan is balanced exactly to the revised HRA Revenue Budget for 2020.21 based on the Round 2 and the HRA Capital Programme for 2020.21.

For 2021.22 the HRA Revenue Budget reflects the initial budget process for next financial 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 the Development Phase 4, a total investment in 28 new homes and the acquisition of 26 units in Ingram Road
- The latest capital investment requirements which total £197.2million (£153.8million without inflation and adjustment for stock losses and gains) on its existing properties
- Repayment of loans through an MRP mechanism, based on revised annuity values.

In terms of government policy, the plan allows for the latest social rent policy of four 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 – Baseline Position

In overall terms, the plan is able to be fully funded over the 30-year term, generating revenue surpluses in the HRA totalling **£44.4million**, and a closing debt balance of **£48.03million**. This compares to an opening HRA balance of £5.1million and debt of £41.3million. The plan, therefore generates the capacity to invest additional sums towards the delivery of new homes and/or improved services.

As part of this review we have modelled a scenario that takes into account the costs of development ensuring that stock numbers grow year on year by a net 1%, for 10 years, after allowing for right to buys and also implementing energy efficiency works.

Key Baseline 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 revised 2020.21 budgets and proposed budgets for 2021.21 to which the plan is based upon:

	2020.21	2021.22
Dwelling rents	12,896,808	13,232,921
Non-dwelling rents	238,106	208,004
Service charge income	1,118,893	1,314,532
Other income and contributions	15,200	35,525
Total income	**14,269,007**	**14,790,982**
Repairs & maintenance	2,152,967	2,264,616
Management (incl RRT)	4,858,172	4,850,810
Bad debts	50,000	50,000
Depreciation	3,850,000	3,608,085
Debt management	63,364	63,364
Total costs	**10,974,503**	**10,836,875**
Net income from services	**3,294,504**	**3,954,107**
Interest payable	(1,746,602)	(1,885,569)
Interest income	69,000	600
Net income/expenditure before appropriations	**1,616,902**	**2,069,138**
Set aside for debt repayment	(339,869)	(410,434)
Revenue contributions to capital	(960,202)	(2,251,276)
Allocation to/from other reserves	0	0
Other appropriations	0	0
Net HRA Surplus/(Deficit)	**316,831**	**(592,572)**
HRA Balance brought forward	**5,144,944**	**5,461,775**
HRA surplus/deficit	316,831	(592,572)
Use of Balances for Acquistion of Property	0	0
HRA Balance carried forward	**5,461,775**	**4,869,203**

The revenue contributions to capital allow for additional use of reserves to cover expenditure for acquisitions in 2020.21.

1. The model is launched with opening properties of 3,002 with right to buy sales adjusted to reflect the 12 projected in 2020.21, then 15 per annum for 4 years then reducing by 1 every five years throughout the plan – total loss 371 properties over the 30 years of the plan. Stock additions total 26 for Ingram Road and a further 28 in 2021.22 as part of Phase 4 of new development.
2. Net stock loss over the term is therefore 10%, though at this stage the model does not assume a reduction in base costs for management, repair costs for these losses (only capital works).
3. Average stock rents are £83.09/week at April 2020, increasing by 1.5% in April 2021, 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 forecast management costs for 2020.21 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 2022.23.
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. The required levels of works are summarised below and are without any inflation or uplift allowances.

Category	**Backlog**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**2024.25**	**Yrs 6-10**	**Yrs 11-15**	**Yrs 16-20**	**Yrs 21-25**	**Yrs 26-30**	**TOTAL**
Cost of Low Priority Works	£3,285,196	£949,280	£874,691	£1,321,586	£787,527	£1,112,241	£3,327,331	£2,110,512	£1,292,770	£1,825,872	£2,981,540	**£19,868,546**
Cost of Medium Priority Works	£2,876,744	£2,562,401	£1,813,634	£2,066,157	£1,522,068	£1,733,945	£4,133,679	£2,734,657	£2,634,045	£1,937,469	£2,625,644	**£26,640,443**
Cost of High Priority Works	£1,268,435	£2,630,660	£2,173,425	£2,514,085	£2,343,611	£3,263,824	£16,255,556	£16,500,263	£12,455,699	£13,237,001	£13,707,655	**£86,350,214**
Contingency		£200,000	£200,000	£200,000	£200,000	£200,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	**£6,000,000**
Fees	£928,797	£557,099	£557,719	£687,686	£531,651	£713,751	£2,714,571	£2,418,137	£1,797,814	£1,875,000	£2,164,355	**£14,946,579**
Total	**£8,359,172**	**£6,899,440**	**£5,619,469**	**£6,789,514**	**£5,384,857**	**£7,023,761**	**£27,431,137**	**£24,763,569**	**£19,180,328**	**£19,875,342**	**£22,479,194**	**£153,805,782**

8. For 2020.21 and 2021.22 we have matched the actual and provisional capital expenditure and funding for both investment in existing stock and new developments.

	2020.21	**2021.22**
Capital Programme (existing stock)	£5.638m	£5.963m
Purchases of New Stock	£5.355m	£4.645m
Acquisitions	£0.175m	£0.344m
New Developments (Phase 4)	£1.121m	£6.029m
Total	**£12.289m**	**£16.981m**

9. Shortfalls between expenditure in the table in note 7 above are factored into 2022.23 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 £197.2m throughout the plan (£153.8million at current prices) and equates to £51.2k 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 £1,282 per unit, which is adjusted for inflation on a unit-cost basis throughout the plan.
13. Rent income from the development is included, with a standard range of costs added to existing management, repair and investment budgets. Development and acquisition expenditure 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 4 years).
15. The average interest rate applied to the HRA debt level is c4% throughout. Any new borrowing as identified in the charts below is likely to be at c2-3%, therefore offering the potential for the overall interest rate to reduce. The average earned interest rate on credit balances is assumed to average 0.1% on all revenue balances then slowly rising to 1%
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 provided by officers. 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 a need to revisit this if future borrowing is required.

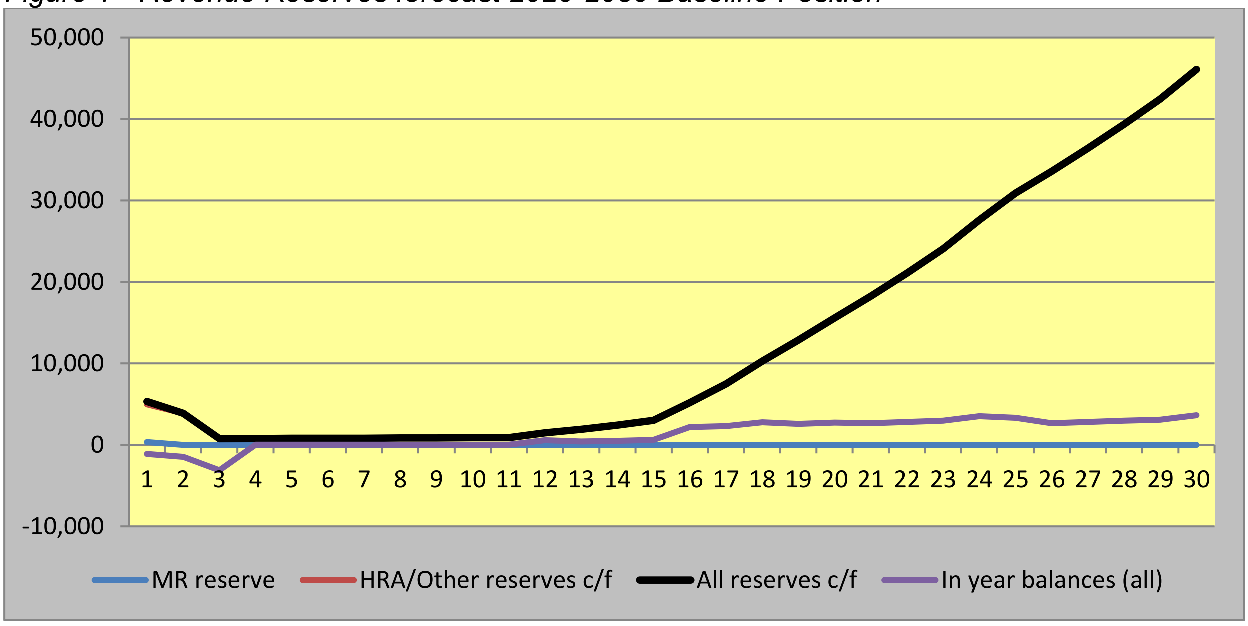
In summary, the assumptions made within the business plan are prudent without being excessively restrictive.

The Baseline 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 2020-2050 Baseline Position



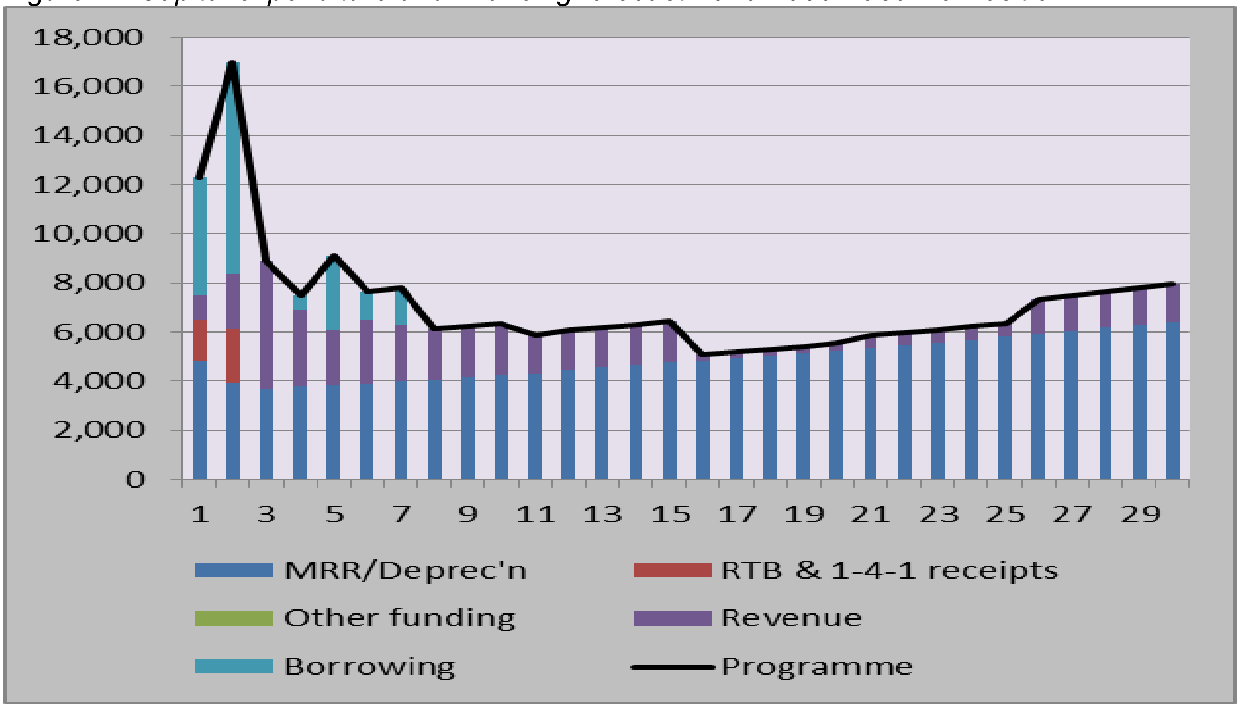
The main outputs from the revenue forecast are as follows.

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 £8.4million. 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).

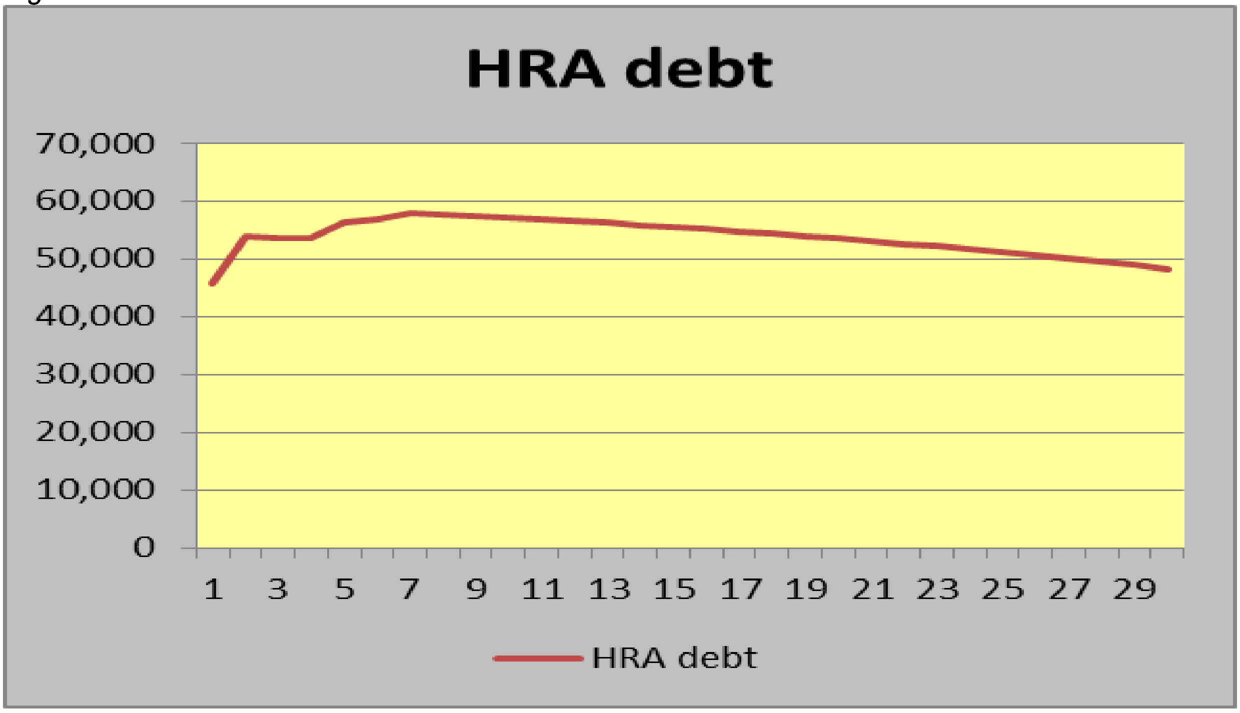
Figure 2 - Capital expenditure and financing forecast 2020-2050 Baseline Position



The capital forecast is fully financed as follows.

1. The total programme over 30 years is £197.2million (at outturn prices - which is £153.8million at today's prices), excluding the £17.7million budgeted for development and acquisition programme.
2. Between years 1 and 7 borrowing is required to cover the backlog of investment in the stock identified in section 7 above and development phase 4.

Figure 3 - HRA Debt forecast 2020-2050 Baseline Position



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. 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.
3. However, the plan provides for the repayment of c£12.8million of debt balances, set against borrowing of £19.7million during the term which is in addition to the generation of c£44million of revenue reserves. Taken together, this presents a positive position in that 92% of debt balances can potentially be covered (or repaid) over the duration of the plan, allowing for the HRA minimum balance requirement.

Impact of Growth to the Plan

Officers wish to assess the impact to the baseline position of a net growth of 1% of stock over a 10-year period.

This is results in a total of 253 units delivered from 2022.23 to 2030.31, in addition to the 28 properties within phase 4 and 26 properties acquired in Ingram Road, with expenditure split 50:50 where appropriate over the prior and year of delivery. The key assumptions are as follows:

Year	Scheme	Properties	Cost
2022.23 - 2030.31	Unidentified Sites	253	£63.25m*

*Note * Inflation excluded*

Subsidy by way of 1-4-1 receipts, assumed at 30% of development cost.
New Borrowing based on an adjusted interest rate of 2%
Rents: Based at affordable rent levels.
Operational Costs (per unit): Management £0, Service Costs £473 (flats only), Repairs £680 and Life-Cycle Costs £1,000 (year 11 onwards)

The key impacts are as follows:

Figure 4 - Revenue Reserves forecast 2020-2050 1% Net Growth in Properties (11 Years)

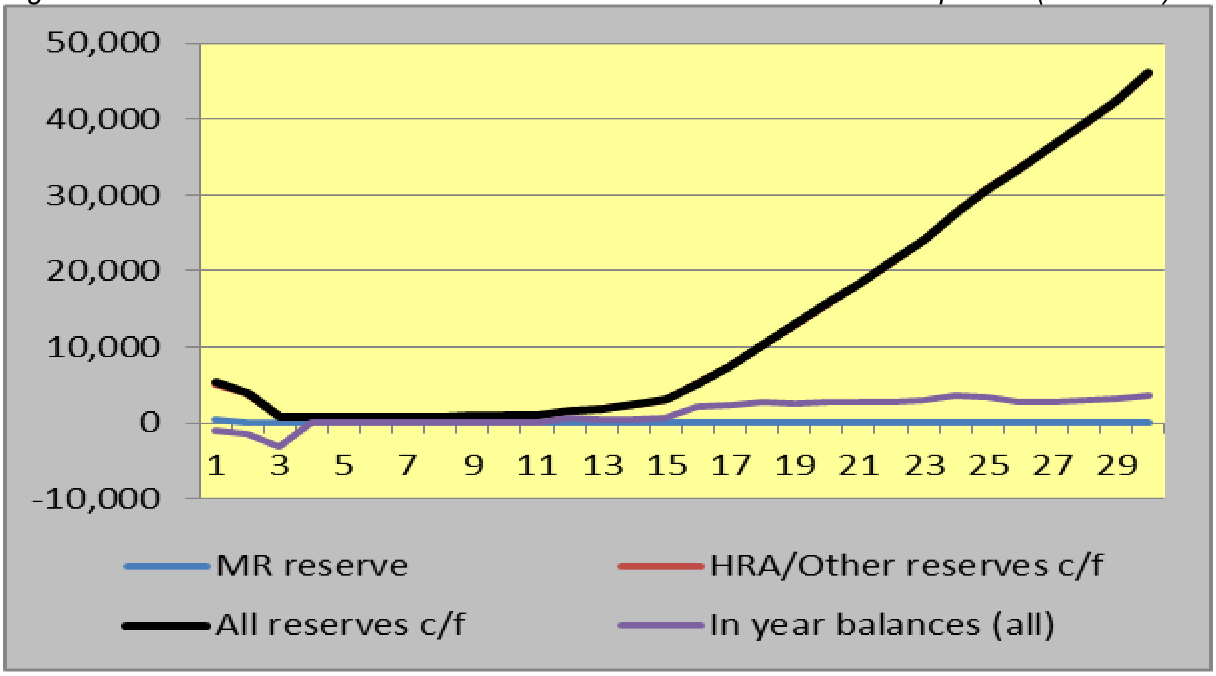
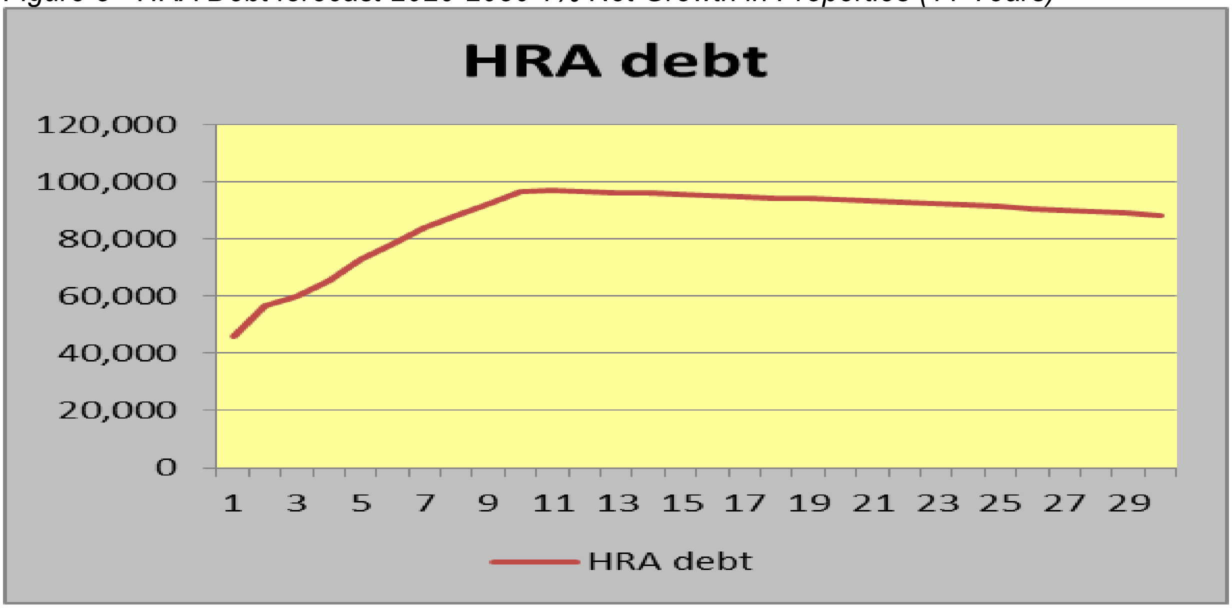


Figure 5 - HRA Debt forecast 2020-2050 1% Net Growth in Properties (11 Years)



In summary, HRA reserves balances increase on account of the net rental income and lower overall interest costs by £1.7million (£46.1million to £44.4million). However, the additional borrowing required increases the closing debt by £17.9million to £65.9million. The debt reduction in the above chart has replaced the annuity repayment mechanism with a straight 2% MRP approach.

Therefore, there is an overall combined negative net impact of £16.2million to the plan when combining both the revenue and debt position.

Capacity Analysis

The HRA debt cap represented an artificial constraint on borrowing set outside the HRA and linked to future income and cost assumptions which were made in 2012. The housing and financial policy environment has moved on considerably since then, however the only change in the debt cap that has been implemented was for a small minority of authorities that opted to bid for an increase in 2014.15.

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. In setting out its investment strategy, the council therefore needs to consider how it will take decisions on whether to invest, how to fund, the extent of new borrowing, and determine a framework within which decisions will be taken for the business plan overall, within the medium-term financial strategy and within successive budget rounds.

This report applies some metrics developed in the light of the experience of 40 years of successful private finance of housing associations, during which associations have developed hundreds of thousands of new affordable homes, without a single association ever going into default with any of its lenders.

This is not the only approach that can be utilised, for example the council will have an established approach to the setting of Prudential Indicators in the General Fund which it might wish to consider in the HRA context. However, as will be seen, looking at tried and tested principles from a privately financed sector in the HRA context provides a powerful and persuasive evidence base for a significant increase in funding for new HRA developments. Housing associations have traditionally been funded from long-term bank lending from the High Street banks and Building Societies. There is over £55billion of debt on HA balance sheets. Bank lending has been built on lending covenants which have become established in the marketplace and associated with the delivery of cheap debt. Whilst local authority borrowing is not directly secured on its asset base, the covenant approach provides a key insight into the viability and sustainability of borrowing as viewed by private lenders.

We have identified three covenants/ratios or metrics which we consider potentially relevant in the HRA context, set out below.

Interest Cover Ratio (ICR)

This is the ratio of operating surplus divided by interest costs and represents the cover that the HRA has against its interest cost liabilities in any year; the ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest. For housing associations, the usual definition of operating surplus is EBITDA (Earnings before Interest, Tax, Depreciation and Appropriations). The average ICR for the HA sector in 2018.19 was around 1.8; typical lending covenants vary between 1.10 and 1.50 depending on the size and nature of the HA, with 1.25 being a typical expectation.

For the HRA, this is best defined as:

- Turnover (dwelling rents, other rents, service charges, contributions)
- Less
- Operating Costs (general management, special management, other management, repairs & maintenance, major repairs)

For housing associations, depreciation is not a cash transaction. In the HRA, because of the treatment of depreciation as a cash transfer to the MRR plus or minus an adjustment to reflect actual transfers to MRR, it is essential to include the net amount transferred to MRR in the calculation. This represents the revenue expenditure on major repairs made legitimately as part of operating costs. Notwithstanding that these are subsequently treated as part of the capital programme, they are funded from revenue and property an operating cost. Whilst transfers to the MRR may not be spent in-year, our experience is that the majority of balances carried in the MRR tend to be from expenditure slippage.

The above definition of ICR works in the HRA context as it determines the revenue surplus before interest, appropriations, and other "below the line" adjustments.

Loan to Value (LTV)

This is an essential tool for private lenders where debt is secured against properties, hence theoretically against their value. The basis for valuation in HAs has been Existing Use Value (Social Housing) - EUV(SH) - for decades with many HAs and lenders now adopting Market Value Subject to Tenancy as a valuation. Typical covenants prescribe 65-70% maximum LTV.

For the HRA, borrowing is not directly secured against the properties. In addition, the EUV(SH) calculation prescribed by government is not cashflow based, but is based on vacant possession values discounted by a regional factor periodically published by the government.

LTV is best defined in the HRA context as Outstanding Debt / Fixed Asset Value. Debt is defined as the HRACFR as this is the amount that must be financed with interest payments in the HRA. Asset values include all assets, dwellings and non-dwellings, as all assets are included in the generation of net income cashflows in the HRA.

Whilst the LTV definition works for the HRA to an extent, the absence of a clear relationship between net rental income and asset values means that the ratio tends to deliver a "low" result, compared to HAs.

Gearing

The gearing ratio aims to capture the extent to which assets are financed through debt. HAs are evolving their practice alongside lenders with many beginning to focus on historic cost of assets as opposed to updated valuations. A higher-geared HA will have a higher proportion of funding of asset acquisition and development through debt (compared to reserves, grant or other resources). Banks see that as essential in ensuring that HAs are not "over-stretched" on their borrowing commitments. Gearing is set to a maximum, with 70% being typical.

There are obvious challenges in the HRA context in considering the use of historic costs for asset acquisition/development and also the extent to which assets have been financed from reserves or capital receipts over many decades. We have therefore proposed a "proxy" for gearing which aims to capture some sense of the development of reserves alongside asset value to provide an extra sense around capacity.

Gearing-proxy is defined in the HRA context as: Debt / (HRA Reserve + Major Repairs Reserve + any other Reserves not earmarked for specific purposes + Fixed Asset Valuations).

This results in a lower %age than LTV but the movement over time captures the growth in reserves and may offer more of a complete picture than LTV.

Others

There are other covenants and ratios that are utilised in the HA context, including in particular Asset Cover (broadly, the inverse of LTV). Lenders and HAs are tending to move away from this towards gearing as a key measure.

Another measure we have used for this analysis is the ratio of Debt to Turnover. This measures the level of turnover in relation to debt, which differs slightly from the ration used for assessing debtor balances against turnover. As a proxy we have suggested a ratio of 5:0, so that turnover can cover the level of debt outstanding by 5 times.

<u>Using the Metrics</u>

The application of each metric to the cashflows and balance sheet within the business plan will result a maximum constraint on borrowing.

In the HRA context, the projected constraint on borrowing will operate separately because of lack of direct dependency between net income streams and asset values and the level of debt. We would expect to see quite different results from each, and the extent to which the measures vary will offer additional insight into the viability and sustainability of new investment within the business plan.

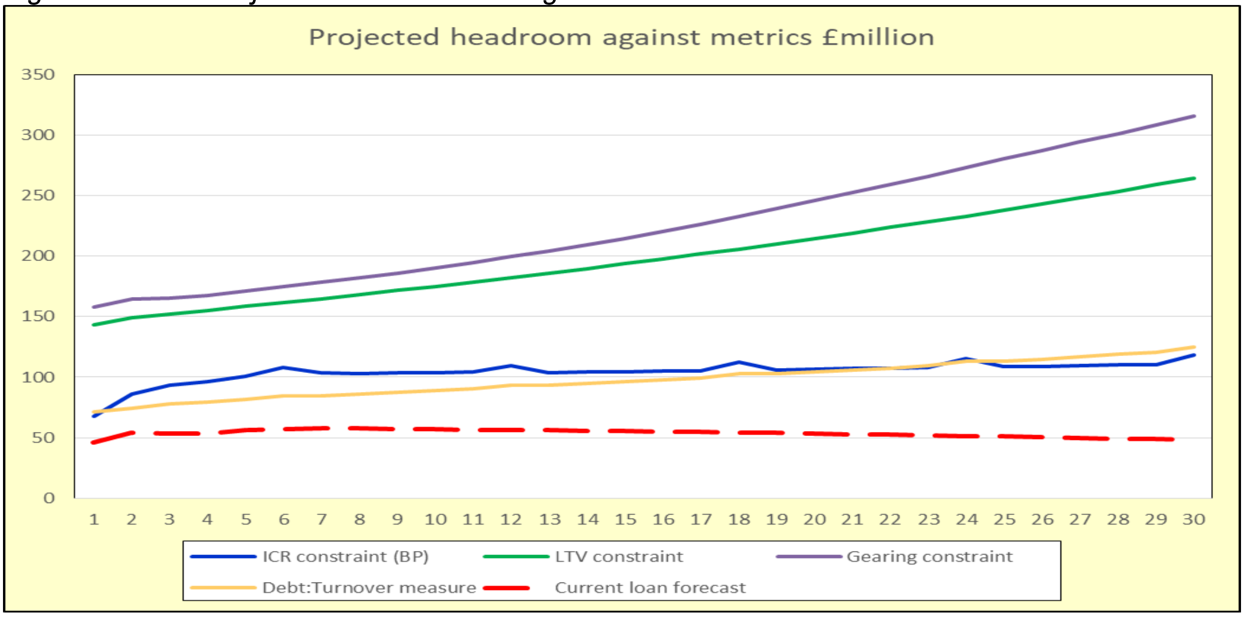
The maximum capacity will result from the lowest outcome from each of the four metrics and each will change over time. A forecast for all four illustrates potential capacity frameworks for Medway, however we have proposed that the key focus might be on the Interest Cover Ratio as this provides the most straightforwardly interpreted and practical measure.

We have taken the outputs from all three of the scenarios derived from the HRA Business Plan model and analysed these for the four metrics.

We have set minimum metrics as follows:

ICR	@ minimum 1.25
LTV	@ maximum 65%
Gearing-proxy	@ maximum 70%
Debt:Turnover	@ maximum 5:0

*Figure 8 - HRA Projected Headroom Using Assumed Metrics with the **Baseline** Position*

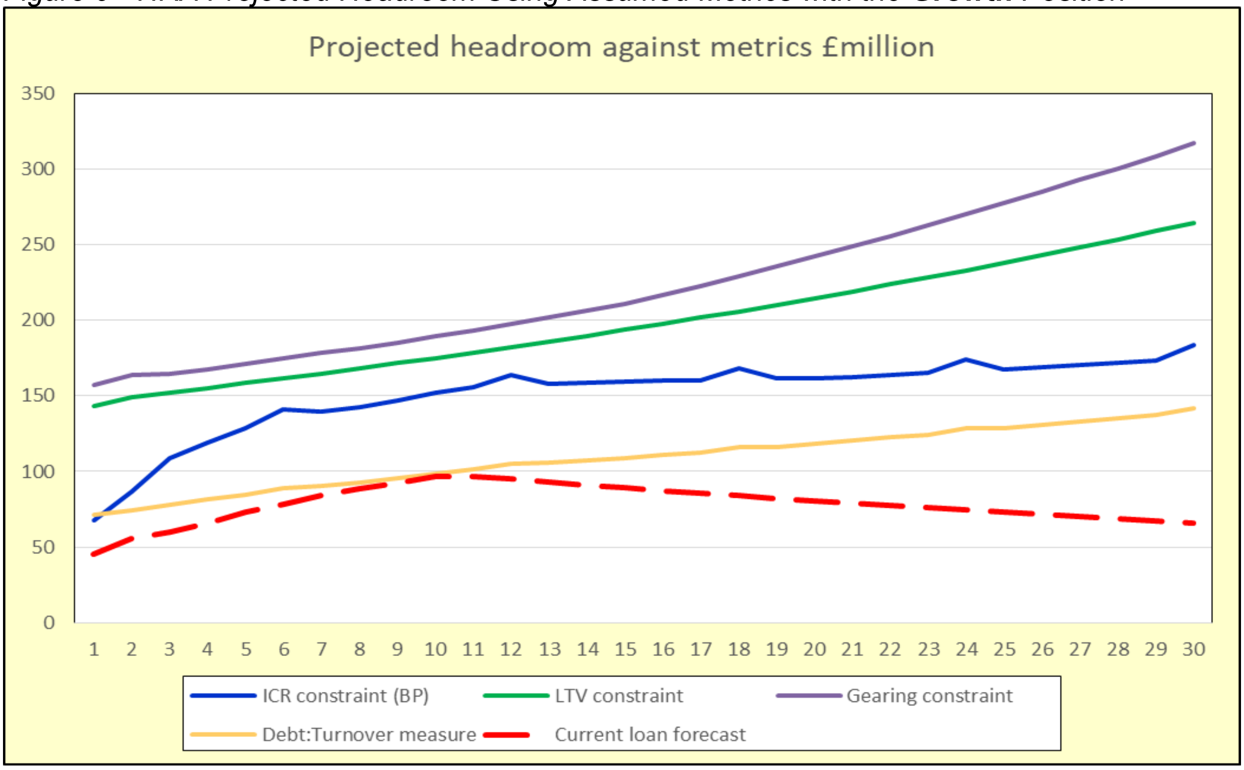


The red (dashed) line shows the projected loan balances without the inclusion of the 253 units, nor energy efficiency works.

This is set against the suggested borrowing headroom from the 4 metrics identified and minimum factors modelled.

Using the lowest borrowing constraint (debt:turnover) the minimum borrowing headroom is potentially £24million in year 3, and then continually increases.

*Figure 9 - HRA Projected Headroom Using Assumed Metrics with the **Growth** Position*



This graph represents the impact of the addition of 253 homes delivering the growth strategy.

The debt levels increase as demonstrated by the red line and virtually all borrowing headroom is utilised if using the debt: turnover metric.

Given that the model reflects the changes in debt levels, interest charges and net rental income there will be differing impacts on each of the suggested borrowing limits.

The baseline graph above shows lower borrowing limits than this with growth but the fact that the borrowing undertaken comes with an income stream to support the borrowing is reflected in the increase in limits.

Overall Summary

The briefing has covered the up-to-date position for the HRA business plan based on latest forecast, assumptions and stock investments needs.

It progresses to show the impact of delivering an additional 253 properties over a 11-year period on an assumed set of assumptions to both the forecast revenue and debt position.

Finally, we have provided our opinion as to whether the additional borrowing is deemed sustainable and prudent in terms of a series of suggested metrics. It is important to note that these are suggested and would require reviewing by the council’s finance team and in conjunction with Medway’s overall borrowing prudential indicators.

Further consideration should be given to impact to the above modelling in respect of the council’s aspirations in terms of becoming carbon neutral and the energy efficiency measures and associated investment required within the HRAs existing stock.

Appendix F

Diversity Impact Assessment

TITLE Name / description of the issue being assessed	HRA Budget Setting 2021/22
DATE Date the DIA is completed	December 2020
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 2021/2022 presents the Housing Revenue Account (HRA) revenue and capital budget for 2021/2022 and details and updates:

- On the proposed rent and service charges levels for 2021/2022;
- 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%
- 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 2021 it is proposed to increase rents by CPI plus 1%. 2020/21 will be the second year of this increase.

Garage rents
In 2018 it was agreed that garage rents would be aligned in a cascade approach. In April 2020 all garage rents were set at the same level regardless of tenure type.

As of November 2020, 72.7% of the 593 garages were let being charged the standard weekly rent.

For the 2021/22 year it is proposed to increase the garage rent by 5% to make a standard rent of £10.89. Non council tenants will also be required to pay VAT. It is anticipated that this will generate an additional income of approximately £11,654 based on current letting rates.

Service Charges
Overall, the average service charge for 2021/22 (excluding housing related support eligible charges), will increase by £0.04 per week. Appendix C details the percentage increase required against each type of projected weekly service charge in comparison to current charges.

Member's 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. Due to the price rise of a new contract two years ago, communal lifts service charges have been capped at the agreed 15% cap. Due to the cap on increase, the total shortfall to fully recover these costs will be £1,000 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 2020 this would affect 210 tenants. There are 110 tenants who receive SP payments towards their telecare alarm.

There will be no new additional service charges implemented in 2021/22 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. In the absence of meetings currently the relevant information will be put in to update packs which will be sent to tenant representatives from Estate Champions.

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 2021/22 the latest date for posting the notices is 3 March 2021.

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 52% of rental income via Housing Benefit. As at November 2020 HB accounts for roughly £130,600 of our weekly rental income

As of October 2020, there were a total of 623 tenants receiving UC (this is an increase of 54% 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 2021 the proposed rental increase will raise the average weekly rent to £84.38 based on 52 weekly payments. This is an increase of 1.5% 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 12/11/2020 around 27.7% tenants are on full housing benefit which is paid directly to the service, with the other 72.3% receiving either partial or no housing benefit. The proposed average increase is £1.25 per week depending on the type and size of property.

It is estimated that over the next year the rent increase could generate an additional £352,936 of income based on 52 rent weeks. This increase includes budgeted rental income of £205,751 from 26 new build affordable rent properties.

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 2020 this would affect 210 tenants.

Garage Rents
As of November 2020, there were 431 garages let.

In April 2021, it is proposed to uplift garage rents by 5% to £10.89 which is the equivalent to £0.52 or £27.04 over the 52-week year. Private tenants would also be subject to VAT.

There are a couple of tenants that have more than garage linked to their tenancy so they would be liable for the increase for each garage rented.

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?

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 623 tenants on UC is £83,900 as at 7 October 2020. 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 online. 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 1401 tenants (around 49.1%) 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
The beginning of the last financial year garage rents were aligned, so that council and non-council tenants were charged the same rent. The 5% uplift proposed for 2021/22 will be applied to all garage tenants equally. Private tenants will be subject to VAT.

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 2020 this would affect 210 tenants.

Any tenants identified as having an above average increase will be monitored to ensure these are paid and supported should any financial issues arise.

Summary of impacts

The majority of changes that will be brought into effect in the 2021/22 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. Due to current restrictions this year consultation will be via an update pack for tenant representatives from the Estate Champions Group.

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, newsletters, social media 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.

Due to current restrictions the Welfare Reform Team have suspended drop-in surgeries. It is anticipated these will resume when safe to do so, but in the meantime, tenants will be able to seek support from the team in a number of other ways.

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 2021/22 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	Policy and Partnership Manager	January 2021
If changes agreed, update the Rent Setting Policy to reflect everything highlighted in HRA Budget Report.	Policy and Partnership Manager	February 2021
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	**November 2020**