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CABINET

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HOUSING REVENUE ACCOUNT CAPITAL AND REVENUE BUDGETS 2022/23

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

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Summary

This report presents the Housing Revenue Account (HRA) capital and revenue budgets for 2022/23 and provides details of proposed rent and service charge levels for 2022/23.

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

The report was considered by the Business Support Overview and Scrutiny Committee on 25 January 2022. The comments of the Committee are set out at section 17 to the 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 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 2022/23 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 2022/23

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, 2022/23 will be the third year of this increase.

3.2. DLUHC’s (formerly MHCLG) 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. This rent then can 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. September 2021 CPI of 3.1% is higher than previously forecasted CPI of 1.5% in the business plan. Due to the high inflation and, as most tenants are already facing strains on their finances, it is therefore proposed that the increase should be reduced by 0.6% of the full allowed increase of 4.1% (September CPI of 3.1% plus 1%).

3.4. The increase in weekly rent of 3.5% will result in an increase of £356,267 in budgeted rental income from dwellings against 2021/22 yearly rental income. This increase includes budgeted rental income of £148,996 from 18 affordable rent properties. The total yearly budgeted rental income increase is lower than expected against 2021/22 budget as 2021/22 rental income budget was based on the assumption of purchasing 26 new build affordable rent properties at Ingram Road, however the actual number of this purchase was 17.

3.5. The proposed charges will give an average rent of £87.29 per week for social rent and £159.18 per week for affordable rent, based on 52 weekly payments on current properties. This is an increase of 3.5% to 2021/22 proposed weekly rent.

3.6. 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.

3.7. As of 04 April 2022, with the proposed increases implemented, Medway HRA will have moved 98.7% of their social rent dwellings to formula rent. This will leave 1.3% or 40 properties below the formula rent.

4. Garage Rents

4.1. Garage rents are currently £10.89 per week for both council and non-council tenants.

4.2. It is proposed that for 2022/23, the baseline rent for all tenants will be increased by 5% to £11.43 per week or £594.59 per annum (£11.43x 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 £12,243 based on current letting rates.

4.4. Members had previously requested how the price of a garage compares with other areas. Officers sought costs from seven providers across a range of areas in Kent and the Southeast and found the average price of a garage before VAT was 12.29 per week.

5. Service Charges

5.1. Service charges for 2022/23 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 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. However, some service charges are so small that even a one pence increase will go over this cap. Therefore, it is proposed to only allow the cap of 15%, or 10 pence, whichever is the greater.

5.4. All service charges are based on the actual costs and are under or at the cap of 15% or 10 pence except communal and residential heating due to the recent price rise in utilities. This has resulted in a total shortfall of £16,000 to fully recover the actual costs during 2022/23. If required, these service charges will increase over the next few years to fully recover true costs.

5.5. Overall, the average weekly service charge increase for 2022/23 (excluding housing related support eligible charges), will be £0.09 per week (paid over 52 weekly basis) when compared with 2021/22. Appendix C details the average percentage increase/decrease required against each type of projected weekly service charge in comparison to 2021/22.

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.

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 2022/23.

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 2021/22 was set at 0.35% of the rent debit, equating to £45,500.

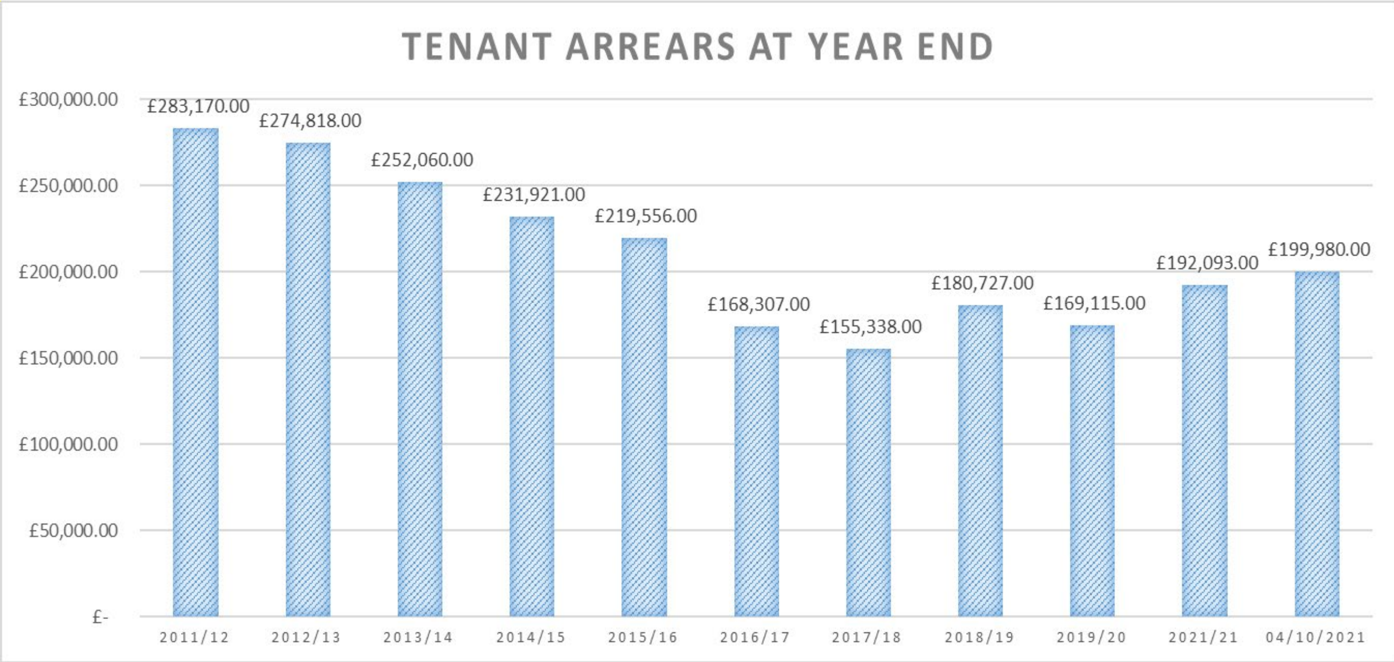
6.2.3. Provision for void rent loss for 2022/23 has been set at 0.49%, against the 2022/23 rent debit or in financial terms £66,572 based on 2021/22 R2 budget monitoring forecast. This gives higher rent loss, comparable with 2021/22 budgeted performance as noted in the paragraph above. Increase in void rent loss is due to the continuous challenges of shortage of repairs material and labour caused by the Covid19 pandemic and other external factors.

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 must 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 2021/22 will be approximately £546,000.

6.3.5. As a result of effective income management, it is estimated that as at 31 March 2022, the projected yearly requirement for bad debt provision will be £425,000. Therefore, the bad debt provisions budget for 2022/23 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 the end of September 2021, there were 801 (27.3% 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 4 October 2021, 69.5% of all current rent arrears are attributable to the 23% of council tenants on UC (total arrears, £195,833 of which £133,972 attributable to tenants on UC).

6.4.3. 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 financial year 2022/23.

6.4.4. UC currently only affects working age claimants. Currently the HRA receives approximately 40% of rental income via Housing Benefit, (down from 52% over the same period last year). As at October 2021, HB income accounts for approximately £107,726 per week or roughly £5,601,761 per annum of projected income for 2021/22.

6.4.5. 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.

6.4.6. 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 2021/22 levels for 2022/23 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. 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

7.3. It has been agreed internally that due to the time difference in preparing the HRA and the GF budgets, the existing SLA recharges between the HRA and the General Fund (GF) services will remain the same as 2021/22 for 2022/23 HRA budget. However, these will be reviewed during the GF budget build and any changes will then be reflected in the HRA budget. Any increase/decrease will be shown as an unidentified expenditure/savings to ensure correct SLA's are charged to the HRA based on the actual costs.

7.4. From 2021/22, HRA has started to manage the planned decorating and capital maintenance programmes inhouse, therefore there will be no management fees to the Building and Design Services which were an 8% and 12.5% respectively. Savings from these fees will cover additional resources required to manage these programmes by the HRA.

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 2021/22 for works to bring properties to the let-able standard, has increased. Further work is needed to analyse this area of spend and agree a way of reflecting genuinely increased costs, therefore the 2022/23 voids budget remains same as the current year but will be reviewed through 2022/23.

7.7. Planned maintenance to HRA stock is driven by stock condition data that determines when components need to be replaced or upgraded. To ensure that tenants homes are safe and repaired to a decent standard, £1.49m budget will be required as a contribution to the capital programme for 2022/23.

8. Housing Repairs

8.1. The repairs and maintenance contract that was awarded to Mears Ltd for a period of five years from 01 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 2022/23 is anticipated as follows:

- Responsive maintenance £2.03m
- Planned/Capital maintenance £5.74m (excluding new build/acquisition and carried forward budgets)

8.4. This split will equate to 26:74 spend ratio for 2022/23. This is within the threshold to meet good practice guidelines of 30:70.

8.5. Three-Year Capital Works Budget

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 internal resource until formal budget approval was obtained. This approach also led to lost opportunities of not being able to procure 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 reduction in administrative costs.

8.5.2. 2022/23 will be the second year of the current three-year planned maintenance and disabled adaptations capital works programme (2021/22 to 2023/24) as set out in the table below that was approved in 2021/22 budget build. Included in the table is additional budget that is required for fifth phase of the HRA new build programme. Any under-spend/slippage on the 2021/22 planned maintenance, adaptations capital programme and new build/ acquisition capital programmes will be added to the 2022/23 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	£4,975	£4,417
Disabled Adaptations	£200	£200	£200
New build programme	£0	£8,200	£0
Total	**£5,619**	**£13,375**	**£4,617**

8.5.4. Three year proposed Capital Programme Funding:

	2021/22 £000	2022/23 £000	2023/24 £000
Major Repairs Reserves	£3,608	£3,687	£3,779
Revenue Contribution to Capital	£2,011	£1,488	£838
Borrowing	£0	£5,330	£0
Contribution from 1-4-1 RTB Capital Receipts for new build/ acquisition programmes	£0	£2,870	£0
Total	**£5,619**	**£13,375**	**£4,617**

8.5.5. Due to the delay in start of phase four new build programme until 2021/22, as well as the, carried forward, new property purchases budget and planned maintenance programme budget, 2021/22 round 3 capital budget monitoring forecast shows budgets carried forward to 2022/23 will be approximately £8.6m.

8.5.6. It is recommended that surplus budget of £1.3m (included in carried forward as mentioned above) from Phase 4, to be added to the new budget stated in the table in 8.5.3 for Phase 5 as the total estimated required budget for phase

5 will be £9.5m to build approximately 40 new affordable rent properties on two sites, subject to planning approval.

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. Works started in Summer 2021 and the contract is expected to complete November 2022.

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 2020/21 with 232 forecasted 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. 17 units were purchased during 2020/21 at a cost of £3.786m and the remainder will be utilised to explore further opportunities.

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 2021, the working balance stood at £5.4m. 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 (2021/22) budget monitoring predicts a balance at 31 March 2022 of £4.87m, with an estimated contribution of Nil to buyback properties previously sold under RTB.

10.3. The proposed 2022/23 HRA Budget as presented at Appendix D, produces a projected surplus of £0.202m for the year. With a contribution funding of £0.231m to the buyback/acquisition budget, the budgeted revenue working balances will be £4.84m as of 31 March 2023.

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. 2022/23 estimated MRP repayment will be £0.427m.

11.2. As per 2020/21 R3 budget monitoring, it is estimated that on 01 April 2022, the HRA opening debt will be £51.5m, subject to repayment of 2021/22 MRP payment of £0.410m. With further borrowing for phase 5 of the new build and housing purchase programmes and subject to 2022/23 MRP payment of £0.427m, closing debt for year 2022/23 is estimated to be £55.5m.

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 2021. The HRA Business Plan has recently been revised by Savills Housing 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 2023/24 by CPI plus a maximum of 1% and for the following year after. Beyond 2025/26 rents will increase by CPI only. The 2022/23 rent increase will be 3.5%.
- Repayment of debt (MRP) is made on annuity basis.
- Current HRA operational front-line service model to be sustained.
- Increase in garage rents for 2022/23 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. 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 2020/21, a summary of results is as follows:

- Satisfaction with the last repair = 98.5% - top quartile
- Average days taken to complete repairs = 7.04 days – top quartile
- % of Rent collected = 100.72% - 2nd quartile
- % of current tenant arrears = 1.4% - top quartile
- Former tenant arrears = 1.28% 3rd quartile
- Average re-let time = 32 days – 2nd quartile
- % Void loss = 2.4% - 4th 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 = 99.237% - top quartile
- ASB cases per 1,000 properties = 18.72 – top quartile

Source: Housemark (All providers with a stock size 2,500 to 5,000)

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 2022/23 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. Covid-19 pressures on budget.	Arrears escalate above predicted 'bad debt' provision. The financial impact of Covid 19 may impact budget 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 Officers continue to identify budget savings. Assist with and promote support for tenants. .
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.
Changing regulation and national targets	Changes to regulation from the regulator of social housing, further changes to the decent home's standard and energy efficiency targets	Maximise opportunities to attract external funding to offset considerable energy expenditure. Review existing information and planned work programs to ensure they are aligned to targets.

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 2022/23 the latest date for posting the notices is 3rd March 2022.

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. A meeting was arranged to present the budget proposals for 2022/23 and consult with our Community Representatives Group in January. Given the imposing of current national restrictions this meeting was due to be held virtually and information distributed to those who are unable to attend.

17. Business Support Overview and Scrutiny Committee

17.1. The Business Support Overview and Scrutiny Committee considered the report at its meeting on 25 January 2022 and its comments are set out below:

17.2. **Discussion:**
The Committee considered a report presenting the Housing Revenue Account capital and revenue budgets for 2022/23 which provided details of proposed rent and service charge levels. It also contained the latest revised forecasts of the HRA Business Plan.

17.3. Members raised a number of questions and comments which were responded to by the Head of Strategic Housing as follows:

17.4. **Three-Year Capital Works Budget:** The lost opportunities referred to in the report referred to the previous arrangement whereby the capital works budget was set on an annual basis. This had prevented rationalisation and cost savings which were now possible under the current three-year programme.

17.5. **What was the progress of the Housing Building Development Programme?:** The Council was aiming to increase its stock by 1% year on year and referred to the three sites in Twydall which were at the early stages of development.

17.6. **What support was given to tenants in light of the reduction in Universal Credit and increase in energy prices?:** This was acknowledged as a challenge in terms of rent arrears; the Housing and Finance teams worked closely to ensure eligible tenants received the housing support grant. Investment in housing stock improvements was reducing energy costs, for example the installation of energy efficient boilers.

17.7. **How many properties were available through right to buy:** The HRA business plan models for 15 units a year to be lost through the right to buy, this was increased from 10 units for more recent iterations of the plan.

17.8. **How was the 5 year rolling Mears contract monitored?:** This had been 5 year contract with an option to extend for 5 years. There would be a retendering exercise next year and tenants' views would be sought.

17.9. **How were residents' expectations managed when they were consulted?:** Assisted by the Estate Champions, the Council always sought to explain the detail behind decisions to residents to ensure a greater understanding of what it was seeking to achieve.

17.10. **Were smaller social landlords encouraged not to increase rents?:** Members welcomed the decision of MHS not to increase rents and were advised that discussions had been held with smaller social landlords although the position on rent increases was mixed.

17.11. **Greater mitigation measures were needed to address rent arrears:** Benchmarking had showed that the Council was in a positive position in this regard; it was doing all it could to ameliorate the situation.

17.12. **What was the rational for the Council's 3.5% increase in rent?:** The business plan modelled an increase of 2.5% each year; last year's increase was 1.5% so this year's increase brought it back in line with the planned increase.

17.13. **What was the latest position on void properties?:** Workforce self-isolating as a result of the pandemic had restricted the amount of work that could be done to bring void properties up to standard within acceptable timescales, there were also broader national issues with materials and labour. The Council would continue to work with Mears to improve the position.

17.14. **Decision:**

The Committee recommended to the Cabinet:

a) A proposed social rent increase of 3.5% (which is below the allowed CPI of 3.1 plus 1%) for the social rent housing stock as set out in Appendix A (based on 52 collection weeks) with effect from 04 April 2022.

b) A proposed affordable rent increase of 3.5% (which is below the allowed CPI of 3.1 plus 1%) for the affordable rent properties as set out in Appendix B (based on 52 collection weeks) with effect from 04 April 2022.

c) A proposed rent increase of 5% to be applied to all garage tenure types with effect from 04 April 2022 as stated in section 4.

d) That the service charges increases/decreases as set out in Appendix C of the report for 2022/23 be approved.

e) That to allow the service charges cap of 15%, or 10 pence, whichever is the greater.

f) That the revenue budget for the HRA service for 2022/23 as per Appendix D be approved.

g) That the proposed new budget of £8.2m (as set out in section 8.5.3 & 8.5.4) and a virement of £1.3m from phase 4 budget be approved for Phase 5 new build programme.

h) That the provision for the repayment of debt based on annuity-based payment of £0.427m, on the HRA's outstanding debt for 2022/23 be approved.

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

18. Climate change implications

18.1. [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.

18.2. 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.

18.3. 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.

18.4. As highlighted in the business plan review, it is estimated that approximately £20,000 will be needed per property for it to become carbon neutral and expected expenditure of over £60m to achieve this across all of the housing stock. Officers are continuing to assess the areas in the most need of new measures following the nationally accepted “worst first” approach and have instructed for 250 EPC’s to be undertaken to improve data held on these properties. Through 2022/23 officers will continue this work and seek to access funding to support a broader programme of works.

19. Financial implications

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

20. Legal implications

20.1. 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.

20.2. 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.

20.3. 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.

20.4. In considering the recommended rent adjustments and other matters proposed in this report, and making its recommendations to Full Council, the Cabinet is exercising a public function. It must therefore comply with the duties in section 149 Equality Act 2010 to have 'due regard' to the need to eliminate discrimination, advance equality, and foster good relations between those with a protected characteristic (pregnancy and maternity, age discrimination, disability, gender reassignment, marriage and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it. A Diversity Impact Assessment is annexed to this report at Appendix E to assist the Cabinet to fulfil these duties.

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

21. Recommendations

21.1. The Cabinet is asked to note the comments of the Business Support Overview and Scrutiny Committee, as set out in section 17 of the report.

21.2. The Cabinet is asked to recommend the following to full Council for approval:

a) A proposed social rent increase of 3.5% (which is below the allowed CPI of 3.1 plus 1%) for the social rent housing stock as set out in Appendix A (based on 52 collection weeks) with effect from 04 April 2022.

b) A proposed affordable rent increase of 3.5% (which is below the allowed CPI of 3.1 plus 1%) for the affordable rent properties as set out in Appendix B (based on 52 collection weeks) with effect from 04 April 2022.

c) A proposed rent increase of 5% to be applied to all garage tenure types with effect from 04 April 2022 as stated in section 4.

d) That the service charges increases/decreases as set out in Appendix C of the report for 2022/23 be approved.

e) That to allow the service charges cap of 15%, or 10 pence, whichever is the greater.

f) That the revenue budget for the HRA service for 2022/23 as per Appendix D be approved.

g) That the proposed new budget of £8.2m (as set out in section 8.5.3 & 8.5.4 for 2022/23) and a virement of £1.3m (in 2021/22) from phase 4 budget be approved for Phase 5 new build programme.

h) That the provision for the repayment of debt based on annuity-based payment of £0.427m, on the HRA's outstanding debt for 2022/23 be approved.

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

22. Suggested Reasons for Decision

22.1. 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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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 2022/23
Appendix E – Summary of HRA Business Plan
Appendix F – Diversity Impact Assessment

Background papers

None