

- BODY:** CABINET
- DATE:** 6 February 2013
- SUBJECT:** HRA Revenue Budget and Rent Setting 2013/14 and HRA Capital Programme 2012/16
- REPORT OF:** Senior Head of Community and Chief Finance Officer
- Ward(s):** All
- Purpose:** To agree the detailed HRA budget proposals, rent levels, service charges and heating costs for 2013/14, and the HRA Capital Programme 2012/16.
- Contact:** Pauline Adams, Financial Services Manager
Tel 01323 415979 or internally on ext 5979
- Recommendations:** Members are asked to recommend the following proposals to full Council:
- i) The HRA budget for 2013/14 and revised 2012/13 as set out in **Appendix 1**.
 - ii) Rents are set in line with the rent convergence target of 2016 set by Government resulting in an average increase of 4.3%.
 - iii) Service charges for general needs properties are increased by 2.2% slightly below the RPI index in order to recover actual costs.
 - iv) Service charges for the Older Persons Sheltered Accommodation currently available for let are increased by 4.3% in order to recover actual costs.
 - v) Water charges are set at a level designed to recover the estimated cost of metered consumption.
 - vi) Garage rents are set to increase by 4.3% in line with the average increase in housing rent.
 - vii) To give delegated authority to the Senior Head of Community, in consultation with the Cabinet Portfolio holders for Community Services and Financial Services and the Chief Finance Officer to finalise Eastbourne Homes' Management Fee and Delivery Plan.
 - viii) The HRA Capital Programme as set out in **Appendix 2**.

1.0 Introduction

- 1.1 As from the 1 April 2012 the way that council social housing is financed was changed and the Housing Revenue Account (HRA) became self financing.

This means that expenditure has to be entirely supported from rental and other income. The main tool for the future financial management of the HRA is the 30 year Business Plan which was approved by Cabinet on 8 February 2012.

- 1.2 The introduction of HRA self financing does not end the requirement to maintain a statutory ring fenced HRA and the council is still required to maintain a separate account for the income and expenditure on council housing.
- 1.3 This report reflects the recommendations made by Eastbourne Homes Limited (EHL) in relation to the increases in rent levels, service and other charges.

2.0 2013/14 HRA Revenue Budget

- 2.1 The 2013/14 budget has been prepared following the principles adopted within the HRA 30 year Business Plan.
- 2.2 The 2013/14 budget is showing a deficit of £103,150 which is mainly due to the one off factors of having 53 rent weeks in the year and a revenue contribution to capital. Without these additions the account would be in surplus by £115,000, representing just 0.92% of gross expenditure. This means that after taking into account the risks on inflation, interest rates, rents and benefits changes it continues to be essential that the HRA adopts a long term efficiency plan over the next few years in order to protect services to tenants and ensure continued best value.
- 2.3 The major changes between the 2012/13 and the 2013/14 budgets are:

Income increases and expenditure reductions:

- Effect of rent and service charge review -£511,450
- Extra rent week -£250,000
- Continuing effect of lower interest rates -£104,150
- Fall out of premia for early debt repayment in prior years -£76,900
- Preliminary reduction in EHL Management Fee -£200,000

Increase in expenditure

- Increase in provision for bad debts, as a result of increased risk to rent collection from benefit changes £339,100
- Council Tax on sheltered accommodation remaining empty £179,330
- EHL commissioned regeneration activity £200,000
- Under occupation scheme £35,000
- Revenue Contribution to Capital £468,150

- 2.4 The 30 year HRA Business Plan allows for a revenue contribution to support capital expenditure for the three years 2013/14 to 2015/16 based on the asset management spending requirements peaking over these years until decreasing again by year five of the business plan. After this time surpluses begin to accumulate in the Major Repairs Reserves (MRR), as the cash backed depreciation allowance of £4m per year will start to exceed the capital spending requirements.

- 2.5 The total HRA debt outstanding is £37m of which £30m external debt and is at fixed interest rates. The remaining £7m is internally borrowed from reserves. Cash flow projections indicate that this internal borrowing will have to be replaced during 2013/14 by external debt and therefore is subject to the risk of future interest rate increases. The Council's treasury management advisors are predicting that the current low levels of interest rates will continue into 2013/14 and the budget has been prepared on this basis.
- 2.6 The HRA outturn for 2012/13 is expected to deliver a £16,000 surplus a positive variance of £77,000 over the original budget (0.6% of gross expenditure).
- 2.7 The HRA Business Plan is based on a policy for a minimum level of HRA balance of £1m to maintain a prudent level of reserve to ensure that the HRA remains sustainable in the longer term and is able to deal with any risks posed by the current economic climate. The current level of balance will decrease in the short term in order to support the capital programme but will start to increase again from 2016/17 onwards. The balance remains above the recommended minimum throughout.

The balances on the HRA and MRR are as follows:

	HRA £,000	MRR £,000
Balance at 1.4.12	2,001	1,077
Surplus/(Deficit)	16	
MRA		3,904
Major Works expenditure		(2,271)
Estimated Balance 31.3.13	2,017	2,710
Surplus/(Deficit)	(103)	
MRA		3,904
Major Works expenditure		(6,581)
Estimated Balance 31.3.14	1,914	33

These are within the HRA strategy and policy expectations of the Business Plan.

3.0 Rent Levels for 2013/14

- 3.1 On 5 December 2001, the Council agreed that housing rents would be set in accordance with the Government's proposals to achieve rent convergence for all social tenancies over a ten year period, using the Government's specified rent convergence formula. The timetable for convergence was subsequently extended. Under the HRA self-financing settlement the government has assumed that rent convergence is achieved in 2015/16.
- 3.2 To avoid any large variation in the rent level from one year to the next, the Government proposals limited any changes to individual tenants' rents to a maximum of £2 per week, plus RPI plus 0.5% each year.

- 3.3 The RPI for September 2012 was 2.6% and this plus the 0.5% increase gives a formula rent increase of 3.1% for 2013/14.
- 3.4 For 2012/13 the average rent levied over 52 weeks a year was £71.57. After allowing for the damping mechanism referred to in 3.2 the average rent for 2013/14 for the properties to be retained within the HRA will be £74.51 an increase of 4.3 %.

4.0 Service Charges

- 4.1 For properties in shared blocks these charges cover common services such as communal heating, lighting, equipment maintenance contracts, cleaning and grounds maintenance. In Older Persons Sheltered Accommodation the charges additionally include On-Site Co-ordinators, Lifeline services, lift maintenance contracts, communal furniture and carpets' maintenance and internal re-decorations. These costs should be charged separately from the rent in those properties to which they apply.
- 4.2 The HRA Business Plan assumes that service costs incurred on behalf of residents are fully recovered through service charges and are not included in rents. This principle has been applied for 2013/14.
- 4.3 For general needs properties in blocks the average service charge increase based on the above principle is 2.2%. For Older Persons Sheltered Accommodation the average service charge increase is 4.3% for those properties available for let based on the same principle.
- 4.4 The continued extensive remodelling of Older Persons Sheltered Accommodation (Sutherland Court, Tyrone Court and Winchester House are currently being remodelled) has reduced the number of properties which are subject to service charges by 12.5% in 2013/14.

5.0 Heating costs - Older Persons Sheltered Accommodation

- 5.1 These charges are set in line with known price increases experienced in 2012 and predicted future costs. During the year a new long term contract for the supply of gas was secured through LASER¹. Predicted cost increases did not materialise to the extent expected and for 2013/14, it is recommended that the average charge decreases from £10.18 to £7.05 per week.

6.0 Water Charges

- 6.1 Many of the retirement courts are subject to a communal water supply and the Council recover these costs by way of a weekly service charge. Water is currently being supplied to the Courts by a combination of metered and unmetered supply, with remodelled courts being converted to meters during the programmed capital works. Experience has shown that the water charge

¹ LASER is an energy-buying group representing local authorities and other publicly funded bodies. It provides energy procurement, management and reporting services.

for metered supply is significantly lower than the charge based on the rateable value, and therefore where practical and financially beneficial meters are being fitted to all Courts.

- 6.2 The proposed charges for water and sewerage supply reflect the lower costs expected through supply being metered notwithstanding if a meter is yet to be installed. This charging method that was first applied in 2012/13 resulted in an average charge of £4.37 per property per week. This charge has been increased to £4.99 per week for the year 2013/14.

7.0 Garage Rents

- 7.1 Garage Rents have remained unchanged for the last three years in an attempt to reduce the high void rates being experienced. Whilst void garages have remained relatively constant there has been no material increase in the utilisation of available garages. As a result of this rent freeze the rent charged for garages has fallen behind the increase in RPI by 13%. It is therefore recommended that, garage rents are increased in line with housing rents. It is recommended that an increase in the weekly rent of 4.3% is applied to garages for 2013/14.

8.0 HRA Capital Programme 2013/14

- 8.1 The Capital programme as set out in **Appendix 2** has been prepared to meet the Council's strategies, as adjusted to reflect the availability of resources, relating to Decent Homes, remodelling of sheltered housing and major works. Total budgeted expenditure for 2013/14 is £7,115,100.
- 8.2 The Decent Homes work is due to be completed by the end of 2012/13 and remodelling of Older Persons Sheltered Accommodation by 2013/14. The major works element of the programme is in line with the asset management plan and the self financing business plan model.
- 8.3 Funding for the programme is mainly from the Major Repair Reserve with a small contribution from revenue balances as set out in 2.4 above.

9.0 EHL Management Fee

- 9.1 Negotiations are in progress to reduce the management fee paid to EHL for the year 2013/14 by up to £200,000. Should these negotiations be successfully concluded, the management fee will be circa £6.8m.
- 9.2 Members will note from items for decision elsewhere on the Cabinet agenda that discussion is currently taking place with EHL over the company developing additional HRA based regeneration activity. If agreed, this is likely to result in an additional payment of £200,000 to EHL to meet the costs of this work for the period 2013/14.
- 9.3 To formally agree the management fee Members are asked to delegate this responsibility to the Senior Head of Community, in consultation with the Cabinet Portfolio Holders for Community Services and Financial Services and the Chief Finance Officer.

10.0 Consultation

- 10.1 Rent increases are subject to national policy on rent convergence. In December 2001 the Council adopted a policy of achieving convergence, based on consultation with its tenants at the time. Additional consultation was carried out through a meeting Eastbourne Homes' Residents Scrutiny Panel held in January 2013.
- 10.2 Changes to the HRA funding arrangements for 2012 and thereafter were referred to in the winter 2011 issue of Open House, sent to all residents.
- 10.3 The Council is obliged to ensure that all tenants are given 28 days notice of any changes to their tenancy including changes to the rent they pay.

11.0 Implications

11.1 Financial and Human Resources

The Council has taken a pro-active approach to the implementation of the rent convergence policy. There are no staffing implications arising out of this report.

11.2 Environmental

The Council and EHL are committed to delivering energy efficiency improvements in its maintenance and modernisation programme to help reduce heating costs in all homes.

11.3 Economic

EHL are making every effort to identify tenants who may face additional financial hardship as a result of rent or service charge increases in order to offer appropriate support and advice.

Anti-poverty activity by EHL takes place routinely throughout the year to maximise household income. This includes advice on benefits and arrears management. This targeted use of resources assists greatly in ensuring housing remains affordable.

12.0 Conclusions

- 12.1 The HRA Revenue Budget has been produced based on the policies set out in the HRA 30 year Business Plan and is showing an overall deficit of £103,150 for 2013/14. This is mainly due to one week of additional income as a result of having 53 rent weeks in 2013/14 rather than the normal 52 and the need to support some of the major work programme from reserves. The budget is in line with the 30 year business plan. The HRA will continue to be closely monitored and managed throughout the year to make sure the HRA remains sustainable in the future.

- 12.2 The rent levels have been prepared in accordance with the council's rent convergence policy and the self financing business plan assumptions. The average increase is 4.3%.
- 12.3 Service charges, heating and water charges are fixed weekly amounts set at a level to recover the expected actual cost to be incurred for the respective properties in the forthcoming year.
- 12.4 Garage rents are recommended to increase in line with the average increase in housing rents 4.3%
- 12.5 Total budgeted expenditure on the HRA Capital programme is planned at £7,115,100 for 2013/14, £4,480,600 for 2014/15 and £4,727,070 for 2015/16. The Decent Homes work is due to be complete during 2012/13 and the remodelling of the sheltered accommodation by 2013/14. This will be funded from a combination of government grant, capital receipts and contribution from the MRR. The major works element of the programme is in line with the asset management plan and the self financing business plan model.

Pauline Adams
Financial Services Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

HRA 2013/14 Budget working papers held by Eastbourne Council and EHL

HRA Self Financing 30 year Business Plan.

To inspect or obtain copies of background papers please refer to the contact officer listed above.