

Report to: Cabinet

Date: 8 February 2023

Subject: Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2023/24 and HRA Capital Programme 2022-26

Report of: Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)

Cabinet member: Councillor Stephen Holt, Deputy Leader of the Council, Cabinet Member for Finance

Ward(s): All

Purpose of the report: To agree the detailed HRA budget proposals, rent levels, service charges and heating costs for 2023/24, and the HRA Capital Programme 2022-26.

Decision type: Budget and policy framework

Recommendations: Cabinet is asked to recommend the following proposals to full Council:

- i) The HRA budget for 2023/24 and revised 2022/23 budget as set out in Appendix 1.
- ii) That social and affordable rents (including Shared Ownership) are increased by 7% in line with government policy.
- iii) That the average General Needs Housing Benefit (HB) Eligible service charge will be £5.39 per week.
- iv) That the average HB Eligible service charge for Retirement Housing will be £38.36 per week.
- v) That the Support charge for Retirement Housing will be £5.82 per unit.
- vi) That the average Non-HB Eligible heating charges will be £3.73 per week.
- vii) That the average non-HB Eligible water charges will be £3.56
- viii) That Garage rents are increased by 5%

- Recommendations cont.:**
- ix) **To grant delegated authority to the Chief Executive, in consultation with the Cabinet Portfolio holders for Financial Services and Direct Assistance Service and the Chief Finance Officer to finalise Eastbourne Homes' Management Fee and Delivery Plan.**
 - x) **The HRA Capital Programme as set out in Appendix 2.**

Reasons for recommendations: The Cabinet must recommend to Full Council the setting of the HRA revenue and capital budget and the level of social and affordable housing rents for the forthcoming year.

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1.0 Introduction

- 1.1 The HRA is a statutory ring-fenced account that represents all landlord functions. The HRA is required to be self-financing, which means that expenditure must be entirely supported from rental and other HRA-related income. The main tool for the financial management of the HRA is the 30-Year Business Plan.
- 1.2 Any significant changes to the assumptions underpinning the 30-Year Business Plan will trigger a full review to assess the impact, but, in any event, there will be an annual review and update.
- 1.3 In a departure from existing Social Rent Policy, for 2023/24, the Government consulted Local Authorities and other Social Housing providers on a proposal to cap the rent increase below the usual Consumer Prices Index (CPI) + 1% level, due to the high inflation rates being experienced this year. The outcome of that consultation was the implementation of a rent cap of a maximum 7%. Using September CPI + 1% would have resulted in a potential rent increase of 11.1%.
- 1.4 Capping the rent increase at 7% has clearly impacted the HRA significantly and has resulted in an intense review of all income and costs within the 30-Year Business Plan to identify efficiencies. It should be noted that, like everybody, the Council's costs have increased significantly in some areas. Of particular significance for the HRA are employee costs (Council and contractors), building costs, energy costs and borrowing costs. Had the rent increased by 11.1%, an additional £607k in income may have been available to fund HRA expenditure.
- 1.5 This report reflects the recommendations made by Eastbourne Homes Limited in relation to the increase in rent levels, service and other charges.

2 Proposal

2.1 2023/24 HRA Revenue Budget

2.1.1 The 2023/24 budget mirrors the HRA 30-Year Business Plan and is attached at Appendix 1.

2.1.2 For the 2023/24 budget, a £24k operating deficit is expected compared to a revised operating deficit of £719k in 2022/23. It should be noted that, in the context of the 30-Year HRA Business Plan, an in-year deficit is not of concern, as the balance on the account at the end of the year remains in surplus (£1.414m).

There is no contribution to capital expenditure for 2023/24, since the balance on the account is running close to the required minimum balance of £1.400m. These contributions are made depending on the size of the proposed Capital Programme and the affordability for the Revenue Account. Appendix 2 shows that small revenue contributions to the Capital Programme can be afforded from 2024/25 onwards.

The contribution to capital expenditure is funded from the HRA Balance, reflects the modelling in the HRA 30-Year Business Plan and is consistent with the Council using its reserves and balances to fund the Capital Programme prior to taking out new borrowing.

2.1.3 Other variances between the 2023/24 budget and the 2022/23 revised budget are:

- Rent, Service Charge and Other Income – increased income of £1.252m
- Depreciation – increased cost of £206k
- Increase in the Provision for Doubtful Debts - £9k
- Loan Charges – increased cost of £128k
- Increase in Interest Income – £20k
- Management Costs – increased cost of £234k

2.1.4 The Major Repairs Reserve is funded from cash backed depreciation of £5.5m plus inflation per year and will be used to fund expenditure on improving the stock and other HRA assets.

2.1.5 The HRA debt outstanding at 31.03.22 was £48.210m. The outstanding debt at 31.03.24 is estimated to be £53.344m. In later years, debt levels will increase as the Authority begins to borrow more to fund property acquisitions and new build. The average debt per property is currently approximately £14k.

2.1.6 The Council's treasury management advisors are predicting a gradual decrease in interest rates (from the current relatively high level of 4.5%) over the next three years. The interest budget has been prepared on this basis.

- 2.1.7 The 2022/23 revised budget is expected to be in deficit by £3.446m compared to the original budget deficit of £3.094m. The deficit will be transferred from the HRA Balance. Main variances are set out below:
- A shortfall in rental income of £276k – due to increased dwelling and garage void levels
 - an increase in service charges income of £231k
 - a net reduction in Supervision and Management costs of £73k
 - a reduction in the requirement to provide for doubtful debts of £76k
 - an increase in depreciation costs of £764k
 - interest adjustments resulting in reduced costs of £101k
 - a reduction in the revenue contribution to capital expenditure of £207k
- 2.1.8 The Housing Revenue Account (HRA) Business Plan is a strategic planning document to assist the officers and members of the Council, working together with tenants and leaseholders, in the management and maintenance of the Council's housing stock over the next 30 years in ensuring our Homes always meet the Fitness for Human Habitation test.
- 2.1.9 The Business Plan is also a statement of the viability of Eastbourne Borough Council's HRA over the next 30 years and a statement of our aspirations as Landlord, drawing attention to the particular strengths of the Landlord service and highlighting the approach of that service and the HRA into the future based on a policy of maintaining a minimum level of HRA balance at £1.4m to ensure that the HRA remains sustainable in the event of any unforeseen risk arising.
- 2.1.10 As part of the Council's commitment, the Business Plan has been reviewed and as a result it is proposing a four-year capital programme which includes significant investment in new builds (£13.3m), the acquisition of new properties (£12.5m), Major Works (£20.8m) and disabled adaptations (£1.8m). This investment will be enabled by additional borrowing, revenue contributions and applying capital receipts and reserves. More details are contained in Appendix 2.

2.1.11 The forecast balances on HRA and Reserves are as follows:

	HRA Working Balance	Major Repairs Reserve (MRR)
	£'000	£'000
Balance at 1.4.22	4,884	2,598
Net Transfer from Reserve	(3,446)	
Depreciation		5,312
Expenditure Financed from MRR		(6,266)
Estimated Balance 31.3.23	1,438	1,644
Net Transfer from Reserve	(24)	
Depreciation		5,518
Expenditure Financed from MRR		(5,450)
Estimated Balance 31.3.24	1,414	1,712

2.2 Rent Levels for 2023/24

2.2.1 The Council has been following the Government's guidance for rents for social housing since December 2001. This has been subject to various legislative changes in recent years and, in 2023/24, rents can be increased by no more than 7%. The proposal to increase rents by the maximum 7% is based on maintaining a sustainable (affordable) HRA Business Plan. Whilst Supported Housing and Shared Ownership properties are exempt from the cap and could be increased by CPI +1% (11.1%), it is proposed to apply a 7% rent increase to all types of stock. The average weekly social rent will be £89.05 and average affordable weekly rent will be £134.96.

2.3 Service Charges

2.3.1 The service charges for 2023/24 have been calculated using a combination of actual costs from 2021/22 and estimates where more appropriate for 2023/24. For properties that share services, these charges cover common services such as communal heating, lighting, equipment maintenance contracts, cleaning, and grounds maintenance. In Retirement Housing Accommodation, the charges additionally include Retirement Housing Advisers staff costs. These costs should be charged separately from the rent in those properties to which they apply.

It should be noted that, in a year when inflation is particularly high, full cost recovery could mean that some service charge increases could prove challenging (in particular energy charges). Homes First will review the level of these charges and offer support where possible to mitigate the impact on individual tenants.

2.3.2 For General Needs tenants the average total for HB Eligible service charges will be £5.39 with the lowest at £0.98 and the highest at £29.19.

2.3.3 For Retirement Housing tenants the average total for HB Eligible service charges will be £38.36 per week with the lowest at £29.93 and the highest at £54.97.

2.4 Support Charge for Retirement Housing

2.4.1 To cover the withdrawal of the Supporting People funding 2016 for the provision of the on-site co-ordinator service, a charge was introduced to continue the vital work within the Retirement Housing blocks. The support charge for 2023/24 will be £5.82 per unit.

2.5 Heating Costs – Retirement Housing Accommodation

2.5.1 The average cost per unit for heating will be £3.22 with the lowest at £1.81 and the highest at £5.56. Heating costs are related to gas supplied to individual dwellings only and are not eligible for housing benefit.

2.6 Water Charges – Retirement Housing

2.6.1 The average cost per unit for water charges will be £3.50 with the lowest at £2.00 and the highest at £6.08. Water charges relate to water supplied to individual dwellings only and are not eligible for housing benefit.

2.7 Garage Rents

2.7.1 It is recommended that garage rents increase by 5% in 2023/24, with the weekly average rent being £13.71.

2.8 Capital Programme

2.8.1 The Capital Programme set out in Appendix 2 reflects the proposals contained within the HRA 30-Year Business Plan. Total budgeted expenditure for 2023/24 is £13.591m.

2.8.2 The budget for the major works element of the programme has been set at £5m per annum. This sum and all sums required over the next 30 years reflect an affordable level of investment which will allow Eastbourne's housing stock to be appropriately maintained. However, although affordable and helping to maintain stock, the sums included may fall somewhat short of works required long-term, as identified in the Stock Condition Survey. Sustainability is and will continue to be a key driver in developing capital repairs schemes. Funding for the major works programme comes from the Major Repairs Reserve. An annual allocation of £450k for disabled adaptations has been added to the programme with effect from 2022/23, since this would not be included in the stock survey figures.

2.8.3 The Capital Programme continues to include sums for the acquisition of properties and new builds. In the case of acquisition, each proposed acquisition will be modelled to ensure "viability" (that the annual costs associated with the purchase and upkeep of the property will not exceed the rental income). New build schemes either have been brought or will need to be brought to Cabinet for individual approval. The reports will include an analysis of the effects on the Business Plan.

2.9 Eastbourne Homes Ltd Management Fee

- 2.9.1 The Management Fee covers both operational and administration costs as well as responsive and cyclical maintenance.
- 2.9.2 The fee for 2022/23 was set at £8,077,000. Appendix 1 shows that this has increased to £8,113,000 due to the addition of new properties requiring management and maintenance. It is proposed that the management fee for 2023/24 is set at £8,436,000, subject to any final variations.
- 2.9.3 To formally agree the management fee, Members are asked to delegate this responsibility to the Chief Executive, in consultation with the Cabinet portfolio holders for Community Service and Financial Services and the Chief Finance Officer.

3 Outcome Expected and Performance Management

- 3.1 The HRA budget will be monitored regularly during 2023/24 and performance will be reported to Cabinet quarterly.
- 3.2 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.

4 Consultation

- 4.1 Residents' Voice have been consulted on this report. The proposed rent increase for 2023/24 reflects the requirements under The Direction on the Rent Standard 2019 and the Policy Statement on Rents for Social Housing December 2022.
- 4.2 It should be noted that the Council recognises that the current cost of living challenges mean that the rent increase and other increases in charges proposed in this report may create further issues for many of our tenants. A range of help and advice is available and a detailed leaflet can be obtained via the Council's website or by contacting Homes First. An advice sheet will be sent out to all tenants with their rent increase letters at the end of February.

5 Corporate Plan and Council Policies

- 5.1 Housing & Development is one of the key themes that shaped the vision for Eastbourne set out in the 2020-2024 Corporate Plan. The proposals contained within this report flow directly from the HRA 30-Year Business Plan, which itself aligns with the Corporate Plan. Key (current and future) Council policies, plans and strategies will all be aligned to help deliver the objectives and goals of the HRA 30-Year Business Plan, including the Housing Strategy, Commercial Strategy, Allocations Policy, Homelessness Strategy, Local Plan, Tenancy Policy and Town Centre Strategy.

6 Business Case and Alternative Option(s) Considered

- 6.1 The capital and revenue budgets, rents and service charges have been set in line with Government policy and with the HRA 30-Year Business Plan.

7 Financial Appraisal

- 7.1 This is included in the main body of the report.

8 Legal Implications

- 8.1 Local housing authorities are required by section 74 of the Local Government and Housing Act 1989 to keep a Housing Revenue Account (HRA) unless the Secretary of State has consented to their not doing so. The account must show credits and debits arising from the authorities' activities as landlord. The HRA identifies the major elements of housing revenue expenditure, such as maintenance, administration and contributions to capital costs, and how they are funded by rents and other income.
- 8.2 Section 76 of the 1989 Act requires HRA budgets to be set on an annual basis in January or February before the start of the financial year. A local authority may not budget for an overall deficit on the HRA and all reasonable steps must be taken to avoid a deficit.
- 8.3 Section 24 of the Housing Act 1985 gives local authorities the power to make reasonable charges for the tenancy or occupation of dwellings. Rent setting must be seen in the context of the statutory duty to set a balanced HRA budget.
- 8.4 Section 23 of the Welfare Reform and Work Act 2016 set the rent setting policy for four years whereby local authority social rents in England were to be reduced by 1% each year, commencing on 1 April 2016. In October 2017, the government confirmed details for future social rents and from 2020/21, providers are able to increase rents up to a limit of CPI plus 1% each year. This policy is designed to provide more certainty over rent levels.
- 8.5 Under the Local Authorities (Functions and Responsibilities) Regulations 2000, the task of formulating a plan for determining the Council's minimum revenue provision (i.e. its budget) is the responsibility of Cabinet, whilst the approval or adoption of that plan is the responsibility of the full Council. This explains the decision-making route in the officer's recommendation.

Date of legal input: 09.01.23

Legal ref: 011724-LDC-OD

9 Risk Management Implications

- 9.1 The 2023/24 Budget and Capital Programme will require close monitoring in the forthcoming year to ensure that they, and therefore the 30-Year HRA Business Plan, remain on track. Any large variances to expenditure or income will need to be reviewed and, if significant or ongoing, modelled into the Business Plan to assess the impact and likely mitigation.

- 9.2 Levels of voids and debts will also require close monitoring to ensure that rent and service charge increases are not causing greater levels of non-payment. Timely action will need to be taken if performance targets are not being met.

10 Equality Analysis

- 10.1 An Equality and Fairness Analysis has been undertaken on these proposals. This has concluded that:

- Changes to charges will impact the protected groups of age and disability, additionally those experiencing homelessness and potentially carers may be impacted.
- Communication around any change to charges must be clear and timely and contain information on how concerns may be channelled. Concerned residents (or their carers) should have a clear avenue to raise concerns or receive further information. Alternative formats should be arranged upon request.
- The cost of living crisis has impacted many residents across the board. Not only people of working age but anyone all with limited funds who have been trying to manage the increase in price of food and energy. The Councils have funded local support initiatives including enhanced advice provision. The Councils will continue to maintain the website and Customer Advisor resources to support residents with any queries and concerns they may have relating to the cost of living crisis.

11 Sustainability Implications

- 11.1 Following the investment of £500k over the last two years to kickstart sustainability pilot schemes, the major repairs programme now includes monies to continue to help Eastbourne Council move towards meeting its target of becoming carbon neutral by 2030. This challenging target may rely on securing external funding to be fully realised.

12 Appendices

- Appendix 1 - HRA 2022/23 Revised Revenue Budget and 2023/24 Budget
- Appendix 2 - HRA Capital Programme 2022/23-2025/26

13 Background Papers

- Government's Policy Statement on Rents for Social Housing (December 2022) [Policy statement on rents for social housing - GOV.UK](https://www.gov.uk/government/policy-statements/policy-statement-on-rents-for-social-housing) (www.gov.uk)