

- BODY:** CABINET
- DATE:** 4 February 2015
- SUBJECT:** HRA Revenue Budget and Rent Setting 2015/16 and HRA Capital Programme 2014/17
- 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 2015/16, and the HRA Capital Programme 2014/17.
- 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 2015/16 and revised 2014/15 as set out in **Appendix 1**.
 - ii) That rents are set in line with the rent convergence target of 2016 set by Government resulting in an average increase of 2.28%.
 - iii) That service charges for general needs properties are increased by 2.31%,
 - iv) That the service charges for the Older Persons Sheltered Accommodation currently available for let are increased by 2.57%.
 - v) That heating costs are set at a level designed to recover the estimated actual cost.
 - vi) That water charges are set at a level designed to recover the estimated cost of metered consumption.
 - vii) That garage rents are set to increase by 2.28% in line with the average increase in housing rent.
 - viii) To give delegated authority to the Chief Executive, in consultation with the Cabinet Portfolio holders for Community Services and Financial Services and the Financial Services Manager to finalise Eastbourne Homes' Management Fee and Delivery Plan.
 - ix) The HRA Capital Programme as set out in **Appendix 3**.

1.0 Introduction

- 1.1 As from the 1 April 2012 the way that council social housing is financed was changed and the 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 in relation to the increases in rent levels, service and other charges.

2.0 2015/16 HRA Revenue Budget

- 2.1 The 2015/16 budget has been prepared following the principles adopted within the HRA 30 year Business Plan and is attached at **Appendix 1**.
- 2.2 The 2015/16 budget is showing a surplus of (£296,130) which is due to a number of favourable factors as listed below.
- 2.3 The major changes between the 2014/15 and the 2015/16 budgets are:

Income increases and expenditure reductions:

- Effect of rent and service charge review -£390,000
- Change in requirement for Revenue Contribution to Capital -£393,300
- Reduction in contribution towards HEDP team - £50,000
- Effect of borrowing at lower than anticipated interest rates - £60,350

Increase in Expenditure and income reductions:

- Additional funding to met pressure on revenue repairs and voids budget - £520,000
- Depreciation, in line with Business Plan to cover the future requirements of the Asset Management Plan £104,300
- Contribution to Housing Regeneration Reserve £284,000

- 2.4 The HRA budget is performance better than expected in the 30 year business plan due to various initiatives to control expenditure, including a reduction in the management fee payable to EHL since the start of the plan and a lower than anticipated interest rates. At the same time income earnings from rents and service charges have remind on target. This allows some scope for some spending to be realigned, as set out in the paragraphs below.
- 2.5 EHL is currently experiencing pressure on the maintenance budget requirement for revenue repairs and void properties and it therefore proposed to increase the Management Fee by £520,000 to deal with this and help met customers' expectations.
- 2.5 The 30 year business plan forecast a budget surplus of £784,000 for 2015/16 which was to be set aside in reserves to met future major works demands. It is proposed to transfer this sum into the Housing Regeneration Reserve.

- 2.5 The Business Plan allowed for a revenue contribution to support capital expenditure for the three years 2013/14 to 2015/16 based on the asset management spending requirement peaking over these years in excess of the balance on the Major Repairs Reserve (MRR), until decreasing again by year five of the business plan. After this time surpluses begin to accumulate in the MRR as the cash backed depreciation allowance of £4m per year should start to exceed the capital spending requirements.
- 2.6 The HRA debt outstanding at 31.3.14 was £37.5m rising to £43.4m by 31.3.17 the majority of which will be external debt and at fixed interest rates. The increase in borrowing of £5.9m is expected to be undertaken to support the HEDP programme. The additional interest payable from this borrowing will be funded from the additional rental as the properties are let. The Council's treasury management advisors are predicting that the currently low levels of interest rates will continue into 2015/16 and the interest budget has been prepared on this basis.
- 2.7 Under the self financing settlement the government set a cap on total HRA borrowing of £42.96m .The 30year Business Plan assumes from 16/17 to 28/29 that an average debt repayment of £2.8m per annum is funded from the HRA Revenue Account. This will either be used to fund the repayment of debt or be used to reinvest in housing properties in lieu of new borrowing.
- 2.8 The HRA outturn for 2014/15 is expected to deliver a (£411,800) surplus, a positive variance of (£104,100) over the original budget (0.69% of gross expenditure). This is mainly as a result of the decrease in the amount required to be paid in council tax on void properties (£87k) and saving on the new insurance contract (21K).
- 2.9 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 Balances on the HRA and Reserves are as follows:

	HRA £'000	MRR £'000	Housing Regeneratio n & Investment Reserve £'000
Balance at 1.4.14	2,704	305	830
Surplus/(Deficit)	412		
Revenue Contribution			500
Depreciation		4,106	
Major Works expenditure		-4,411	-1,330
Estimated Balance 31.3.15	3,116	0	0
Surplus/(Deficit)	296		
Revenue Contribution			784
Depreciation		4,211	

Major Works expenditure		-4,211	
Estimated Balance 31.3.16	3,412	0	784

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

3.0 Rent Levels for 2014/15

3.1 The Council has been following the Government's guidance for rents for social housing since December 2001. Under the HRA self-financing settlement the government has assumed that rent convergence is achieved in 2015/16.

3.2 In May 2014, the Government issued new guidance setting out its policy on rents for social housing from April 2015.

3.3 The new guidance simplifies the approach to setting the rent for each property. The Government recognises that some properties will not have reached their formula rent by April 2015 and recommends that rent only moves up to formula rent where the property is re-let following vacancy. Although most of our properties have reached convergence, the number of properties that still need to reach convergence will reach convergence at a slower rate.

3.4 Although, the Government expects authorities to comply with the new guidance, it is not compulsory. Previously, setting rents above government convergence limits was discouraged by the 'rent rebate subsidy limitation' rule which made the HRA liable for the additional Housing Benefit payments generated by excess rents. Following the move to self financing, the 'limits' rule is no longer relevant to local authorities.

3.5 The key element of the new Government guidance is index linking of rent increase:

Current approach: September RPI + 0.5% For 2015/16 this is 2.80%

New guidance: September CPI + 1.0% For 2015/16 this is 2.20%

In order to reduce the number of properties trying to reach their formula rent, members are asked to recommend that council rents are set at a higher level with an average increase of 2.28%.

3.6 This is slightly higher than the rent increase would be if it purely followed the Government guidance for social housing rents but this higher increase would mean that convergence to formula rent is greatly increased this year leaving 5.87% of housing rents outstanding to converge.

3.7 This also means that due to the high increases in rent over the past few years (following the RPI plus 0.5% formula set by government), tenants will be expecting an average increase of around 4-5% and not an increase of lower than 3%.

3.8 Although the accelerated convergence proposed shows more of a weekly increase to 896 tenants, it does not suggest an increase over £3.00 per week to any of our tenants keeping the increase at an affordable level as shown in the profiling tables at **Appendix 2**

3.9 The proposed increase being recommended by neighbouring authorities are as follows:

Neighbouring Authority	Rent Increase
Eastbourne	2.28%
Wealden District Council	3.70%
Lewes District Council	
Brighton & Hove City Council	2.20%

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 are fully recovered through service charges and are not included in rents. This principle has been applied for 2015/16.

4.3 For general needs properties in blocks the average service charge increase is 2.31%. For Older Persons Sheltered Accommodation the average service charge increase is 2.57%. This is lower than the increase last year because of the savings realised on the non-renewal of the Invicta alarms contract and lower increases for gas and electricity.

5.0 Heating costs - Older Persons Sheltered Accommodation

5.1 These charges are set in line with known price increases experienced in 2014 and predicted future costs. For 2015/16, it is recommended that the average charge increase is 1.92%. This is an average increase of 13p per week for tenants that pay these charges.

6.0 Water Charges

6.1 These charges are set in line with meters being fitted to all of the retirement courts. For 2015/16, it is recommended that the average charge increase is 0.93%. This is an average increase of 27p per week for tenants that pay these charges.

7.0 Garage Rents

- 7.1 Following the previous year's rent increases, garage void debt has decreased, garage void repair times have decreased and the number of hard to let garages has decreased from the start of the 2014/15 year.
- 7.2 There are still a minority of garages that require major works and the recommended increase will enable the future funding of works that are still required.
- 7.3 It is therefore recommended that Garage rents are increased in line with the average increase in housing rents of 2.28%. This will provide EBC with a budget for further major repairs (should they be needed) but limit the increase in rent for garage tenants.

8.0 HRA Capital Programme 2015/16 to 2017/18

- 8.1 The Capital Programme as set out in **Appendix 3** has been prepared to meet the Council's strategies, as adjusted to reflect the availability of resources. Total budgeted expenditure for 2015/16 is £9,668,512.
- 8.2 The major works element of the programme is in line with the asset management plan and the self financing business plan model. Funding is from the Major Repairs Reserve.
- 8.4 Cabinet has agreed a total budget of £12.1m for the Housing and Economic Development Programme out of the total allowance of £20m This has now been profiled to reflect the expected spending timetable and will be funded from borrowing and HCA grant.

9.0 Eastbourne Homes Management Fee

- 9.1 The Management Fee covers both Operational and Administration costs as well as cyclical maintenance.
- 9.2 The proposed Base Management Fee is recommended to remain at the 14/15 level of £6,714,000, however an additional £520,000 has been proposed (as per para 2.5) to meet the current pressure on the maintenance budget.

The fee of £140,000 to support the work of the HEDP team has also been amalgamated into the Management Fee. This was previously shown within the budget under Supervision and Management and has been reduced by £50,000 from 2014/15.

The total proposed fee for 2015/16 is £7,375,000.

- 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 Services and Financial Services and the Financial Services Manager.

10.0 Consultation

- 10.1 Rent increases are subject to the new government guidance on rent convergence. In May 2014, the Council adopted a policy of achieving convergence by 2025. Additional consultation was carried out through a meeting of the Eastbourne Homes' Residents Scrutiny Panel.
- 10.2 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.

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

Eastbourne Homes is committed to delivering energy efficiency improvements in its maintenance and modernisation programme to help reduce heating costs in all homes.

11.3 Economic

Eastbourne Homes will make 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 Eastbourne Homes 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 surplus of £296k for 2015/16. This is mainly due to a number of favourable factors including the rent and service charge review, savings from Treasury Management activities on borrowing, and changes to capital financing requirement which has allowed for additional funding to be included for revenue repairs and maintenance.
- 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 2.8%.
- 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.

- 12.6 Garage rents are recommended to increase in line with the average increase in housing rents 2.8%.
- 12.6 Total budgeted expenditure on the HRA Capital Programme is planned at £9,668,512 for 2015/16, £5,735,714 for 2016/17 and £4,400,000 for 2017/18. The major works element of the programme is in line with the asset management plan and the HRA business plan model.

Pauline Adams
Financial Services Manager

Background Papers:

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

HRA 2015/16 Budget working papers held by Eastbourne Council and Eastbourne Homes Ltd.

HRA Self Financing 30 year Business Plan.

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