

Body: Cabinet

Date: 11 February 2019

Subject: HRA Revenue Budget and Rent Setting 2019/2020 and HRA Capital Programme 2018/2022

Report of: Homira Javida, Chief Finance Officer

Cabinet member: Councillor Ron Maskell, Cabinet Member for Housing
Councillor Bill Giles, Cabinet Member for Finance

Ward(s): All

Purpose of the report: To agree the HRA budget proposals, rent levels and service charges for 2019/2020, and the HRA Capital Programme 2018/2022.

Decision type: Key Decision

Recommendation: Cabinet is asked to recommend the following proposals to Full Council:

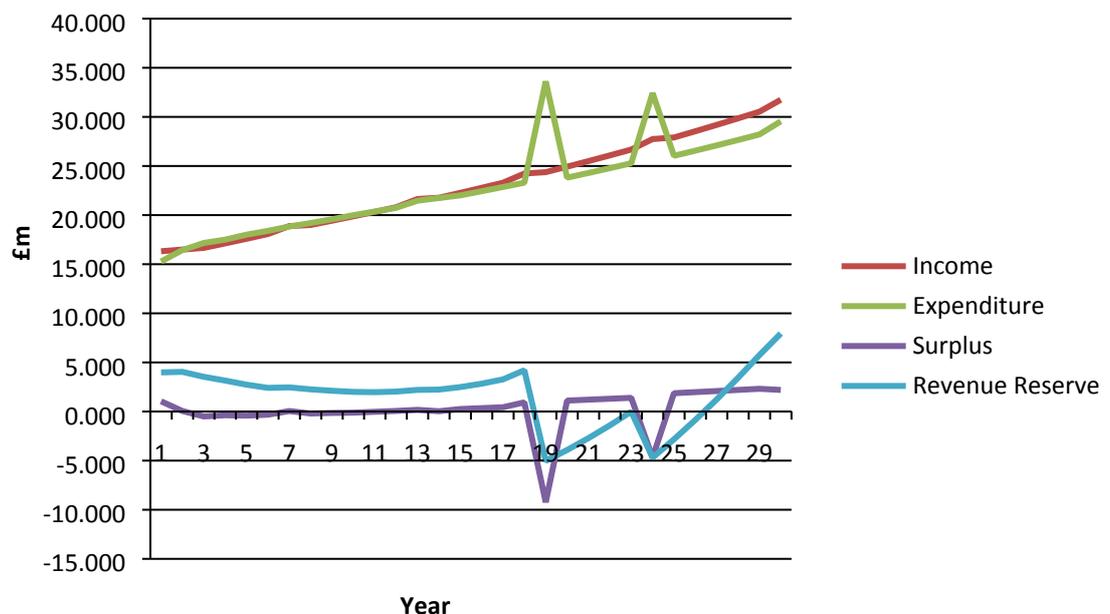
- i) The HRA budget for 2019/2020 and revised 2018/2019 as set out in Appendix 1.
- ii) That social and affordable rents (including Shared Ownership) are decreased by 1% in line with government policy.
- iii) That private sector leased property rents are increased by 3.3%.
- iv) That delegated authority is given to the Chief Finance Officer, in consultation with the Cabinet Portfolio Holders for Finance and Cabinet Portfolio holder for Housing to take measures in the management of the Week 53 rent year.
- v) That the revised service charges are implemented.
- vi) That garage rents are increased by 3.30%.
- vii) The HRA Capital Programme as set out in Appendix 2

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

Contact: Pauline Adams, Head of Finance
Telephone 01323 415979 or internally on extension 5979.
E-mail address: pauline.adams@lewes-eastbourne.gov.uk

1 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 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.
- 1.2 The Business plan was last updated in August 2018, and shows income marginally in excess of expenditure, for the first 19 years. The original assumption at the start of the self-financing regime was that all borrowing would be repaid within 20 years, unfortunately due to the decrease in rents over the last four years; this strategy is no longer viable as is demonstrated below. The plan and borrowing strategy will need to be reconsidered the next time it is updated.
- 1.3 The level of reserves at the beginning of the plan starts at £3m for 2018/19 rising marginally to £4m by 2036/37.



- 1.4 The business plan will be reviewed and updated again once the 2018/2019 accounts have been completed.

2 2019/2020 HRA Revenue Budget

- 2.1 The 2019/2020 budget has been prepared following the principles adopted within the HRA 30 year Business Plan and is attached at **Appendix 1**
- 2.2 The 2019/2020 budget is showing a surplus of £29K from a surplus of £312k in 2018/2019, a change of £283k, which is mainly due to the factors listed below.
- 2.3 The major changes between the 2018/2019 and the 2019/2020 budgets are:

Changes in income and expenditure and re-profiling of contributions to reserves:

- 1% rent reductions £147k
- Other Rental Movements £160k
- Service Charges £64k
- Corporate & Democratic Core £45k
- Contribution to JTP £196k
- Contribution to capital programme (£349k)

- 2.4 The HRA budget is performing in line with expectations in the 30 year business plan, with the exception of one off items relating to JTP. The additional costs have been offset by removing the contribution to debt repayment. This will be reviewed 2020/2021.
- 2.5 The Major Repairs Reserve is funded from cash backed depreciation of £5.634m and is expected to provide sufficient resources to fund the demands of the asset management plan in the longer term.
- 2.6 The HRA debt outstanding at 31 March 2018 was £65.126m, which is £10.122m less than the maximum borrowing permitted under the self-financing settlement, which is £75.248m (the 'borrowing cap'). The Government announced that it is changing legislative policy to remove the 'borrowing cap' in the HRA to enable Councils to build more homes. Management will be considering its strategy in relation to future developments over the next few months.
- 2.7 The Council's treasury management advisors are predicting a gradual rise in interest rates going forward into 2019/2020 and the interest budget has been prepared on this basis
- 2.8 The HRA outturn for 2018/2019 is expected to deliver a (£312k) surplus, a variance of (£312k) over the original budget. This is as a result of:
- Property rentals (£16k);
 - Debtors impairment £45k;
 - Depreciation £162k;
 - JTP programme £294k;
 - Contribution to capital programme £349k;
 - Debt repayment (£1,146m)
- 2.9 The HRA Business Plan is based on a policy for a minimum level of HRA balance of £1.5m 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.
- 2.10 The forecast balances on HRA and Reserves are as follows:

| | HRA Working Balance | Major Repairs Reserve |
|-----------------------------|---------------------|-----------------------|
| | £'000 | £'000 |
| Balance at 1/4/2018 | 1,939 | 6,032 |
| Surplus/(Deficit) | 312 | |
| Revenue Contribution | | |
| Depreciation | | 5,647 |
| Major Works expenditure | | (6,051) |
| Estimated Balance 31/3/2019 | 2,251 | 5,628 |
| Surplus/(Deficit) | 29 | |
| Revenue Contribution | | |
| Depreciation | | 5,634 |
| Major Works expenditure | | (4,815) |
| Estimated Balance 31/3/2020 | 2,280 | 6,447 |
| | | |

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

2.12 At 31 March 2018, the HRA working balance had two ring fenced elements; self-insurance £275k and special projects £1.170m.

3 Rent Levels for 2019/2020

3.1 The Council has been following the Government's guidance on rents for social housing since December 2001. In May 2014, the Government issued new guidance setting out its policy on rents for social housing from April 2015 (for rents to increase annually by September CPI + 1.0%).

3.2 The Welfare Reform and Work Act 2016 suspended this policy from 2016/2017 and rents on social housing properties are to be reduced by 1% a year for a four year period. The financial year commencing 1st April 2019 is the last year that the rent reduction is to be applied to all socially rented and affordable rented properties

3.3 Rents for Shared Ownership properties are excluded from the Welfare Reform and Work guidance. However, it is recommended that rents for all Shared Ownership properties are reduced by 1%.

3.4 Every six to seven years 53 Mondays fall in a financial year and this will be the case for 2019/2020. As rent debts are raised on Mondays this means that the HRA ordinarily benefits from an 'extra' week's rents when there are 53 Mondays in a year.

3.5 This creates the following two immediate issues:

- The 1% rent decrease under Welfare Reform Act 2016 means that the 53 week year can be interpreted as taking the Council over the required 1% decrease. The MHCLG initial response was that the reduction had to be applied on an annual basis and that landlords would either have to offer up a rent free week or collect 52 weeks' worth of rent over 53 payments (effectively reducing the weekly rent by 1.27%). Either way the Council would lose a week's rent (£280k) and furthermore a 53 week rent year would have a lasting impact of reducing rental income for future years (£40k for 2020/2021 and increasing by CPI+1% annually thereafter). However a number of authorities are challenging this view and have interpreted the legislation differently arguing that rents are calculated on a daily basis and collected weekly, thus allowing for 53 weeks' worth of rent to be charged as normal. MHCLG officials have emphasised that it is for individual authority to satisfy itself that it is complying with the legal position.
- A further complicating issue is that Universal Credit (UC) legislation does not allow for 53 Monday years and therefore UC Claimants would find themselves a week in arrears if charged 53 week's rent. It has been suggested that this could be amended through a statutory instrument; however the Department for Work & Pensions (DWP) is not supportive of this approach. Alternatively Government could resolve this through somehow topping up rents for 2019/2020. However there is no detailed view on what this solution might be.

3.6 The budget figures currently include a 1% reduction over the 52 week year.

3.7 Given the complexity of the issues raised it is recommended that delegated authority be given to the Chief Finance Officer, in consultation with the Cabinet Portfolio holders for Financial Services and Direct Assistance Service, to take measures in the management of the Week 53 rent year.

4 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 Sheltered Accommodation the charges additionally include Scheme Managers, 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. The services charges are outlined in more detail in the following sections.

5 The Supported Housing Service

5.1 The review of the sheltered housing service and the continuing organisational change within the Council is reflected in the service charge.

5.2 The service charge has been updated to reflect the 2019/2020 budget to achieve full cost recovery.

5.3 The communal element of the service charge is eligible for housing benefit and Universal Credit

5.4 The above review is planned to be completed in the first quarter of 2018/2019, it is therefore recommended that delegated authority be given to the Director of Service Delivery, in consultation with the Portfolio Holders for Financial Services and Direct Assistance Service, to set the Supported Housing Service Charge that covers the costs incurred in the provision of the service.

6 The Supported Housing Service Charge

6.1 Following the withdrawal of East Sussex County Council from the Supporting People scheme, the Council introduced, from May 2016, a redesigned Support Scheme for tenants in sheltered accommodation.

6.2 The charge for 2018/2019 was £2.89 per week. The charge has now been reviewed to reflect experience of the redesigned scheme. The charge achieves full cost recovery and will increase to £3.04 per week in 2019/2020.

7 The Homeless Accommodation Service Charge

7.1 The service charge relates to the services provided at homelessness accommodation held within the Housing Revenue Account.

7.2 The Homeless Accommodation Service Charge for 2019/2020 has been reviewed, in accordance with agreed Council policy, to achieve full cost recovery. The communal element of the service charge is eligible for housing benefit and Universal Credit.

8 The Communal Service Charge

8.1 The charge recovers the cost of communal services provided to non-sheltered flats. The services provided include grounds maintenance, maintenance of lifts, caretaking and cleaning, door entry & alarm systems, TV aerials, laundry services and communal lighting.

8.2 The average service charge is £5.22, with the lowest at £0.33 and the highest at £15.38. The communal element of the service charge is eligible for housing benefit and Universal Credit.

9 Other Service Charges

9.1 All other service charges have been updated to reflect the 2019/2020 budget and achieve full cost recovery. This includes charges for digital television reception, residual lifeline services and domestic cookers provided at certain properties.

10 Garage Rents

10.1 Garage Rents are not within the scope of Government control. It is left to each

Council to formulate their policy on garage rents.

- 10.2 A market review of garage rents is undertaken every five years and in November 2015, District Valuer Services undertook a review of market rents. The new rents were implemented from April 2016. Following a market review, garage rentals are updated each subsequent year by September RPI (3.30%).

11 Capital Programme

- 11.1 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. Total budget expenditure for 2019/2020 is £5,015,000.

- 11.2 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.

- 11.3 The majority of schemes approved as part of the Stock Improvement Programme and Ashington Gardens Development, which are funded from HRA resources, are expected to be completed by the end of the current year. If there is any slippage this will be re-profiled as part of the year end process. This programme has been funded from borrowing, capital receipts and HCA grant.

12 Consultation

- 12.1 The rent decrease reflects the requirements under the Welfare Reform and Work Act 2016.

- 12.2 A copy of this report will be considered by the next meeting of the Scrutiny Committee on 7 February 2019. Any feedback will be reported verbally.

- 12.3 An integral part of the Budget process is a constructive dialogue with The Tenants of Lewes District Group (TOLD). Officers will meet with TOLD to review the Revenue Budget and Capital Programme.

13 Corporate plan and council policies

- 13.1 This report contributes to delivering the Council's vision for a housing market which includes affordable housing for those families in need and for a sustainable asset base contributing effectively to the delivery of public services. Rents will be more affordable following the reduction in rent proposed and increases in service charges to our customers have been kept to the minimum required to cover the costs of delivering these services.

14 Outcome expected and performance management

- 14.1 The HRA budget will be monitored regularly during 2019/2020 and performance will be reported to members quarterly.

- 14.2 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

15 Financial appraisal

15.1 These are included in the main body of the report

16 Legal implications

16.1 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 there are funded by rents and other income.

16.2 Section 76 of the 1989 Act states that budgets must be set for the HRA 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.

16.3 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.

16.4 The Welfare Reform and Work Act 2016, passed in March 2016, set the rent setting policy for 4 years whereby social rents in England are to be reduced by 1%. In October 2017 the government confirmed details for future social rents and for the five years from 2020/2021 providers will be 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.

16.5 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 why Cabinet is being asked to recommend its budget proposals to Council.

17 Equality analysis

17.1 The 1% reduction in rents will have a short term positive impact on all existing tenants and for those in the Council's Shared Ownership properties. However, it is considered unsustainable for the provision of longer term housing needs.

17.2 There are moderate changes in service charges (including heating charges) which continue to be set at levels to achieve full cost recovery.

18 Conclusion

18.1 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 £29k for 2019/20.

- 18.2 The underlying HRA surplus has decreased between 2018/2019 and 2019/2020 principally due to a 1% rent decrease & rental movements £307k; the major variance are listed at paragraph 2.3 above.
- 18.3 The HRA working balance at 31 March 2020 is forecast to be £2.280m. The Major Repairs Reserve is forecast to have a balance of £6.447m.
- 18.4 The rent levels have been prepared in accordance with the government's requirement to reduce rents by 1% a year for each of the four years from 2016-2017 based on the rent charge as at 8 July 2015.
- 18.5 Service charges set at a level to recover the expected actual cost to be incurred for the respective properties in the forthcoming year.
- 18.6 Garage rents are recommended to increase, in line with the September RIP, by 3.3%.
- 18.7 Total budgeted expenditure on the HRA Capital Programme is planned at £5.015m for 2019/2020. All planned capital expenditure is solely on major repairs or disabled adaptations, which is funded from cash backed depreciation, but consideration of new schemes is being considered now that the borrowing debt cap has been lifted. The Major Repairs programme is in line with the asset management plan and HRA business plan model.

Appendices

1. HRA 2018/2019 Revised budget and 2019/2020 Budget
2. HRA Capital Programme 2018/2019-2021/2022

Background papers

The background papers used in compiling this report were as follows:

HRA 2019/20 Budget working papers held by Lewes District Council
HRA Self Financing 30 year Business Plan

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