

Report to: Cabinet

Date: 5 February 2020

Subject: Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2020/21 and HRA Capital Programme 2019-23

Report of: Chief Finance Officer

Cabinet member: Councillor Stephen Holt, 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 2020/21, and the HRA Capital Programme 2019/23.

Decision type: Budget and policy framework

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

- i) The HRA budget for 2020/21 and revised 2019/20 budget as set out in Appendix 1.
- ii) That social and affordable rents (including Shared Ownership) are increased by 2.7% in line with government policy.
- iii) That service charges for general needs properties are increased by 2.7% (CPI +1%).
- iv) That the service charge for the Older Persons' Sheltered Accommodations increases by an average of 0.5%.
- v) That the Support charges for Sheltered Housing Residents are set at £7.70 per unit, per week, increase of 20p.
- vi) That heating costs are increased by 2.7% (CPI+1%) in line with estimated costs set at a level designed to recover the actual cost.
- vii) That water charges are increased by 2.7% (CPI+1%) designed to recover the estimated cost of metered consumption.
- viii) Garage rents are increased by 3.4% (September RPI+1).

Recommendation cont.:	<p>ix) To give 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.</p> <p>x) The HRA Capital Programme as set out in Appendix 2</p>
Reasons for recommendations:	The Cabinet has to 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 Housing Revenue Account (HRA) records expenditure and income on running the council's housing stock and closely related services or facilities provided primarily for the benefit of the council's own tenants.

The HRA is a statutory ring-fenced account required to be self-financing, as such, expenditure has to be entirely supported from rental and other income with the main tool for the future financial management of the HRA being the 30-Year Business Plan.

- 1.2 The Business plan has recently been updated and shows income matching expenditure after year 2. This is because any excess balance over the minimum set balance of £1.7m will be used to fund the Capital Programme before borrowing is used. The revenue reserve will not increase over the 30 years as resources are diverted to repay loans.

As outlined in the previous report, any significant changes to the assumptions underpinning the Business Plan will trigger a full review to assess the impact, however, there will be an annual review and update carried out.

- 1.3 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 2020/21 HRA Revenue Budget

- 2.1.1 The 2020/21 budget mirrors the HRA 30-Year Business Plan and is attached at Appendix 1.

- 2.1.2 For the 2020/21 budget, £3.581m shortfall is expected compared to shortfall of £608k in 2019/20, increase cost of £2.973m. The increase in shortfall is as a result of £3.656m revenue contribution to the Capital Programme in 2020/21 compared to a contribution of £680k in 2019/20, an increase of £2.976m.

This 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. Once this contribution is made, there will still be £1.749m in the HRA working balance.

- 2.1.3 Key variances between 2019/20 and 2020/21 are:

- Rent, Service Charge and Other Income – increased income of £124k
- Depreciation – increased cost of £73k
- Loan Charges – an increased cost of £30k
- Interest Receivable – an income reduction of £25k
- Management Costs – a reduced cost of £7k

- 2.1.4 The Major Repairs Reserve is funded from cash backed depreciation of £4.307m plus inflation per year and is expected to breakeven in the short, medium and long term. Setting depreciation at this level may require review once the results of the imminent stock survey are received and the demands of the asset management plan in the longer term are better understood. The Major Repairs Reserve is used solely to finance the capital programme.

- 2.1.5 From April 2012 local authorities with retained housing stock became “self-financing”. This meant that they were able to fully retain the money they receive in rent in order to plan and provide services to their current and future tenants. As part of becoming self-financing Eastbourne BC took on debt distributed by Government based on their ability to service that debt. The HRA debt outstanding at 31.03.19 was £42.649m which was the maximum borrowing permitted under the self-financing settlement. Now that the Government has removed the ‘borrowing cap’ in the HRA to enable Councils to build more homes, the outstanding debt at 31.03.21 is estimated to increase to £43.650m.

- 2.1.6 The Council’s treasury management advisors are predicting a gradual rise in interest rates going forward into 2020/21 and the interest budget has been prepared on this basis.

- 2.1.7 The 2019/20 revised budget is expected to be in deficit by £608k compared to a £3k deficit predicted in the original budget. The deficit will be funded from balances and is mainly as a result of an additional revenue contribution to capital expenditure of £680k. In addition, a £200k transfer from reserves will no longer take place. Other, less significant variances are as follows:

- a net increase in rental income of £190k
- an increase in Supervision and Management costs of £21k
- interest adjustments resulting in reduced costs of £106k

- 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.

The Business Plan is also a statement of the viability of Eastbourne Borough Council 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 highlights the approach of that service and the HRA into the future based on a policy of maintaining a minimum level of HRA balance at £1.7m to ensure that the HRA remains sustainable in the event of any unforeseen risk arising.

As part of the Council's commitment the Business Plan has been reviewed and as a result it is proposing a capital programme which includes investment in new builds (£27m), the acquisition of new properties (£7m) and annual works to current properties of circa £4m. This increased investment will be enabled by additional borrowing, revenue contributions and applying capital receipts and reserves. Full details are contained in section 2.8.

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

	HRA Working Balance	Major Repairs Reserve (MRR)	Housing Regeneration & Investment Reserve (to be updated)
Balance at 01.04.19	£'000 5,938	£'000 1,064	£'000 2,883
Surplus/(Deficit)	(608)		
Revenue Contribution			500
Depreciation		4,234	
Expenditure Financed from Reserves		(5,298)	(662)
Estimated Balance 31.03.20	5,330	0	2,721
Surplus/(Deficit)	(3,581)		
Revenue Contribution			
Depreciation		4,307	
Expenditure Financed from MRR		(4,307)	
Estimated Balance 31.03.21	1,749	0	2,721

2.2 Rent Levels for 2020/21

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 2020/21, rents can be increased by Consumer Prices Index (CPI) + 1% after four years of 1% rent reductions. The average weekly rent is £79.86 (2018: £77.75)

2.2.2 Although rents for Shared Ownership properties are excluded from Government guidance, the terms of the lease for these properties determine that we should set their rents in line with the socially rented properties. Therefore, it is recommended that rents for all Shared Ownership properties are increased by

2.7%.

2.3 Service Charges

- 2.3.1 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, lift maintenance contracts, communal furniture, carpet maintenance and internal re-decorations. These costs should be charged separately from the rent in those properties to which they apply.
- 2.3.2 For general needs the average service charge decrease is 2% to ensure that costs relating to communal areas are reasonably recovered. In monetary terms, this is an average decrease of 0.14 per unit, per week.
- 2.3.3 For Retirement Court properties in blocks, the average service charge increase is 0.5% to ensure the Council recovers as much communal costs as reasonable which translates to £0.13 per week in monetary terms.

2.4 Support Charge for Sheltered 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 Sheltered Housing blocks.
- 2.4.2 Following the implementation of the Joint Transformation Programme a review of the resources required by the Supported Housing service is to be carried out once the work on the realignment of the budgets has been completed. It is recommended that the support charge of £7.70 per unit per week is implemented which is the first increase in 5 years which also reduces pressure on HRA pending the completion of the review.
- 2.4.3 The above review is to be completed by the second quarter in 2020/21, 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.

2.5 Heating Costs - Older Persons Sheltered Accommodation

- 2.5.1 These charges are set in line with known price decreases or increases predicted by the Department of Energy and Climate Change. For 2020/21, it is recommended that the average charge decrease is 4.2%. This is an average decrease of 8p per week for tenants that pay these charges.

2.6 Water Charges

- 2.6.1 Following the decrease implemented in 2019/20 and in order that actual costs can be recovered, it is recommended for 2020/21 that the charge increase by 2.7%, representing £0.11 per week for tenants that pay these charge.

2.7 Garage Rents

- 2.7.1 It is recommended that garage rents increase by September RPI +1% which amounts to 3.4% following years of no increase, disposals and repurposing of some designated garage sites.

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. Over the 4 year period (covering 2019/20 to 2022/23), a total of £52m has been budgeted with £12.8m earmarked in the 2020/21, representing 25% of the total Capital Programme.

- 2.8.2 The Council will continue to ensure that priority is given to the continued maintenance of its assets to ensure that homes are decent and very well maintained. To this end, the major works element of the programme is in line with the budget set last year and the 30-Year HRA Business Plan model.

Funding of these works is from the Major Repairs Reserve Fund. If the imminent stock survey work shows that investment needs to vary significantly from the amount shown in Appendix 2, then this allocation will be revisited and the revised requirement reported back to Cabinet, highlighting the likely impact on the Business Plan.

- 2.8.3 As the HRA debt cap has been lifted, the Capital Programme includes sums for the acquisition of properties (13 in 2020/21 and 11 in 2022/23) and new build (predominantly the Bedfordwell Road scheme). It should be noted that acquisitions are based on cost modelling and not actual acquisitions in process.

As properties are identified, each 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). The Bedfordwell Road scheme has been added to the Capital Programme on the basis of the costs outlined in the report elsewhere on this agenda. It should be noted that this scheme presents a challenge to the Eastbourne HRA 30-Year Business Plan and, once it has been transferred to the HRA, will need to be monitored closely and carefully to ensure that it stays on track- otherwise there could be a significant impact in the medium term.

- 2.8.4 A provision of £500k has been made in 2020/21 for a sustainability pilot to take place. This will help Eastbourne Borough Council move towards meeting its target of achieving zero carbon emissions and full climate resilience by 2030. The Business Plan report on this agenda which preceded this report sets out the steps to be taken to ensure that this budget is spent efficiently and effectively to achieve maximum benefit from the pilot.

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 2019/20 was set at £7,650,000. It is proposed that the management

fee for 2020/21 will be £7,748,000. This takes into account reducing the fee for one-off additions made in 2019/20 and increasing it for new enhanced services to be discussed and agreed with the Board of Eastbourne Homes Ltd. Inflation has also been added.

- 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 Finance Services and the Chief Finance Officer.

3 Outcome Expected and Performance Management

- 3.1 The HRA budget will be monitored regularly during 2020/21 and performance will be reported to members 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 The rent increase reflects the requirements under The Direction on the Rent Standard 2019 together with the Rent Policy Statement for Social Housing February 2019.
- 4.2 A copy of this report will be considered by the Board of Eastbourne Homes Ltd in March 2020 and by the Scrutiny Committee on 3rd February 2020. Any feedback will be reported verbally.

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 2016-2020 Corporate Plan. The proposals contained within this report flow directly from the HRA 30-Year Business Plan, which itself aligns with the draft 2020-2024 Corporate Plan, currently under development. 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, which was previously considered on this agenda.

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 there are funded by rents and other income.
- 8.2 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.
- 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 The Welfare Reform and Work Act 2016, passed in March 2016, set the rent setting policy for 4 years whereby social rents in England were to be reduced by 1%. In October 2017 the government confirmed details for future social rents and from 2020/21 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.
- 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 why Cabinet is being asked to recommend its budget proposals to Council.

9 Risk Management Implications

- 9.1 The 2020/21 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. In particular, the Bedfordwell Road scheme will need constant monitoring, as any variation to costs or timelines could render the HRA 30-Year Business Plan unviable in the medium term.
- 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;

10.2 Changes to charges will impact the protected groups of age and disability, additionally those experiencing homelessness and potentially carers may be impacted.

10.3 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.

11 Sustainability Implications

11.1 Setting aside £500k in 2020/21 in the HRA Business Plan will help Eastbourne Borough Council meet its target of becoming carbon neutral by 2030.

12 Appendices

- Appendix 1 - HRA 2019/20 Revised Revenue Budget and 2020/21 Budget
- Appendix 2 - HRA Capital Programme 2019/20-2022/23

13 Background Papers

- HRA 2020/21 Budget Working Papers
- HRA 30-Year Business Plan Model
- HRA Right to Buy Model
- Equalities and Fairness Analysis