

Report to: Cabinet

Date: 10 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 Zoe Nicholson, Leader of Council, Cabinet Member for Finance

Ward(s): All

Purpose of the report: To agree the detailed HRA budget proposals, rent levels, service charges for 2020/21, and the HRA Capital Programme 2019-23

Decision type: Key Decision

Recommendation: Members are 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 private sector leased property rents are increased by 3.4% (RPI+1%).
- iv) That the revised service charges are implemented
- v) That garage rents are increased by 3.4% (RPI+1%).
- vi) The HRA Capital Programme as set out in Appendix 2

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 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 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, but, in any event, there will be an annual review and update.

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 The 2020/21 budget is showing a surplus of £335k compared to a surplus of £496k in 2019/20, a decrease of £161k. Rent, Service Charges and other income increases of £181k are offset by increases in the following costs:

- Depreciation £116k
- An inflationary uplift in repairs £107k
- An inflationary uplift in management costs of £106k
- A reduction in interest receivable of £13k

The HRA 30-year plan sets out an ambitious programme of delivery. The additional resourcing requirements to support delivery of the business plan is £190k.

2.1.3 The Major Repairs Reserve is funded from cash backed depreciation of £4.546m 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.

2.1.4 The HRA debt outstanding at 31.03.19 was £56.673m which was the maximum borrowing permitted under the self-financing settlement. The outstanding debt at 31.03.21 is estimated to be the same. 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 approximately £15k.

2.1.5 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.

- 2.1.6 The HRA outturn for 2019/20 is expected to deliver a £496k surplus, an improvement of £467k over the original budget. This is as a result of a net increase in rental income of £211k and a net reduction in operational cost depreciation costs of £324k and interest adjustments of £68k.
- 2.1.7 The HRA Business Plan is based on a policy of maintaining a minimum level of HRA balance at £1.5m. This is deemed to be a prudent level of reserve to ensure that the HRA remains sustainable in the event of any unforeseen risk arising.
- 2.1.8 The forecast balances on HRA and Reserves are as follows:

	HRA Working Balance	Major Repairs Reserve (MRR)
	£'000	£'000
Balance at 1.4.19	2,667	6,909
Surplus/(Deficit)	496	
Depreciation		5,000
Expenditure Financed from MRR		(4,803)
Estimated Balance 31.3.20	3,163	7,106
Surplus/(Deficit)	335	
Depreciation		5,116
Expenditure Financed from MRR		(11,565)
Estimated Balance 31.3.21	3,498	657

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.
- 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 Sheltered Accommodation the charges additionally

include Scheme Managers, 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 **The Communal Service 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.

The average service charge is £5.12, with the lowest at £0.68 and the highest at £17.82. The communal element of the service charge is eligible for housing benefit and Universal Credit.

- 2.3.3 **The Homeless Accommodation Service Charge:** The service charge relates to the services provided at homelessness accommodation held within the Housing Revenue Account.

The Homeless Accommodation Service Charge for 2020/21 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.

- 2.3.4 **Support Charge for Sheltered Housing:** 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.

The charge for 2019/20 was £3.04 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 £3.23 per week in 2020/21.

- 2.3.5 **Sheltered Accommodation Service Charge:** The service charge has been updated to reflect the 2020/21 budget to achieve full cost recovery. The communal element of the service charge is eligible for housing benefit and Universal Credit.

- 2.3.6 All other service charges have been updated to reflect the 2020/21 budget and achieve full cost recovery. This includes charges for digital television reception, residual lifeline services and domestic cookers provided at certain properties.

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.

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 2020/21 is £15.467m.

- 2.8.2 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 is from the Major Repairs Reserve. The Council is undertaking a comprehensive stock survey to ensure its housing stock is well maintained. The annual budget provision for major work is £4.448m. Any investment requirements varying significantly from the existing provision will be subject to further cabinet approval and a revision of the Business Plan.
- 2.8.3 Now that the HRA debt cap has been lifted, the Capital Programme includes sums for the acquisition of properties (10 per year) and new builds (50 per year). It should be noted that both are based on cost modelling and not actual acquisitions or schemes in the pipeline. 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 will need to be brought back to Cabinet for approval. The reports will include an analysis of the effects on the Business Plan.
- 2.8.4 The Council is committed to meeting its target of achieving zero carbon emission and full climate resilience by 2030. Recognising that housing is an integral part of its sustainability plans, the budget includes a provision of £500k to be invested in emerging initiatives.
- 2.8.5 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.

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 Scrutiny Committee on 6th 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 Lewes 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.

- 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;

- Negative impacts
- Positive impacts
- Mitigating actions

All groups protected under the Equality Act should benefit from the Council's ability to provide more, and better, affordable housing from 2020/21 onwards. The Equality and Fairness Analysis has been included as a background paper

11 Sustainability Implications

- 11.1 Setting aside £500k in 2020/21 in the HRA Business Plan will help Lewes District Council move towards meeting its target of achieving zero carbon emissions and full climate resilience 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