

BODY: CABINET

DATE: 5 February 2014

SUBJECT: HRA Revenue Budget and Rent Setting 2014/15 and HRA Capital Programme 2013/16

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 2014/15, and the HRA Capital Programme 2013/17.

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Recommendations: Members are asked to recommend the following proposals to full Council:

- i) The HRA budget for 2014/15 and revised 2013/14 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 4.68%.
- iii) That void HRA properties which are due for re-let are moved to target rent automatically,
- iv) That service charges for general needs properties are increased by 2.75%, slightly below the RPI index,
- v) That the service charges for the Older Persons Sheltered Accommodation currently available for let are increased by 4.83%.
- vi) That heating costs are set at a level designed to recover the estimated actual cost.
- vii) That water charges are set at a level designed to recover the estimated cost of metered consumption.
- viii) That garage rents are set to increase by 4.68% in line with the average increase in housing rent.
- ix) To give delegated authority to the Senior Head of Community, 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.
- x) The HRA Capital Programme as set out in **Appendix 2**.

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 2014/15 HRA Revenue Budget

- 2.1 The 2014/15 budget has been prepared following the principles adopted within the HRA 30 year Business Plan and is attached at **Appendix 1**.
- 2.2 The 2014/15 budget is showing a surplus of (£307,760) which is due to a number of one off favourable factors as listed below.
- 2.3 The major changes between the 2013/14 and the 2014/15 budgets are:

Income increases and expenditure reductions:

- Effect of rent and service charge review -£640,630
- Fall out of premia for early debt repayment in prior years -£148,750
- Preliminary reduction in EHL Management Fee -£100,000
- Change in requirement for Revenue Contribution to Capital -£74,820
- Change in provision for bad debts, see (2.4) below -£343,500

Increase in Expenditure and income reductions:

- Change from 53 week rent year to 52 weeks £263,250
- Depreciation, in line with Business Plan to cover the future requirements of the Asset Management Plan £202,650
- Contribution to Housing Regeneration Reserve £500,000

- 2.4 An increase to the Provision for Bad Debts was included in the 2013/14 budget to deal with the increased risk to rent collection from benefit changes. Based on the actual rent collection performance this risk has decreased, however a prudent increase over 2012/13 has still been included in the 2014/15 budget.
- 2.5 The Business Plan allows 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 will start to exceed the capital spending requirements.

- 2.6 The HRA debt outstanding at 31.3.13 was £36.2m rising to £38.7m by 31.3.16 the majority of which will be external debt and at fixed interest rates. The increase in borrowing of £2.5m is expected to be undertaken mainly to support the SHEP 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 2014/15 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 2013/14 is expected to deliver a (£314,950) surplus, a positive variance of £450,400 over the original budget (3.4% of gross expenditure). This is mainly as a result of the decrease in the requirement of the provision of bad debts of £390,000 and a decrease in the amount of interest payable of £65,000 from the continuing lower interest rates anticipated last year.
- 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 Regeneration & Investment Reserve £'000
Balance at 1.4.13	2,179	2,671	298
Surplus/(Deficit)	315		
Depreciation		3,392	530
Major Works expenditure		-5,934	
Estimated Balance 31.3.14	2,494	129	828
Surplus/(Deficit)	308		
Revenue Contribution			500
Depreciation		3,504	603
Major Works expenditure		-3,633	-1,094
Estimated Balance 31.3.15	2,802	0	837

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

3.0 Rent Levels for 2014/15

- 3.1 On 5 December 2001, the Council agreed that housing rents would be set in accordance with the Governments proposals to achieve rent convergence for all social tenancies over a ten year period, using the government's specified rent convergence formula. The timetable for convergence was subsequently extended. Under the HRA self-financing settlement the government has assumed that rent convergence is achieved in 2015/16.
- 3.2 To avoid any large variation in the rent level from one year to the next, the Government proposals limited any changes to individual tenants' rents to a maximum of £2 per week, plus RPI plus 0.5% each year.
- 3.3 The RPI for September 2013 was 3.2% and this plus the 0.5% increase gives a formula rent increase of 3.7% for 2014/15.
- 3.4 For 2013/14 the average rent levied over 53 weeks a year was £74.51. After allowing for the damping mechanism referred to in 3.2, the average rent for 2014/15 for the properties to be retained within the HRA will be £77.89, an increase of 4.68 %.
- 3.5 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 and could potentially move all their properties to target rent simultaneously.
- 3.6 As the majority of EBC owned properties (84%) have already reached their target rent, it is recommended that all void properties that are due to be re-let are moved to target rent automatically. This will maximise the number of tenants that have reached rent convergence by the assumed convergence date of 2015/16 and increase the income to the HRA before the existing rent calculation formula ceases.
- 3.7 Within the recent 2013 spending review, it was announced that social housing rents will increase by CPI (Consumer Price Index) +1% after 2014/15 until 2024/25. The revised formula, which is set to run for 10 years starting in 2015/16, will replace the existing formula.
- 3.8 Modelling this change into the Business Plan has identified that there will be little impact on the HRA, due to the Council having reached convergence by the new cut off date and the difference between the old and new rent formulae being minimal as it amounts to less than six pence in the pound over twenty years.

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 2014/15.
- 4.3 For general needs properties in blocks the average service charge increase is 2.75%. For Older Persons Sheltered Accommodation the average service charge increase is 4.83% for those properties available for let.

5.0 Heating costs - Older Persons Sheltered Accommodation

- 5.1 These charges are set in line with known price increases experienced in 2013 and predicted future costs. For 2014/15, it is recommended that the average charge increase is 1.78%. This is an increase of 12p per week for those properties available to let.

6.0 Water Charges

- 6.1 These charges are set in line with meters being fitted to all of the retirement courts. For 2014/15, it is recommended that the average charge increase is 3%. This is an increase of 10p per week for those properties available to let.

7.0 Garage Rents

- 7.1 Following the increase in garage rent in line with housing rents last year, garage void rates are slowly decreasing. The progress of this extra income still remains slow as the majority of repairs needed to the garage stock are major works requiring longer periods of time to repair and let.
- 7.2 It is therefore recommended that Garage rents are increased in line with the average increase in housing rents of 4.68%.

8.0 HRA Capital Programme 2014/15 to 2016/17

- 8.1 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 budgeted expenditure for 2014/15 is £9,771,000.
- 8.2 The Decent Homes work is due to be completed by the end of 2013/14 and the remodelling of Older Persons Sheltered Accommodation by 2014/15.
- 8.3 The major works element of the programme is in line with the asset management plan and the self financing business plan model. Funding is mainly from the Major Repairs Reserve with a small contribution from revenue balances as set out in 2.5 above.
- 8.4 Cabinet on 4th September 2013, agreed a budget of £2.3m for the Support for Housing in Eastbourne Programme (SHEP), out of the total allowance of £20m HEDP programme. 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 Negotiations are in progress to reduce the management fee paid to EHL for the year 2014/15 by up to £100,000. Should these negotiations be successfully concluded, the management fee will be circa £6.7m.
- 9.2 The Management Fee covers both Operational and Administration costs as well as cyclical maintenance. There is currently pressure on the maintenance budget requirement for void properties and it therefore maybe necessary to introduce an element of flexibility to transfer some of the MRR capital funding to EHL to cover this cost. It is recommended that this decision be included in the delegation set out below.
- 9.3 To formally agree the management fee Members are asked to delegate this responsibility to the Senior Head of Community, 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 national policy on rent convergence. In December 2001 the Council adopted a policy of achieving convergence, based on consultation with its tenants at the time. Additional consultation was carried out through a meeting of the Eastbourne Homes' Residents Scrutiny Panel held in January 2014.
- 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 (£307,760) for 2014/15. This is mainly due to a number of favourable factors including the rent and service charge review, the change in requirement for the provision of bad debts and the savings from Treasury Management activities on borrowing.
- 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 4.68%.
- 12.3 Following the change to self financing in the HRA, void rents are recommended to move to target routinely.
- 12.4 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.
- 12.5 Garage rents are recommended to increase in line with the average increase in housing rents 4.68%.
- 12.6 Total budgeted expenditure on the HRA Capital Programme is planned at £9,771,000 for 2014/15, £4,258,000 for 2015/16 and £4,195,000 for 2016/17. The Decent Homes work is due to be completed during 2013/14 and the remodelling of the sheltered accommodation by 2014/15. 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 2014/15 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.