

Report to: Cabinet

Date: 3 February 2022

Subject: Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2022/2 and HRA Capital Programme 2021-25

Report of: Homira Javadi, Chief Finance Officer

Cabinet member: Councillor Zoe Nicholson, Leader of the Council, Chair of Cabinet and Cabinet Member for Finance and Assets

Ward(s): All

Purpose of the report: To agree the detailed HRA budget proposals, rent levels, service charges for 2022/23 and the HRA Capital Programme 2021-25

Decision type: Budget and policy framework

Recommendation: Members are asked to recommend the following proposals to Full Council:

- i) The HRA budget for 2022/23 and revised 2021/22 budget as set out in Appendix 1
- ii) That social and affordable rents (including Shared Ownership) are increased by 4.1% in line with government policy
- iii) That private sector leased property rents are increased by 4.1% (CPI+1%).
- iv) That the revised service charges are implemented
- v) That garage rents are increased by 4.86% (RPI).
- 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 HRA-related income. The main tool for the future financial management of the HRA is the 30-Year Business Plan.
- 1.2 Any significant changes to the assumptions underpinning the 30-Year 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 2022/23 HRA Revenue Budget

- 2.1.1 The 2022/23 budget is attached at **Appendix 1**
- 2.1.2 The 2022/23 budget is showing a deficit of £326k compared to a deficit of £312k in the 2021/22 revised budget, an increase of £14k. It should be noted that these deficits are short-term and sustainable in the context of the HRA 30-Year Business Plan and that, based on current projections, the account will be in surplus again with effect from 2023/24.
- 2.1.3 Rent, Service Charges and other inflationary income increases of £786k are offset by inflationary increases in costs of £795k. There has also been a decrease in interest receivable of £5k.
- 2.1.4 The Major Repairs Reserve is funded from cash backed depreciation of £5.4m plus inflation per year and is expected to breakeven in the short, medium and long term. Setting depreciation at this level may require review now that the results of the stock survey have been received and the demands of the asset management plan in the longer term are better understood.
- 2.1.5 The HRA external debt outstanding at 31.03.21 was £56.673m which was the maximum borrowing permitted under the self-financing settlement. The outstanding debt at 31.03.23 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 currently approximately £18k.
- 2.1.6 The Council's treasury management advisors are predicting a gradual rise in interest rates going forward into 2022/23 and the interest budget has been prepared on this basis.

2.1.7 The HRA outturn for 2021/22 is expected to deliver a £312k deficit, an improvement of £383k over the original budget. This is mainly due to:

- the deletion of a revenue contribution to the Capital Programme (£992k) – this is no longer required as the Capital Programme has reduced
- a net increase in costs of £549k – this has arisen as a result of a review of management costs
- a net reduction in expected income of £60k

2.1.8 The HRA Business Plan is based on a policy of maintaining a minimum level of HRA balance at £2.275m. 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.

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

	HRA Working Balance	Major Repairs Reserve (MRR)
	£'000	£'000
Balance at 1.4.21	3,322	9,359
Surplus/(Deficit)	(312)	
Depreciation		5,185
Expenditure Financed from MRR		(8,084)
Estimated Balance 31.3.22	3,010	6,460
Surplus/(Deficit)	(326)	
Depreciation		5,453
Expenditure Financed from MRR		(10,825)
Estimated Balance 31.3.23	2,684	1,088

The Major Repairs Reserve is used to fund the Capital Programme and it can be seen from Appendix 2 that the use of this reserve prevents the necessity for the Council to borrow in either 2021/22 or 2022/23.

2.2 Rent Levels for 2022/23

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 2022/23, rents can be increased by Consumer Prices Index (CPI) + 1% which equates to 4.1%. The average weekly social rent will be £94.26 and average affordable weekly rent will be £168.48

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 4.1%.

2.3 Service Charges

- 2.3.1 Homes First have commenced a service charge project to ensure tenants are fully informed about the service charges being applied to their rent accounts and that full recovery of costs is being achieved. The service charges for 2022/23 have been calculated using a combination of actual costs from 2020/21 and estimates where more appropriate for 2022/23. For properties that share services, these charges cover common services such as communal heating, lighting, equipment maintenance contracts, cleaning, and grounds maintenance. In Retirement Housing Accommodation, the charges additionally include Retirement Housing Advisers staff costs. These costs should be charged separately from the rent in those properties to which they apply.

It should be noted that, in a year when inflation is particularly high, full cost recovery could mean that some service charge increases could prove challenging (in particular energy charges). Homes First will review the level of these charges and offer support where possible to mitigate the impact on individual tenants.

- 2.3.2 **The Communal Service Charges** recover the cost of communal services provided to non-sheltered flats. The various services provided include grounds maintenance, maintenance of lifts, cleaning, door entry & alarm systems, TV aerials, laundry services and communal lighting.

The average service charge is £5.34 (2021/22: £5.15) with the lowest at £0.94 and the highest at £20.84. 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 2022/23 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 21/22 was £3.23 per week. The charge for 2022/23 will be £2.83. This service charge is not eligible for housing benefit.

- 2.3.5 **Sheltered Accommodation Service Charge:** The service charge has been updated to reflect the 2022/23 budget to achieve full cost recovery.

The communal elements of the service charges are eligible for housing benefit and Universal Credit.

- 2.3.6 All other service charges have been updated to reflect the 2021/22 actuals and achieve full cost recovery. This includes charges for digital television reception, residual lifeline services and domestic cookers provided at certain properties.

2.4 Garage Rents

- 2.4.1 It is recommended that garage rents increase by September RPI which amounts to 4.86%.

2.5 Capital Programme

- 2.5.1 The Capital Programme set out in Appendix 2 reflects the proposals contained within the HRA 30-Year Business Plan. Total budgeted expenditure for 2022/23 is £12.901m.

- 2.5.2 The budget for the major works element of the programme (£3.1m) has been set following a comprehensive stock survey that has taken place during the past year. This sum and all sums required over the next 30 years are deemed to be the level of investment needed to ensure that Lewes' housing stock is well maintained. The annual budget provision for major works was previously set at around £4.5m. The results of the new stock survey have been modelled into the latest version of the Business Plan. Funding for the major works programme comes mainly from the Major Repairs Reserve, topped up by Revenue Contributions when required. Annual allocations of £415k for disabled adaptations and £50k for recreation and play areas are added to the programme, since these would not be included in the stock survey figures.

- 2.5.3 The Capital Programme continues to include sums for the acquisition of properties and new builds. 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 either have been brought or will need to be brought to Cabinet for individual approval. The reports will include an analysis of the effects on the Business Plan.

- 2.5.4 The Council is committed to meeting its target of achieving zero carbon emissions and full climate resilience by 2030. Recognising that is an integral part of its sustainability plans, the Capital Programme includes a provision of £100k in 2021/22 and £170k in 2022/23 to be invested in emerging initiatives. Sustainability will be a key driver in developing capital repairs schemes going forwards.

3 Outcome Expected and Performance Management

- 3.1 The HRA budget will be monitored regularly during 2022/23 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 Tenants of Lewes District (TOLD) have been consulted on this report. The proposed rent increase reflects the requirements under The Direction on the Rent Standard 2019 together with the Rent Policy Statement for Social Housing February 2020.

5 Corporate Plan and Council Policies

- 5.1 Delivering Homes is one of the key priorities in the 2020-2024 Corporate Plan – Re-imagining Lewes District. The proposals contained within this report flow directly from the HRA 30-Year Business Plan, which itself aligns with the Corporate Plan. 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.

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.

Lawyer consulted 12.01.21

Legal ref: 010744-LDC-KS

9 Risk Management Implications

- 9.1 The 2022/23 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:
- Changes to charges will impact the protected groups of age and disability. Additionally, those experiencing homelessness and potentially carers may be impacted.
 - Communication around any changes 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 (of which £442k will be spent in 2021/22 and 2022/23) 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. The remaining £442k is broken down as follows:
- 2021/22 revenue spend = £45k, capital spend = £100k
 - 2022/23 revenue spend = £127k, capital spend = £170k

12 Appendices

- Appendix 1 - HRA 2022/22 Revised Revenue Budget and 2022/23 Budget
- Appendix 2 - HRA Capital Programme 2021/22-2024/25

13 **Background Papers**

- HRA 2022/23 Budget Working Papers
- HRA 30-Year Business Plan Model
- HRA Right to Buy Model