

Report to: Cabinet

Date: 9 February 2022

Subject: Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2022/23 and HRA Capital Programme 2021-25

Report of: Homira Javadi, Chief Finance Officer

Cabinet member: Councillor Stephen Holt, Deputy Leader and Cabinet Member for Financial Services

Ward(s): All

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

Decision type: Budget and policy framework

Recommendations: Cabinet is 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 the average General Needs Housing Benefit (HB) Eligible service charge will be £5.04 per week
- iv) That the average HB Eligible service charge for Retirement Housing will be £35.85 per week
- v) That the Support charge for Retirement Housing will be £5.44 per unit.
- vi) That the average Non-HB Eligible heating charges will be £3.49 per week.
- vii) That the average non-HB Eligible water charges will be £3.33
- viii) That Garage rents are increased by 4.86% (September RPI).

- Recommendations cont.:**
- ix) **To grant 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.**
 - x) **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 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 and, 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 continue to be used to fund the Capital Programme. 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 2022/23 HRA Revenue Budget

- 2.1.1 The 2022/23 budget mirrors the HRA 30-Year Business Plan and is attached at Appendix 1.

2.1.2 For the 2022/23 budget, a £160k operating deficit is expected compared to a revised operating surplus of £127k in 2021/22. It should be noted that, in the context of the 30-Year HRA Business Plan, an in-year deficit is not of concern, as the balance on the account at the end of the year remains in surplus (£1.702m).

The contribution to capital expenditure for 2022/23 is estimated to be £2.934m which is an increase of £2.358m on the revised 2021/22 budget. These contributions are made depending on the size of the proposed Capital Programme. Appendix 2 clearly shows that the Capital Programme is expected to increase from 2022/23 onwards.

The contribution to capital expenditure is funded from the HRA Balance, 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 these contributions are made, there will still be £1.702m in the HRA working balance at the end of March 2023.

2.1.3 Other variances between the 2022/23 budget and the 2021/22 revised budget are:

- Rent, Service Charge and Other Income – increased income of £701k
- Depreciation – increased cost of £200k
- Loan Charges – increased cost of £117k
- Reduction in Interest Income – £3k
- Management Costs – increased cost of £474k
- Additional Sustainability Costs (now revenue) – £194k

2.1.4 The Major Repairs Reserve is funded from cash backed depreciation of £4.5m 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 debt outstanding at 31.03.21 was £47.796m. The outstanding debt at 31.03.23 is estimated to be £55.686m. 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 £14k.

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 2021/22 revised budget is expected to be in surplus by £127k compared to the original budget of £389k. The surplus will be transferred to the HRA Balance. Main variances are set out below:

- A shortfall in rental income of £165k – due to less purchases taking place in 2020/21 and 2021/22
- an increase in Supervision and Management costs of £64k
- interest adjustments resulting in increased costs of £33k

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's 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 highlighting 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 four-year capital programme which includes significant investment in new builds (£35.2m), the acquisition of new properties (£12.6m), Major Works (£18.4m) and disabled adaptations (£1.4m). This investment will be enabled by additional borrowing, revenue contributions and applying capital receipts and reserves. More details are contained in Appendix 2.

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

	HRA Working Balance	Major Repairs Reserve (MRR)
	£'000	£'000
Balance at 1.4.21	5,245	2,575
Net Transfer from Reserve	(449)	
Depreciation		4,348
Expenditure Financed from MRR		(6,923)
Estimated Balance 31.3.22	4,796	0
Net Transfer from Reserve	(3,094)	
Depreciation		4,548
Expenditure Financed from MRR		(4,548)
Estimated Balance 31.3.23	1,702	0

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 £83.23 and average affordable weekly rent will be £127.01

- 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 For General Needs tenants the average total for HB Eligible service charges will be £5.04 with the lowest at £0.92 and the highest at £27.28.
- 2.3.3 For Retirement Housing tenants the average total for HB Eligible service charges will be £35.82 per week with the lowest at £27.97 and the highest at £51.37.

2.4 Support Charge for Retirement 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 Retirement Housing blocks.
- 2.4.2 Following the implementation of the Joint Transformation Programme and a review of how Retirement Housing Staff costs are allocated within the service the support charge for 2022/23 will be £5.44 per unit. This service charge is not eligible for housing benefit and the reduction of £2.37 per unit will benefit all Retirement Housing tenants.

2.5 Heating Costs – Retirement Housing Accommodation

- 2.5.1 Heating costs have been calculated based on actual figures from 2020/21. The average cost per unit will be £3.01 with the lowest at £1.69 and the highest at £5.20. Heating costs are related to gas supplied to individual dwellings only and are not eligible for housing benefit.

2.6 Water Charges – Retirement Housing

2.6.1 Water charges have been calculated based on actual figures from 2020/21. The average cost per unit will be £3.27 with the lowest at £1.87 and the highest at £5.68. Water charges relate to water supplied to individual dwellings only and are not eligible for housing benefit.

2.7 Garage Rents

2.7.1 It is recommended that garage rents increase by September RPI which amounts to 4.86% with the weekly average rent being £13.06.

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 2022/23 is £18.210m.

2.8.2 The budget for the major works element of the programme (£5.816m) 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 Eastbourne's housing stock is well maintained. The annual budget provision for major works was previously set at around £4.4m. 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. An annual allocation of £450k for disabled adaptations has been added to the programme with effect from 2022/23, since this would not be included in the stock survey figures.

2.8.3 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.

2.8.4 The Council is committed to meeting its target of becoming carbon neutral by 2030. Recognising that is an integral part of its sustainability plans, the Capital Programme includes a provision of £160k to be invested in emerging initiatives. Sustainability will be a key driver in developing capital repairs schemes going forwards.

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 2021/22 was set at £7,696,000. It is proposed that the management fee for 2022/23 is set at £8,077,000, subject to any final variations.

- 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 Financial Services and the Chief Finance Officer.

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 Residents' Voice have been consulted on this report. The 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 Housing & Development is one of the key themes that shaped the vision for Eastbourne set out in the 2020-2024 Corporate Plan. The proposals contained within this report flow directly from the HRA 30-Year Business Plan, which itself aligns with the 2020-2024 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: 010743-EBC-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 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 (of which £444k will be spent in 2021/22 and 2022/23) in the HRA Business Plan will help Eastbourne Borough Council meet its target of becoming carbon neutral by 2030. The remaining £444k is broken down as follows:

- 2021/22 revenue spend = £45k
- 2022/23 revenue spend = £239k, capital spend = £160k

12 Appendices

- Appendix 1 - HRA 2021/22 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