

**Report to:** Cabinet

**Date:** 2 February 2023

**Subject:** Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2023/24 and HRA Capital Programme 2022-26

**Report of:** Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)

**Cabinet member:** Councillor Zoe Nicholson, Deputy Leader and Cabinet Member for Finance and Assets

**Ward(s):** All

**Purpose of the report:** To agree the detailed HRA budget proposals, rent levels and service charges for 2023/24 and the HRA Capital Programme 2022-26

**Decision type:** Budget and policy framework

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

- i) The HRA budget for 2023/24 and revised 2022/23 budget as set out in Appendix 1
- ii) That social and affordable rents (including Shared Ownership) are increased by 7% in line with government policy issued in December 2022
- iii) That private sector leased property rents are increased by 7% (mirroring the approach to social and affordable rents)
- iv) That the revised service charges are implemented
- v) That garage rents are increased by 7%
- vi) The HRA Capital Programme as set out in Appendix 2

**Reasons for recommendations:** The Cabinet must 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 must be entirely supported from rental and other HRA-related income. The main tool for the 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.
- 1.3 In a departure from existing Social Rent Policy, for 2023/24, the Government consulted Local Authorities and other Social Housing providers on a proposal to cap the rent increase below the usual Consumer Prices Index (CPI) + 1% level, due to the high inflation rates being experienced this year. The outcome of that consultation was the implementation of a rent cap of a maximum 7%. Using September CPI + 1% would have resulted in a potential rent increase of 11.1%.
- 1.4 Capping the rent increase at 7% has clearly impacted the HRA significantly and has resulted in an intense review of all income and costs within the 30-Year Business Plan to identify efficiencies. It should be noted that, like everybody, the Council's costs have increased significantly in some areas. Of particular significance for the HRA are employee costs (Council and contractors), building costs, energy costs and borrowing costs. Had the rent increased by 11.1%, an additional £650k in income may have been available to fund HRA expenditure.

## **2 Proposal**

### **2.1 2023/24 HRA Revenue Budget**

- 2.1.1 The 2023/24 budget is attached at **Appendix 1**.
- 2.1.2 The 2023/24 budget is showing a deficit of £59k compared to a deficit of £1.095m in the 2022/23 revised budget, an improvement of £1.036m. These deficits are sustainable in the context of the HRA 30-Year Business Plan now that a thorough review has been undertaken and cost efficiencies identified.
- 2.1.3 Rent, Service Charges and other inflationary income increases of £1.320m are offset by increases in costs (excluding Repairs and Maintenance) of £907k. There has also been a net increase in interest costs of £102k. Whilst the Repairs and Maintenance budget shows a decrease (£725k) against the 2022/23 revised budget, this is because one-off pressures have been experienced in 2022/23 which will not continue into 2023/24. The 2023/24 Repairs and Maintenance budget has been reset at £629k above the 2022/23 original budget.
- 2.1.4 The Major Repairs Reserve is funded from cash backed depreciation of £5.4m plus inflation per year and will be used to fund expenditure on improving the stock and other HRA assets.

- 2.1.5 The HRA external debt outstanding at 31.03.22 was £51.673m. Internal debt outstanding (borrowed from the General Fund) was £24.236m. The total outstanding debt at 31.03.24 is estimated to be £80.557m. 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 £24k.
- 2.1.6 The Council's treasury management advisors are predicting a gradual decrease in interest rates (from the current relatively high level of 4.5%) over the next three years. The interest budget has been prepared on this basis.
- 2.1.7 The HRA outturn for 2022/23 is expected to deliver a £1.095m deficit, an adverse variance of £769k over the original budget. This is mainly due to:
- a) a net reduction in expected income of £82k – mainly associated with a loss of garage income
  - b) a net increase in costs of £587k made up as follows:
    - a large pressure of £1.354m on the repairs and maintenance budget owing to catch-up works required following the Covid pandemic. This pressure is expected to be “one-off”.
    - efficiencies of £374k identified in management costs
    - depreciation calculated at £405k lower than anticipated when the budget was set
    - a net increase of £100k in interest costs (due to higher-than-expected internal borrowing in 2021/22)
    - other, smaller, savings of £88k being identified
  - c) the inclusion of a revenue contribution to the Capital Programme (100k)
- 2.1.8 The HRA Business Plan is based on a policy of maintaining a minimum level of HRA Working Balance at £2.306m. 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. For 2022/23 and 2023/24, the following table shows that the HRA Working Balance will remain some £1m above the minimum level.
- 2.1.9 The forecast balances on the HRA and Reserves are as follows:

	<b>HRA Working Balance</b>	<b>Major Repairs Reserve (MRR)</b>
	£'000	£'000
<b>Balance at 1.4.22</b>	<b>4,406</b>	<b>10,042</b>
Surplus/(Deficit)	(1,095)	
Depreciation		5,048
Expenditure Financed from MRR		(5,035)
<b>Estimated Balance 31.3.23</b>	<b>3,311</b>	<b>10,055</b>
Surplus/(Deficit)	(59)	
Depreciation		5,445
Expenditure Financed from MRR		(4,965)

<b>Estimated Balance 31.3.24</b>	<b>3,252</b>	<b>10,535</b>
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The Major Repairs Reserve is used to fund improvements to the Council's HRA assets.

## **2.2 Rent Levels for 2023/24**

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 2023/24, rents can be increased by no more than 7%. The proposal to increase rents by the maximum 7% is based on maintaining a sustainable (affordable) HRA Business Plan. Whilst Supported Housing and Shared Ownership properties are exempt from the cap and could be increased by CPI +1% (11.1%), it is proposed to apply a 7% rent increase to all types of stock. The average weekly social rent will be £100.90 and average affordable weekly rent will be £179.59.

## **2.3 Service Charges**

2.3.1 The service charges for 2023/24 have been calculated using a combination of actual costs from 2021/22 and estimates where more appropriate for 2023/24. 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 estimated average service charge for 2023/24 is £5.70 per week (2022/23: £5.34) with the lowest at £0.96 and the highest at £22.30, capped at a 7% increase. 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 2023/24 has been set 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 estimated average service charge for 2023/24 is £3.03 per week (2022/23: £2.83). The service charge has been updated to reflect the 2023/24 budget to achieve full cost recovery, capped at a 7% increase. 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 2023/24 budget to achieve full cost recovery.

The estimated average service charge is £29.51 per week (2022/23: £27.58). The service charge has been updated to reflect the 2023/24 budget to achieve full cost recovery, capped at a 7% increase. 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 2022/23 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 7%, in line with the cap applied to Social Housing rents.

## 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 2023/24 is £16.466m.

- 2.5.2 The budget for the major works element of the programme has been set at £4.5m per annum. This sum and all sums required over the next 30 years reflect an affordable level of investment which will allow Lewes' housing stock to be appropriately maintained. However, although affordable and helping to maintain stock, the sums included may fall somewhat short of works required long-term, as identified in the Stock Condition Survey. Sustainability is and will continue to be a key driver in developing capital repairs schemes. Funding for the major works programme comes from the Major Repairs Reserve. 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 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.

### **3 Outcome Expected and Performance Management**

- 3.1 The HRA budget will be monitored regularly during 2023/24 and performance will be reported to Cabinet 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 for 2023/24 reflects the requirements under The Direction on the Rent Standard 2019 and the Policy Statement on Rents for Social Housing December 2022.
- 4.2 It should be noted that the Council recognises that the current cost of living challenges means that the rent increase and other increases in charges proposed in this report may create further issues for many of our tenants. A range of help and advice is available, and a detailed leaflet can be obtained via the Council's website or by contacting Homes First. An advice sheet will be sent out to all tenants with their rent increase letters at the end of February.

### **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 they are funded by rents and other income.

- 8.2 Section 76 of the 1989 Act requires HRA budgets to be set 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 Section 23 of the Welfare Reform and Work Act 2016 set the rent setting policy for four years whereby local authority social rents in England were to be reduced by 1% each year, commencing on 1 April 2016. In October 2017, the government confirmed details for future social rents and from 2020/21, providers are 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 the decision-making route in the officer's recommendation.

*Date of legal input: 09.01.23*

*Legal ref: 011724-LDC-OD*

## **9 Risk Management Implications**

- 9.1 The 2023/24 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.

- The cost of living crisis has impacted many residents across the board. Not only people of working age but anyone all with limited funds who have been trying to manage the increase in price of food and energy. The Councils have funded local support initiatives including enhanced advice provision. The Councils will continue to maintain the website and Customer Advisor resources to support residents with any queries and concerns they may have relating to the cost of living crisis.

## **11 Sustainability Implications**

- 11.1 Following the investment of £500k over the last two years to kickstart sustainability pilot schemes, the major repairs programme now includes monies to continue to help Lewes District Council move towards meeting its target of achieving zero carbon emissions and full climate resilience by 2030. This challenging target may rely on securing external funding to be fully realised.

## **12 Appendices**

- Appendix 1 - HRA 2022/23 Revised Revenue Budget and 2023/24 Budget
- Appendix 2 - HRA Capital Programme 2022/23-2025/26

## **13 Background Papers**

- Government's Policy Statement on Rents for Social Housing (December 2022) [Policy statement on rents for social housing - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/policy-statement-on-rents-for-social-housing)