

Report to: Cabinet

Date: 1 February 2024

Subject: Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2024/25 and HRA Capital Programme 2023-28

Report of: Homira Javadi, Director of Finance and Performance

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

Ward(s): All

Purpose of the report: To agree the detailed HRA budget proposals, rent levels and service charges for 2024/25 and the HRA Capital Programme 2023-28

Decision type: Budget and policy framework

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

- i) The HRA budget for 2024/25 and revised 2023/24 budget as set out in Appendix 1
- ii) That social and affordable rents (including Shared Ownership) are increased by 7.7% with effect from 1st April 2024, in line with government policy issued in December 2022
- iii) That, with effect from 1st April 2024, when social-rented properties are relet to new tenants, the applicable rent will be increased by 5% above target rent
- iv) That the revised service charges as set out in paragraph 2.3 of this report are implemented with effect from 1st April 2024
- v) That garage rents are increased by 6.7%
- vi) The HRA Capital Programme as set out in Appendix 2
- vii) To note that £5.691m of Major Works expenditure is shown in the Capital Programme in 2024/25 and 2025/26 to improve EPC ratings in HRA properties, this expenditure being the subject of a Government grant bid to secure 50% match-funding

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.

2 Proposal

2.1 2024/25 HRA Revenue Budget

2.1.1 The 2024/25 budget is attached at Appendix 1.

2.1.2 The 2024/25 budget is showing an operating surplus of £479k (before a revenue contribution to capital expenditure is made) compared to a deficit of £375k in the 2023/24 revised budget, an improvement of £854k. It should be noted that, in the context of the HRA 30-Year Business Plan, an in-year deficit is not of concern in either year, as the balance on the account at the end of each year remains in surplus.

2.1.3 The contribution to capital expenditure for 2024/25 is £1,108k. These contributions are made depending on the size of the proposed Capital Programme and the affordability for the Revenue Account. Appendix 2 shows that contributions for 2025/26, 2026/27 and 2027/28 are reduced due to affordability for the Revenue Account. After this, they begin to increase again.

2.1.4 Rent, Service Charges and other inflationary income increases of £2.0m are partly offset by inflationary increases in costs of £912k. There has also been a net increase in interest costs of £234k.

2.1.5 The Major Repairs Reserve is funded from cash backed depreciation of £6.021m plus inflation per year and will be used to fund expenditure on improving the stock and other HRA assets.

2.1.6 The HRA external debt outstanding at 31.03.23 was £51.673m. Internal debt outstanding (borrowed from the General Fund) was £24.236m. The total

outstanding debt at 31.03.25 is estimated to remain at this level. 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.

2.1.7 The Council's treasury management advisors are predicting a gradual decrease in interest rates (from the current relatively high level of 5.00%) over the next three years. The interest budget has been prepared on this basis.

2.1.8 The HRA outturn for 2023/24 is expected to deliver a £469k deficit, an adverse variance of £410k over the original budget. This is mainly due to:

- a) a net increase in expected income of £44k – due to lower than expected Right to Buy Sales and increased new builds and acquisitions
- b) a net increase in costs of £460k made up as follows:
 - a pressure of £316k on the repairs and maintenance budget due to inflationary increases
 - an increase of £210k in Management costs
 - an increase of £71k in special services costs
 - an increase of £130k in Rents, Rates, Taxes and other charges
 - depreciation calculated at £141k higher than anticipated when the budget was set
 - a net decrease of £61k in interest costs
 - a reduction in the requirement to provide for bad debts of £347k. This follows a review of the calculation this year
- c) a decrease in the revenue contribution to the Capital Programme (£6k)

2.1.9 The HRA Business Plan is based on a policy of maintaining a minimum level of HRA Working Balance at £1.831m. 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 2023/24 and 2024/25, the following table shows that the HRA Working Balance will remain above the minimum level.

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

	HRA Working Balance	Major Repairs Reserve (MRR)
	£'000	£'000
Balance at 1.4.23	3,993	10,291
Surplus/(Deficit)	(469)	
Depreciation		5,585
Expenditure Financed from MRR		(6,665)
Estimated Balance 31.3.24	3,524	9,211
Surplus/(Deficit)	(629)	
Depreciation		6,021
Expenditure Financed from MRR		(8,720)
Estimated Balance 31.3.25	2,895	6,512

Note 1: The balance on the MRR at 1.4.23 shown above includes an £86k balance on the Leaseholder Major Works Reserve.

Note 2: The Major Repairs Reserve is used to fund improvements to the Council's HRA assets.

2.2 Rent Levels for 2024/25

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 2024/25, rents can be increased by no more than 7.7%. (being 6.7% Consumer Prices Index (CPI) at 30th September 2023 + 1%). The proposal to increase rents by the maximum 7.7% is based on maintaining a sustainable (affordable) HRA Business Plan. It is proposed that Supported Housing and Shared Ownership properties rents are increased by the same percentage. The average weekly social rent will be £110.92 and average affordable weekly rent will be £197.83.

2.2.2 In addition to the above proposed rent increase, the Council also has flexibility to increase rents by 5% above target rent at the point that a property is relet. This will only affect new tenancies and not current tenants in their current homes. According to the Government, a Council should ensure that there is a clear rationale for applying the flexibility which takes into account local circumstances and affordability. Although sustainable in the long term, the Lewes HRA Business Plan remains constrained and recent benchmarking has shown that its rents are relatively low when compared to other authorities. The average weekly social rent for 2023/24 (£102.99) is also significantly lower than the average weekly Local Housing Allowance (LHA) Rate (£205.67) and the average market rent (£312.00). Implementing this policy will increase rental income by some £19k in a part year, rising to £38k in a full year. Whilst these figures are not large in the context of the

HRA Business Plan, over time income will build and allow more to be spent on repairs and services.

2.3 Service Charges

2.3.1 The service charges for 2024/25 have been calculated using a combination of actual costs from 2022/23 and estimates where more appropriate for 2024/25. 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 2024/25 is £5.99 per week (2023/24: £5.70) ranging between £0.97 and £21.50 (2023/24: £0.96 and £22.30). 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 2024/25 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 2024/25 is £3.68 per week (2023/24: £3.03). The service charge has been updated to reflect the 2024/25 budget to achieve full cost recovery. 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 2024/25 budget to achieve full cost recovery.

The estimated average service charge is £36.85 per week (2023/24: £29.51). 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 6.7%, in line with CPI at 30th September 2023.

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 2024/25 is £17.023m.

- 2.5.2 The 2024/25 budget for the major works element of the programme has been set at £8.279m. From 2023/24, the ongoing Major Works Programme has been increased from a base £4.5m per annum to £6.0m per annum for 30 years to allow an additional £1.5m per annum to be spent on larger improvements to Council homes. This level of investment is affordable within the context of the HRA Business Plan and will allow Lewes' housing stock to be appropriately maintained. It should be noted, however, that, although affordable and helping to maintain stock at a higher investment level, the sums included may still fall short of works required long-term, as identified in the Stock Condition Survey.

- 2.5.3 The budget has also been increased to allow for the acceleration of improvements to energy efficiency in the stock in 2024/25 (and 2025/26). Sustainability is and will continue to be a key driver in developing capital repairs schemes and, to this end, officers are currently taking the opportunity to bid for Government grant to match fund this proposed increase in the Capital Programme.

- 2.5.4 An annual allocation of £441k for disabled adaptations and £53k for recreation and play areas are added to the programme, since these would not be included in stock survey figures.

- 2.5.5 Funding for the major works programme comes from the Major Repairs Reserve.

- 2.5.6 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 2024/25 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 2024/25 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 continuing cost of living challenges mean that the rent increase and other increases in charges proposed in this report may create further issues for some of our tenants. A range of help and advice is available, and information can be obtained via the Council's website or by contacting Homes First.
- 4.3 This year, the Council has worked closely with TOLD to increase the level of Major Works expenditure made available to improve HRA homes. The additional expenditure will be funded from the Major Repairs Reserve.

5 Corporate Plan and Council Policies

- 5.1 The Reimagining Lewes District Corporate Plan 2020-2024 sets out clear priorities for housing, specifically:
- Decarbonising the housing stock
 - Delivering new homes
 - Opening up access to more housing options
 - Increasing the number of accessible homes
- 5.2 The new Corporate Plan - *Re-imagining Lewes District: Delivering the Vision 2024-2028* – is being developed for approval by Cabinet in February 2024. The plan will continue to have a focus and emphasis on housing, increasing the number of new homes directly delivered to meet growing local need in addition to the continued investment into the existing social housing stock, increasing sustainability and energy efficiency for the direct benefit of residents.
- 5.3 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.

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 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: 06.12.23

Legal ref: 012594-JOINT-KS

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 The HRA Capital Programme shown at Appendix 2 includes £5.691m split equally over 2024/25 and 2025/26 to improve the energy efficiency of our stock. It is assumed that 50% of this will be paid for by Government (£2.845m), as a capital grant, in 2025/26. Officers are currently preparing the bidding documents in order to secure the grant and will be notified if the bid is successful in late February/early March 2024. The aim of this bid is to provide warmer homes and reduce bills for tenants and residents, whilst also reducing the Council's carbon footprint. The scheme will help Lewes District Council move towards meeting its target of achieving zero carbon emissions and full climate resilience by 2030. However, we need to be successful in securing funding in order to deliver the full project.

12 Appendices

- Appendix 1 - HRA 2023/24 Revised Revenue Budget and 2024/25 Budget
- Appendix 2 - HRA Capital Programme 2023/24-2027/28

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)