

**BODY:** CABINET

**DATE:** 3 February 2016

**SUBJECT:** HRA Revenue Budget and Rent Setting 2016/17 and HRA Capital Programme 2015/19

**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 2016/17, and the HRA Capital Programme 2015/19.

**Contact:** Pauline Adams, Financial Services Manager  
Tel 01323 415979 or internally on ext 5979

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

- i) The HRA budget for 2016/17 and revised 2015/16 as set out in **Appendix 1**.
- ii) That social and affordable rents are decreased by 1% in line with a change in government policy;
- iii) That service charges for general needs properties are increased by 1.06%;
- iv) That service charges for the Older Persons Sheltered Accommodation are decreased by 7.14% to reflect a reduction in actual costs as well as notification of a reduction in heating and water costs;
- v) That heating costs are set at a level designed to recover the estimated actual cost;
- vi) That water charges are set at a level designed to recover the estimated cost of metered consumption;
- vii) Garage rents are increased in line with RPI (as at September 2015) plus 1% at an average increase of 1.8%;
- viii) A scheme to move new garage tenancies to market rent values for the 2017/18 financial year is examined;
- ix) To give delegated authority to the Chief Executive, 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.

- 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 A report was submitted to the December Cabinet meeting outlining the implications of the changes being introduced in the Housing and Planning and the Welfare Reform and Work Bills. Work is ongoing on updating the HRA 30 year Business Plan so that a long term sustainable plan can be set. The proposals included in this report are based on this ongoing work.
- 1.4 This report reflects the recommendations made by Eastbourne Homes Limited in relation to the increases in rent levels, service and other charges.

## **2.0 2016/17 HRA Revenue Budget**

- 2.1 The 2016/17 budget has been prepared following the principles adopted within the HRA 30 year Business Plan and is attached at **Appendix 1**.
- 2.2 The 2016/17 budget is showing a surplus of (£293k) which is due to a number of favourable factors as listed below.
- 2.3 The major changes between the 2015/16 and the 2016/17 budgets are:

Income increases and expenditure reductions:

- Interest paid due to replacement loans at lower rates (£84k)
- Reduction in management fee (see paragraph 9 below) (£56k)
- Depreciation charge (based on cost per property) (£99k)
- Efficiency savings from FM2 (£36k)
- Full year effect of new insurance contract (£25k)

Increase in Expenditure and income reductions:

- 1% rent reduction £108k
- Contribution to Housing Regeneration and Investment Reserve £140k.

- 2.4 The HRA budget is performing better than expected in the 30 year business plan due to various initiatives to control expenditure, including a reduction in the management fee payable to EHL, lower than anticipated interest rates, and efficiencies achieved from FM2. The reduction on income earnings from rents and service charges are in line with the updated business plan.
- 2.5 The 30 year business plan forecast a contribution into the Housing Regeneration and Investment Reserve of £784,000 for 2015/16 and £924,200 for 2016/17 to meet future major works demands and other strategic housing related outcomes.
- 2.6 The original Business Plan allowed 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 should start to exceed the capital spending requirements.

- 2.7 The HRA debt outstanding at 31.3.15 was £40.3m rising to £43.0m by 31.3.18 the majority of which will be external debt and at fixed interest rates. The increase in borrowing of £2.7m is expected to be undertaken to support the HEDP 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 2016/17 and the interest budget has been prepared on this basis.
- 2.8 Under the self-financing settlement the government set a cap on total HRA borrowing of £42.96m, additional borrowing permission was given for £322,400 during 14/15 and 15/16 increasing the cap to £43.3m. The original 30 year 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 is no longer viable due the rent decrease and other government housing initiatives however if possible when opportunities arise consideration will be given to using any surplus funds for the repayment of debt or to be used to reinvest in housing properties in lieu of new borrowing.
- 2.9 The HRA outturn for 2015/16 is expected to deliver a (£399) surplus, a positive variance of (£104k) over the original budget (0.71% of gross expenditure). This is mainly as a result of the decrease in the take up of the under occupation scheme (£46k) and a reduction in the provision required for bad debts (46K).
- 2.10 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 1.4.15	3,150	0	868
Surplus	399		
Revenue Contribution			784
Depreciation		4,211	
Major Works expenditure		(4,211)	(868)
Estimated Balance 31.3.16	3,549	0	784
Surplus/(Deficit)	293		
Revenue Contribution			924
Depreciation		4,112	
Major Works expenditure		(4,112)	
Estimated Balance 31.3.17	3,842	0	1,708

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

### **3.0 Rent Levels for 2016/17**

- 3.1 The Council has been following the Government's guidance for rents for social housing since December 2001. In May 2014, the Government issued new guidance setting out its policy on rents for social housing from April 2015 (increase rents by September CPI + 1.0%).
- 3.2 The Government's Summer budget review included the announcement that rents on social housing properties will be reduced by 1% a year for each of the four years from 2016-17. Although not formally incorporated in legislation to date, the policy is included within the Welfare Reform and Work Bill that is currently being debated by Parliament. The final bill is due to enter the House of Lords towards the end of January 2016.
- 3.3 Clause 19 of the new legislation requires local authorities and other registered providers to reduce social housing rents by 1% per year for four years from April 2016. Once the new policy is in legislation, local authorities and other registered providers will have a statutory obligation to implement the policy.
- 3.4 The base line rent for calculation of the rent reduction in the financial year commencing 4th April 2016 is the rent applicable on the 8th July 2015.
- 3.5 The Social Rent Guidance which was introduced in April 2002, created a 'formula rent' for each property based upon the value of the property, local income levels and the size of the property. The Council and other social landlords were expected to move the actual rent of a property (which may be lower or higher than the formula rent) to the formula rent over time. It is not clear whether the 1% reduction applies to the Formula Rent calculation but given the aim of the policy is to reduce the burden on the welfare budget we expect that it will. This will impact on the re-lets at formula rent of properties that become void.
- 3.6 At the 2010 Spending Review, the Government also introduced "affordable rent". The Government's policy is that landlords can let property at affordable rent (up to 80% of local market rent, including service charges) where they have in place an agreement with the Homes and Communities Agency. The government guidance for affordable rents states that affordable rents will also be reduced by 1% in line with the new legislation.
- 3.7 Rents for Shared Ownership properties are excluded from the Welfare Reform and Work bill guidance. However, the terms of the lease for these properties determine that we should reduce their rents in line with the socially rented properties.

### **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, 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 For general needs properties in blocks the average service charge increase is 1.06% to ensure that costs relating to communal areas are fully recovered.

4.3 Service charges for Older Persons Sheltered Accommodation will be subject to a further review dependent on the outcome of the East Sussex County Council decision in February regarding the proposal to withdraw Supporting People funding from sheltered housing in East Sussex. If funding is withdrawn, this is likely to come into effect from May 2016. Eastbourne Homes Ltd is consulting with residents on the impact of withdrawal of funding and meetings are being held at all schemes during February 2016. Any recommendations for any further change to the service charge as a result of the consultation will come to Cabinet in March 2016 for approval. Until further recommendations are made, the average decrease is 7.14% to ensure that charges reflect expenditure.

## **5.0 Heating costs - Older Persons Sheltered Accommodation**

5.1 These charges are set in line with known price decreases predicted by the Department of Energy and Climate Control. For 2016/17, it is recommended that the average charge decrease is 0.85%. This is an average decrease of 6p per week for tenants that pay these charges.

## **6.0 Water Charges**

6.1 These charges are also set in line with the known price decrease predicted by the Department of Energy and Climate Control. For 2016/17, it is recommended that the average charge decrease is 0.81%. This is an average decrease of 37p per week for tenants that pay these charges.

## **7.0 Garage Rents**

7.1 Following the previous year's rent increases, garage void debt is slowly increasing again and the number of garage voids has started to increase.

7.2 Major repairs on garages are still outstanding from the start of the year and in order for these to be completed it is recommended that an increase in garage rent is levied.

7.3 When benchmarking garage rent costs with other authorities, it was found that Lewes set their new garage tenancies at market rent values. This has allowed Lewes to renovate their garage sites and provide newly refurbished stock to encourage increases in garage rental.

7.4 In order to ensure that garage rents are fully self-sufficient, an increase by CPI plus 1% would result in covering the costs of day to day repairs but the major works would still not be covered. It is therefore recommended that Garage rents are increased in line with RPI (as at September 2015) plus 1% at an average increase of 1.8% and a scheme to move new garage tenancies to market rent values for the 2017/18 financial year is examined.

## **8.0 HRA Capital Programme 2016/17 to 2018/19**

- 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 2016/17 is £7,712,285.
- 8.2 The major works element of the programme is in line with the asset management plan and the self-financing business plan model. Funding is from the Major Repairs Reserve and Housing Regeneration and Investment Reserve.
- 8.3 Cabinet has agreed a total budget of £14.4m for the Housing and Economic Development Programme out of the original allowance of £20m. This has now been profiled to reflect the expected spending timetable and will be funded from borrowing, capital receipts and HCA grant.

## **9.0 Eastbourne Homes Management Fee**

- 9.1 The Management Fee covers both Operational and Administration costs as well as cyclical maintenance.
- 9.2 The fee for 2015/16 was set at £7,375,000. Eastbourne Homes Limited has proposed a reduction of £55,500 to reflect the efficiency savings achieved following the implementation of the Future Model structure and processes less an allowance for the changes expected from the supporting people funding. The proposed fee for 2016/17 is therefore £7,319,500.
- 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 Services and Financial Services and the Financial Services Manager.

## **10.0 Consultation**

- 10.1 The rent decrease reflects the new government guidance being proposed in the Welfare Reform and Work Bill. The information from this report will be sent to the Area Panels for their information following the Cabinet meeting.
- 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 propels within clause 19 of the Welfare Reform and work Bill which is expected to be implemented from April 2016. 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 Ltd 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 Ltd 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 £293k for 2016/17. This is mainly due to a number of favourable factors, including savings from Treasury Management activities on borrowing, efficiency savings from FM2, and a reduction in the management fee. These have however been offset against loss of income from the proposed rent decrease.
- 12.2 The rent levels have been prepared in accordance with the governments requirement to reduce rents by 1% a year for each of the four years from 2016-17 based on the rent charge as at 8 July 2015.
- 12.3 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.
- 12.4 Garage rents are recommended to increase in line with RPI plus 1% at an average increase of 1.8% and a scheme is examined to move new garage tenancies to market rent in the future.
- 12.5 Total budgeted expenditure on the HRA Capital Programme is planned at £7.7m for 2016/17, £4.1m for 2017/18 and £4.2m for 2018/19. 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 2016/17 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.