

BODY: CABINET

DATE: 8 February 2017

SUBJECT: HRA Revenue Budget and Rent Setting 2017/18 and HRA Capital Programme 2016/20

REPORT OF: Deputy Chief Executive (Chief Finance Officer) and Director of Service Delivery

Ward(s): All

Purpose: To agree the detailed HRA budget proposals, rent levels, service charges and heating costs for 2017/18, and the HRA Capital Programme 2016/20.

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

- i) The HRA budget for 2017/18 and revised 2016/17 as set out in **Appendix 1**.
- ii) That social and affordable rents (including Shared Ownership) are decreased by 1% in line with a change in government policy.
- iii) That service charges for general needs properties are increased by 2.49%.
- 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 the Support charge for Sheltered Housing Residents remains at £7.50 per unit, per week.
- vi) That heating costs are set at a level designed to recover the estimated actual cost.
- vii) That water charges are set at a level designed to recover the estimated cost of metered consumption.
- viii) Garage rents are not increased this year to improve increasing garage voids.
- 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 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 income. The main tool for the future financial management of the HRA is the 30 year Business Plan.
- 1.2 The Business plan was last reported to Cabinet at the December 2015 meeting and at that time outlined the financial implications of the Housing and Planning Act 2016 and the Welfare Reform and Work Act 2016. This included the proposals for a 4 year 1% decrease in rents, pay to stay and high value council house levy. The Business plan has since been updated to reflect the 2016/17 approved budget.
- 1.3 At the time the business plan was updated there was still considerable uncertainty over the pay to stay and high value council house levy. A ministerial statement made on 21 November 2016 announced that the government had reviewed the pay to stay policy and decided that it will not be introduced on a compulsory basis as originally planned.
- 1.4 The budget proposals do not include the impact of the high value council house levy, as the government have not yet issued any consultation proposals or a start date on which to model potential impacts. Government messages on this policy have been mixed, but it would appear unlikely that this will be implemented before the end of this financial year. The impacts of this policy are substantial and should the government bring forward proposals, the Business Plan will be updated and reported back to members.
- 1.5 This report reflects the recommendations made by Eastbourne Homes Limited in relation to the increase in rent levels, service and other charges.

2.0 2017/18 HRA Revenue Budget

- 2.1 The 2017/18 budget has been prepared following the principles adopted within the HRA 30 year Business Plan and is attached at **Appendix 1**.
- 2.2 The 2017/18 budget is showing a surplus of (£449k) from (£292) in 2016/17, a change of (£157k) which is mainly due to the factors listed below.
- 2.3 The major changes between the 2016/17 and the 2017/18 budgets are:
- Income increases and expenditure reductions:
- Support charge (offset by increase in management fee) (£86k)
 - Reduction in the transfer to the Housing Regeneration and Investment Reserve (£424k)
- Increase in expenditure and income reductions:
- 1% rent reductions £116k
 - Interest payments £64k
 - Management fee form new support charge £42k

- Depreciation £94k

- 2.4 The HRA budget is performing better than expected in the 30 year business plan due to various initiatives to control expenditure below that assumed in the business plan, lower than anticipated interest rates and higher rental income from affordable rents.
- 2.5 The 30 year business plan and the HRA budget policy allows for a contribution into the Housing Regeneration and Investment Reserves to meet future major works demands and other strategic housing related outcomes. This was set at £924k for 2016/17, and £500k for 2017/18. This will be reviewed again when the business plan is updated in the autumn.
- 2.6 The Major Repairs Reserve is funded from cash backed depreciation of £4m plus inflation per year and is expected to breakeven in the short term, but should start to exceed capital spending requirements in the medium term, in order to provide sufficient resources to fund the demands of the asset management plan in the longer term.
- 2.7 The HRA debt outstanding at 31.3.16 was £41m rising to £42.9m by 31.3.18 which is the maximum borrowing permitted under the self-financing settlement. The majority of the new borrowing of £1.5m will be completed by 31.3.17 and will be external debt at fixed interest rates, leaving just a balance of £0.4m to be taken in 2017/18. The increase in borrowing is 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 current low levels of interest rates will continue into 2017/18 and the interest budget has been prepared on this basis.
- 2.8 The original 30 year business plan assumed 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 to the rent decrease 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 2016/17 is expected to deliver a (£426k) surplus, a positive variance of (£133k) over the original budget (0.80% of gross expenditure). This is mainly as a result of the decrease in the take up of the under occupation scheme (£46k), a reduction in the provision required for bad debts (£45k) and the net effect of the new support people charge (£19k).
- 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 HRA and Reserves are as follows:

	HRA	MRR	Housing Regeneration & Investment Reserve
	£'000	£'000	£'000
Balance at 1.4.16	3,678	0	1,752
Surplus/(Deficit)	416		
Revenue Contribution			924
Depreciation		4,113	
Major Works expenditure		(4,113)	(866)
Estimated Balance 31.3.17	4,094	0	1,810
Surplus/(Deficit)	449		
Revenue Contribution			500
Depreciation		4,206	
Major Works expenditure		(4,206)	
Estimated Balance 31.3.18	4,543	0	2,310

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

3.0 Rent Levels for 2017/18

- 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 Welfare Reform and Work Act 2016 suspended this policy from 2016/17 and rents on social housing properties are to be reduced by 1% a year for a four year period.
- 3.3 The financial year commencing 3rd April 2017 is the second year that the rent reduction is to be applied to all socially rented and affordable rented properties.
- 3.4 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. Therefore, it is recommended that rents for all Shared Ownership properties are reduced by 1%.

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 2.49% to ensure that costs relating to communal areas are reasonably recovered. This is an average increase in amount of 7p per unit, per week. To ensure that tenants do not experience an extreme rise in service charges any individual block increase has been capped at 10%.

4.3 For Retirement Court properties in blocks, the average service charge increase is 7.14% to ensure that costs relating to communal areas are fully recovered. This is an average increase in costs of £2.72 per unit, per week.

5.0 Support charge

5.1 In May 2016, Supporting People withdrew their funding from EBC's Sheltered Housing units. As a result of this, the On-site Co-Ordinators service was at risk of not being able to continue the vital work within its Sheltered Housing blocks.

5.2 Consultation was carried out with residents, who voted to reduce the On Site Co-ordinator service by 1 member of staff and pay an additional cost of £7.50 per unit per week, to keep the service running.

5.3 Following the cabinet decision in March 2016, it is recommended that the current support charge of £7.50 per unit per week remains at that level for 2017/18.

6.0 Heating costs - Older Persons Sheltered Accommodation

6.1 These charges are set in line with known price decreases predicted by the Department of Energy and Climate Control. For 2017/18, it is recommended that the average charge decrease is 9.25%. This is an average decrease of 61p per week for tenants who pay these charges.

7.0 Water Charges

7.1 These charges are also set in line with the known price decrease predicted by the Department of Energy and Climate Control. For 2017/18, it is recommended that the average charge increase is 1.07%. This is an average increase of 5p per week for tenants who pay these charges.

8.0 Garage Rents

8.1 Following the previous year's rent increase, garage void debt is slowly increasing again and the number of garage voids has started to increase, rising from 50 garages at the start of 2015/16 to 70 as at week 34 in 2016/17.

- 8.2 Void works upon garages are taking longer due to the nature of the repairs that are needed.
- 8.3 A desk top appraisal completed by Eastbourne Homes Ltd shows that the rent currently being charged is sufficient to cover the annual garage repairs expenditure on a yearly basis.
- 8.4 When benchmarking garage rent costs with other authorities, it was found that the garage rents that EBC charge are slightly above the average rent charged for garages amongst the other authorities.
- 8.5 It is therefore recommended that no increase is applied to garage rents for 2017/18 in an effort to improve garage take-up.

9.0 HRA Capital Programme 2017/18 to 2019/20

- 9.1 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 budget expenditure for 2017/18 is £4,206,300.
- 9.2 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.
- 9.3 Cabinet has agreed a total budget of £14m for the Housing and Economic Development Programme. All schemes are expected to be completed by the end of the current year, but any slippage to this programme will be re-profiled as part of the year end process. This programme will be funded from borrowing, capital receipts and HCA grant. This programme has now come to an end as there are no further HRA resources available, any new schemes will be undertaken by the Eastbourne Housing Investment Company.

10.0 Eastbourne Homes Management Fee

- 10.1 The Management Fee covers both operational and administration costs as well as responsive and cyclical maintenance.
- 10.2 The fee for 2016/17 was originally set at £7,319,500; this was then increased to £7,361,000 following the Cabinet approval of the new support charge in March 2016. It is proposed that the management fee will remain the same in 2017/18, the Board of Eastbourne Homes Ltd is considering whether it can be reduced.
- 10.3 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 Finance Services and the Financial Services Manager.

11.0 Consultation

- 11.1 The rent decrease reflects the requirements under the Welfare Reform and Work Act 2016. Additional consultation is carried out by engaging with

Residents Panels.

11.2 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.

11.3 A copy of this report will be considered by the next meeting of the Scrutiny Committee on 30 January 2017. Any feedback will be reported verbally.

12.0 Implications

12.1 Financial and Human Resources

There are no staffing implications arising out of this report.

12.2 Environmental

Eastbourne Homes is committed to delivering energy efficiency improvements in its maintenance and modernisation programme to help reduce heating costs in all homes.

12.3 Economic

The Council, in partnership with Eastbourne Homes, 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

13.0 Conclusions

13.1 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 (£449k) for 2017/18.

13.2 The underlying HRA surplus has decreased between 2016/17 and 2017/18 due to the 1% rent decrease of £116k, increased borrowing costs resulting from the capital programme spending for 2016/17 of £64k and increase in the depreciation charge of £94k.

13.3 The levels of HRA balance and Housing Regeneration and Investment Reserve as at 31.3.18 are forecast to be £5m and £1.8m respectively. The Major Repairs Reserve is forecast to breakeven as expenditure is expected to equal contributions for 2017/18.

13.4 The rent levels have been prepared in accordance with the government's 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.

13.5 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.

- 13.6 Support charge is recommended to be retained at the 2016/17 level.
- 13.7 Garage rents are recommended to receive no increase.
- 13.8 Total budgeted expenditure on the HRA Capital Programme is planned at £4.2m for 2017/18. All new capital expenditure is solely on major repairs, which is funded from cash backed depreciation, as borrowing will have reached the maximum allowed within the self-financing settlement. The Major Repairs programme is in line with the asset management plan and HRA business plan model.

Pauline Adams
Financial Services Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

HRA 2017/2018 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.