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| Body: | Cabinet |
| Date: | 7 February 2018 |
| Subject: | HRA Revenue Budget and Rent Setting 2018/19 and HRA Capital Programme 2017/21 |
| Report of: | Deputy Chief Executive (Chief Finance Officer) and Director of Service Delivery |
| Cabinet member: | Councillor Mattock, Portfolio Holders for Financial Services and Councillor Shuttleworth, Portfolio Holder for Direct Assistance Services. |
| Ward(s): | All |
| Purpose of the report: | To agree the detailed HRA budget proposals, rent levels, service charges and heating costs for 2018/19, and the HRA Capital Programme 2017/21. |
| Decision type: | Key Decision |
| Recommendation: | <p>Cabinet is asked to recommend the following proposals to full Council:</p> <ul style="list-style-type: none"> i) The HRA budget for 2018/19 and revised 2017/18 as set out in Appendix 1. ii) That social and affordable rents (including Shared Ownership) are decreased by 1% in line with government policy. iii) That service charges for general needs properties are increased by 5.14%. iv) That service charges for the Older Persons Sheltered Accommodation are increased by 1.78%. v) That the Support charge for Sheltered Housing Residents remains at £7.50 per unit, per week pending a review in the summer. vi) To give delegated authority to the Director of Service Delivery, in consultation with the Cabinet Portfolio Holders for Financial Services and Direct Assistance Services to set the support charge for Sheltered Housing Residents following a review of costs in the summer. vii) That heating costs are set at a level designed to recover the estimated actual cost. viii) That water charges are set at a level designed to recover the estimated cost of metered consumption. ix) Garage rents are increased by 4% this year following the |

disposal and repurposing of designated garage sites.

- x) To give delegated authority to the Chief Executive, in consultation with the Cabinet Portfolio holders for Financial Services and Direct Assistance Services and the Head of Finance to finalise Eastbourne Homes' Management Fee and Delivery Plan.
- xi) 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 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,. The Business plan is due to be updated once the 2018/19 has been approved.
- 1.3 At the time the business plan was last updated there was still considerable uncertainty regarding the levy based on the sale potential of HRA 'high value' properties. Although power to introduce a levy to fund the extension of a Right to Buy to association tenants was introduced in the Housing and Planning Act 2016, the necessary regulations have yet to be issued. The government announced in November 2016 that councils would not be expected to pay the levy until after April 2018; it now appears that this will continue to be the case until at least April 2019, however there is no indication that the government is prepared to abandon the idea of a levy at some stage in the future.
- 1.4 This report reflects the recommendations made by Eastbourne Homes Limited in relation to the increase in rent levels, service and other charges.

2.0 2018/19 HRA Revenue Budget

- 2.1 The 2018/19 budget has been prepared following the principles adopted within the HRA 30 year Business Plan and is attached at **Appendix 1**
- 2.2 The 2018/19 budget is showing a surplus of (£144k) from (£448) in 2017/18, a change of (£304k) which is mainly due to the factors listed below.

2.3 The major changes between the 2017/18 and the 2018/19 budgets are:

Income increases and expenditure reductions:

- Reduction in the transfer to the Housing Regeneration and Investment Reserve (£100k)

Increase in expenditure and income reductions:

- 1% rent reductions £118k
- Garage Rents £27k
- Service Charges £80k
- Charges for heating and water £37k
- Interest payments £40k
- Depreciation £84k
- Contribution to JTP capital costs £48k

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 Reserve to meet future major works demands and other strategic housing related outcomes. This was set at £601k for 2017/18 and £500k for 2018/19. This will be reviewed again when the business plan is updated.

2.6 The Major Repairs Reserve is funded from cash backed depreciation of £4.3m 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 31.3.17 was £41.7m rising to £42.5m by 31.3.19 which is the maximum borrowing permitted under the self-financing settlement. All the new borrowing of £0.8m will be completed by 31.3.18 and will be external debt at fixed interest rates. The increase in borrowing is to support the residual new build and empty homes programme. The additional interest payable from this borrowing will be funded from the additional rental as the properties are let.

2.8 As part of the autumn budget, the government announced a selected lifting of borrowing caps for councils in areas of high affordability pressure to enable them to build more homes. Councils will be invited to bid for increases in their caps from 2019/20. The criteria for these bids are currently unknown.

2.9 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.

- 2.10 The Council's treasury management advisors are predicting a gradual rise in interest rates going forward into 2018/18 and the interest budget has been prepared on this basis
- 2.11 The HRA outturn for 2017/18 is expected to deliver a (£353k) surplus, a variance of (£95k) over the original budget (0.65% of gross expenditure). This is as a result of the contribution towards JTP capital costs.
- 2.12 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 forecast balances on HRA and Reserves are as follows:

| | HRA | MRR | Housing Regeneration & Investment Reserve |
|---------------------------|-------|---------|--|
| | £'000 | £'000 | £'000 |
| Balance at 1.4.17 | 4,366 | 513 | 2,518 |
| Surplus/(Deficit) | 354 | | |
| Revenue Contribution | | | 601 |
| Depreciation | | 4,206 | |
| Major Works expenditure | | (4,719) | (488) |
| Estimated Balance 31.3.18 | 4,720 | 0 | 2,631 |
| Surplus/(Deficit) | 187 | | |
| Revenue Contribution | | | 500 |
| Depreciation | | 4,290 | |
| Major Works expenditure | | (4,290) | |
| Estimated Balance 31.3.19 | 4,907 | 0 | 3,131 |
| | | | |

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

3.0 Rent Levels for 2018/19

- 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. The financial year commencing 2nd April 2018 is the third year that the rent reduction is to be applied to all socially rented and affordable rented properties

- 3.3 Rents for Shared Ownership properties are excluded from the Welfare Reform and Work 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 5.14% to ensure that costs relating to communal areas are reasonably recovered. This is an average increase in amount of £0.17 per unit, per week.

- 4.3 For Retirement Court properties in blocks, the average service charge increase is 1.78% to ensure that costs relating to communal areas are fully recovered. This is an average increase in costs of £1.42 per unit, per week.

5.0 Support charge for Sheltered Housing

- 5.1 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 Sheltered Housing blocks.

- 5.2 This year, following the implementation of the Joint Transformation Programme a review of the resources required by the Supported Housing service will be carried out once the work on the realignment of the budgets has been completed. It is recommended that the support charge of £7.50 per unit per week remains for the short term pending the review.

- 5.3 The above review is planned to be completed in the first quarter of 2018/19, it is therefore recommended that delegated authority be given to the Director of Service Delivery, in consultation with the Portfolio Holders for Financial Services and Direct Assistance Service, to set the Supported Housing Service Charge that covers the costs incurred in the provision of the service.

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 2018/19, it is recommended that the average charge decrease is 39.35%. This is an average decrease of £2.31 per week for tenants that pay these charges.

7.0 Water Charges

7.1 These charges are also set in line with the actual costs received for 2016/17. In order to recover actual costs incurred, it is recommended for 2018/19 that the average charge increase is 2.28%. This is an average increase of 11p per week for tenants that pay these charges.

8.0 Garage Rents

8.1 The sale and redevelopment of garage stock that is no longer fit for purpose or in a repairable state means that there will be less voids and repairs within the stock that remains making it more cost effective to run

8.2 This also means that there are less rent collected and less rental income for garages coming in to the HRA. This year, garage rent charges must cover all repairs and maintenance to garage stock and maximise the income to the HRA.

8.3 It is therefore recommended that garage rents are increased by 4% (which is CPI as at September 2017 plus 1%) for 2018/19.

9.0 Capital Programme

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 2018/19 is £4,290,400.

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 All schemes approved as part of the Housing and Development, new build and empty homes programme, which are funded from HRA resources are expected to be completed by the end of the current year. Any slippage to will be re-profiled as part of the year end process. This programme will be funded from borrowing, capital receipts and HCA grant. All HRA funding for this programme is now exhausted therefore any new schemes will in future be undertaken by the Eastbourne Housing Investment Company and Aspiration Homes. .

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 2017/18 was set at £7,219,500. It is proposed that the management fee will remain the same in 2018/19; 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 Head of Finance.

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 A copy of this report will be considered by the next meeting of the Scrutiny Committee on 5 February 2018. Any feedback will be reported verbally.

12.0 Corporate plan and council policies

12.1 This report contributes to delivering the Council's vision for a housing market which includes affordable housing for those in need and for a sustainable asset base contributing effectively to the delivery of public services. Rents will be more affordable following the reduction in rent proposed and increases in service charges to our customers have been kept to the minimum required to cover the costs of delivering these services.

13.0 Outcome expected and performance management

13.1 The HRA budget will be monitored regularly during 2018/19 and performance will be reported to members quarterly.

13.2 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

14.0 Financial appraisal

14.1 These are included in the main body of the report

15.0 Legal implications

15.1 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.

15.2 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.

15.3 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 balance HRA budget.

15.4 The Welfare Reform and Work Act 2016, passed in March 2016, set the rent setting policy for 4 years whereby social rents in England are to be reduced by 1%. In October 2017 the government confirmed details for future social rents and for the five years from 2020/21 providers will be able to increase rents up to a limit of CPU plus 1% each year. This policy is designed to provide more certainty over rent levels.

15.5 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.

16.0 Equality analysis

16.1 The 1% reduction in rents will have a positive impact on all tenants and for those in the Council's Shared Ownership properties.

Whilst there is a small increase in service charges to those older residents living in the Council's Retirement Courts, this is lower than the increase in service charges in general needs blocks. Both increases have been set at the minimum required to cover increased costs.

The proposal to maintain the charge for the Supported Housing service at its current level protects residents with support pending the review of this service.

The proposed increase in charges to cover water is more than offset by the decrease in the charge proposed to cover heating costs.

17.0 Conclusion

17.1 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 (£144k) for 2018/19.

17.2 The underlying HRA surplus has decreased between 2017/18 and 2018/19 due to the 1% rent decrease of £118k, a reduction in other customer receipts (£143k) increased borrowing costs resulting from the capital programme spending for 2017/18 of £40k and increase in the depreciation charge of £83k.

17.3 The levels of HRA balance and Housing Regeneration and Investment Reserve as at 31.3.19 are forecast to be £5m and £3.1m respectively. The Major Repairs Reserve is forecast to breakeven as expenditure is expected to equal contributions for 2018/19.

17.4 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.

- 17.5 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.
- 17.6 Garage rents are recommended to increase by 4%.
- 17.7 Total budgeted expenditure on the HRA Capital Programme is planned at £4.3m for 2018/19. 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.

Appendices

- 1. HRA 17/18 Revised budget and 17/18 Budget**
- 2. HRA Capital Programme 17/18-20/21**

Background papers

The background papers used in compiling this report were as follows:

HRA 2018/19 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.