

Body: Scrutiny

Date: 4 February 2019

Subject: HRA Revenue Budget and Rent Setting 2019/20 and HRA Capital Programme 2018/22

Report of: Chief Finance Officer

Cabinet member: Councillor Holt, Portfolio Holder for Financial Services.

Ward(s): All

Purpose of the report: To agree the detailed HRA budget proposals, rent levels, service charges and heating costs for 2019/20, and the HRA Capital Programme 2018/22.

Decision type: Budget and policy framework

Recommendation: Scrutiny is being asked to note the following recommendations to be considered by the Cabinet on 6th February 2018:

- i) The HRA budget for 2019/20 and revised 2018/19 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 delegated authority be given to the Chief Finance Officer, in consultation with the Cabinet Portfolio holders for Financial Services and Direct Assistance Service, to take measures in the management of the Week 53 rent year.
- iv) That service charges for general needs properties are decreased by 13.20%.
- v) Those service charges' for the Older Persons Sheltered Accommodation are increased by 0.24%.
- vi) That the Support charge for Sheltered Housing Residents remains at £7.20 per unit, per week.
- 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 remain at current levels.
- x) To give delegated authority to the Chief Executive, in consultation with the Cabinet Portfolio Holders for Financial Services and Direct Assistance Service 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.

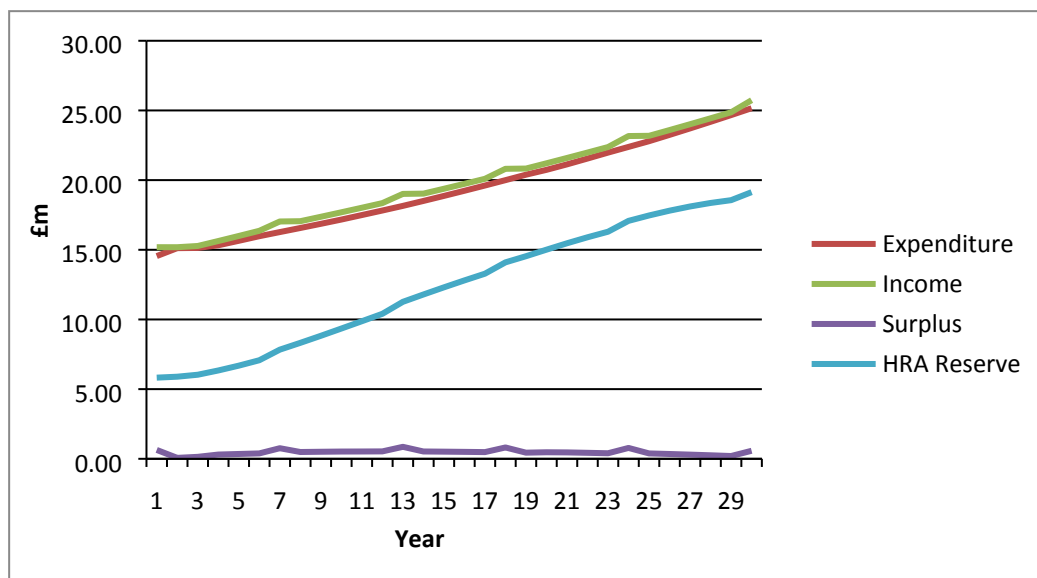
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1.0 Introduction

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 updated in August 2018, and shows income marginally in excess of expenditure delivering a small surplus year on year, as shown in the table below. The Reserve will therefore be expected to increase from a starting point of £5.188m in 18/19 to £19.14m by 2047/48 if potential assumptions for debt repayment or new developments/initiatives are disregarded.



The business plan will be reviewed again once the 18/19 accounts have been completed.

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 2019/20 HRA Revenue Budget

2.1 The 2019/20 budget has been prepared following the principles adopted within the HRA 30 year Business Plan and is attached at **Appendix 1**

2.2 The 2019/20 budget is showing a surplus of £87K from a surplus of £143k in 2018/19, a change of £56k, which is mainly due to the factors listed below.

2.3 The major changes between the 2018/19 and the 2019/20 budgets are:

Increases in income, reductions in expenditure and re-profiling of contributions to reserves:

- Reduction in the transfer to the Housing Regeneration and Investment Reserve (£500k)
- 1% rent reductions £139k
- Other Rental Movements £110k
- Environmental Initiatives £40k
- One off HRA Contribution to JTP £250k
- Depreciation £43k

2.4 A new revenue budget of £40k for environment initiatives has been established to replace the old capital budget, as previous expenditure incurred did not fulfil the definition of capital, which is to purchase, build or enhance an asset. The budget has therefore been moved to revenue to allow various small initiatives resulting from tenant's requests to continue.

2.5 The HRA budget is performing in line with expectations in the 30 year business plan, with the exception of the one off items of a contribution to JTP. The additional 19/20 costs have been offset by removing the contribution to Housing and Regeneration and Investment Reserve for the year. This will be reinstated for 2020/21.

2.6 The Major Repairs Reserve is funded from cash backed depreciation of £4.291m 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 31.3.18 was £42.649m which is the maximum borrowing permitted under the self-financing settlement. The Government announced that it is changing legislative policy to remove the 'borrowing cap' in the HRA to enable Councils to build more homes. Management will be considering its strategy in relation to future developments over the next few months.

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 Council's treasury management advisors are predicting a gradual rise in interest rates going forward into 2019/20 and the interest budget has been prepared on this basis
- 2.10 The HRA outturn for 2018/19 is expected to deliver a (£119k) surplus, a variance of (£24k) over the original budget (0.2% of gross expenditure). This is as a result of:

Leaseholder service charges income (£60k),
 Under occupation transfers (£65k)
 Health and safety one off expenditure £100k.

- 2.11 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 Working Balance	Major Repairs Reserve	Housing Regeneration & Investment Reserve
	£'000	£'000	£'000
Balance at 1.4.18	5,187	865	2,883
Surplus/(Deficit)	119		
Revenue Contribution			500
Depreciation		4,291	
Major Works expenditure		(4,250)	(662)
Estimated Balance 31.3.19	5,306	906	2,721
Surplus/(Deficit)	87		
Revenue Contribution			
Depreciation		4,334	
Major Works expenditure		(4,334)	
Estimated Balance 31.3.20	5,393	906	2,721

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

3.0 Rent Levels for 2019/20

- 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 (for rents to increase annually 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 1st April 2019 is the last 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%.
- 3.4 Every six to seven years 53 Mondays fall in a financial year and this will be the case for 2019/20. As rent debts are raised on Mondays this means that the HRA ordinarily benefits from an 'extra' week's rents when there are 53 Mondays in a year.

This creates the following two immediate issues:

- The 1% rent decrease under Welfare Reform Act 2016 means that the 53 week year can be interpreted as taking the Council over the required 1% decrease. The MHCLG initial response was that the reduction had to be applied on an annual basis and that landlords would either have to offer up a rent free week or collect 52 weeks' worth of rent over 53 payments (effectively reducing the weekly rent by 1.27%). Either way the Council would lose a week's rent (£272k) and furthermore a 53 week rent year would have a lasting impact of reducing rental income for future years (£40k for 2020/21 and increasing by CPI+1% annually thereafter). However a number of authorities are challenging this view and have interpreted the legislation differently arguing that rents are calculated on a daily basis and collected weekly, thus allowing for 53 weeks' worth of rent to be charged as normal. MHCLG officials have emphasised that it is for each individual authority to satisfy itself that it is complying with the legal position.
- A further complicating issue is that Universal Credit legislation does not allow for 53 Monday years and therefore UC Claimants would find themselves a week in arrears if charged 53 week's rent. It has been suggested that this could be amended through a statutory instrument, however DWP are not supportive of this approach. Alternatively Government could resolve this through somehow topping up rents for 2019/20. However there is no detailed view on what this solution might be.

The budget figures currently include a 1% reduction over the 52 week year.

Given the complexity of the issues raised it is recommended that delegated authority be given to the Chief Finance Officer, in consultation with the Cabinet Portfolio holders for Financial Services and Direct Assistance Service, to take measures in the management of the Week 53 rent year.

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 decrease is 13.20% to ensure that costs relating to communal areas are reasonably recovered. This is an average decrease of £0.56 per unit, per week.

4.3 For Retirement Court properties in blocks, the average service charge increase is 0.24% to ensure that costs relating to communal areas are fully recovered. This is an average increase in costs of £0.15 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 2019/20, it is recommended that the average charge decrease is 1.40%. This is an average decrease of £0.11 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 2017/189. In order to recover actual costs incurred, it is recommended for 2019/20 that the average charge decrease is 19.77%. This is an average decrease of £1.11 per week for tenants that pay these charges.

8.0 Garage Rents

8.1 It is recommended that garage rents remain the same this year following the disposal and repurposing of designated garage sites.

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 2019/20 is £5,633,500.
- 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 The majority of 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. If there is any slippage this will be re-profiled as part of the year end process. This programme has been funded from borrowing, capital receipts and HCA grant.

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 2018/19 was set at £7,219,500. It is proposed that the management fee will remain the same in 2019/20.
- 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.
- 11.2 A copy of this report will be considered by the next meeting of the Scrutiny Committee on 4 February 2019. 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 families 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 2019/20 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 these 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 balanced 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 CPI 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 short term positive impact on all existing tenants and for those in the Council's Shared Ownership properties. However, it is considered unsustainable for the provision of longer term housing needs.

There is a small increase in service charges to those older residents living in the Council's Retirement Courts, and a decrease in service charges in general needs blocks. Both changes have been set at the minimum required to cover 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 decrease in charges to cover water and heating is designed to recovery 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 deficit of £63k for 2019/20.
- 17.2 The underlying HRA surplus has decreased between 2018/19 and 2019/20 principally due to a 1% rent decrease & rental movements £207k; the major variance are listed at paragraph 2.3 above.
- 17.3 The levels of HRA balance and Housing Regeneration and Investment Reserve as at 31.3.20 are forecast to be £5.4m and £2.7m respectively. The Major Repairs Reserve is forecast to have a balance of £906k.
- 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 remain at the 2018/19 level.
- 17.7 Total budgeted expenditure on the HRA Capital Programme is planned at £4.3m for 2019/20. All planned capital expenditure is solely on major repairs, which is funded from cash backed depreciation, but consideration of new schemes is being considered now that the borrowing debt cap has been lifted. The Major Repairs programme is in line with the asset management plan and HRA business plan model.

18 Appendices

- Appendix 1 - HRA 2018/19 Revised budget and 2019/20 Budget
- Appendix 2 - HRA Capital Programme 2018/19-2021/22

19 Background papers

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

HRA 2019/20 Budget working papers held by Eastbourne Council
HRA Self Financing 30 year Business Plan

To inspect or obtain copies of background papers please refer to the contact officer listed above.