

CABINET

21st February 2024

Subject: Housing Revenue Account (HRA) – 2024/25 Rent Levels, Revenue Budget and Capital Plan for 2024/25 and 2023/24 Revised

**Cabinet Member: Councillor Mountford - Resources
Councillor Sach – Health Wellbeing & Housing**

1 Purpose of Report

To present to Cabinet for consideration and agreement:

- **Proposed rent levels for Council dwellings and garages for 2024/25.**
- **HRA Revenue budget for 2023/24 (revised) and 2024/25.**
- **HRA Capital Plan for 2023/24 (revised) and 2024/25.**

2 Links to Council's priorities and objectives

The approval of the HRA Revenue and Capital budget supports the Council priorities of People and Place.

3 Recommendations

That:

- 1. A rent increase of 7.7% for all social rent HRA dwellings be agreed, resulting in an average increase of £7.79 per week.**
 - 2. A rent increase of 7.7% for all affordable rent HRA dwellings be agreed, resulting in an average increase of £16.28 per week.**
 - 3. Following a £1.68 rent increase being applied to garages in 2023/24 it is proposed to increase garage rents in 2024/25 by £0.71 excluding VAT.**
 - 4. The HRA revenue budget for revised estimate 2023/24 and estimate 2024/25, as set out in Annexe A, be approved.**
 - 5. The HRA capital plan for revised estimate 2023/24 and estimate 2024/25, as set out in Annexe B, be approved.**
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4. Introduction and background

4.1 Local authorities have freedom to manage and invest in their housing stock whilst maintaining a viable HRA Business Plan. Government control over rent setting though continues, which means that significant constraints over income generation still exist.

4.2 The rent setting framework sets out a common basis on which all rents in the social sector should be set. The aim is that social rents for similar houses in the same area should be the same, irrespective of the landlord. This is monitored via the use of two rent indicators.

- **Limit Rent:** This is set by the Government and defines the average rent beyond which rent rebate subsidy is not payable (known as 'rent rebate subsidy limitation).
- **Formula Rent:** This is based on a Government national formula for calculating social rents.

The "limit" rent will remain roughly equal to the formula rent. Whilst actual rents at the Council are slightly lower due to a number of properties that currently are not at formula rent. These will be moved to formula rent when current tenants move on, but due to low levels of turnover in the housing stock this will take a long time to be completed. The Limit rent and Formula rent must be taken into consideration when the Council sets its actual rent for the forthcoming financial year, as shown in paragraph 5.1.

4.3 As a result of continued work in the 23/24 estimates cycle such as phasing of capital repairs identified in the most recent stock condition survey, combined with reviewing the future funding of the HRA, the business plan is sustainable, despite the restrictions on the level of the rent increase for 23/24 mentioned below. But it does identify periods where budget gaps exist that may require funding via internal or external borrowing. As a result, detailed work has continued to be undertaken and proposals to address these gaps have been prepared and are explored later in this report.

4.4 In April 2020 a Government introduced five-year rent settlement came into effect which provided for September CPI + 1% rent increases to be applied. This was suspended in relation to the 23/24 rent increase due to the 10.1% inflation levels at the time, which would have resulted in an increase of 11.1%. The Government instead limited rent increases to a maximum of 7%. The CPI level in September 2023 was 6.7% consequently the rent increase for 2024/25 is 7.7%, no reduction on the level of the rent increase has been indicated by Government to be applied, though clearly the limit applied last year continues to depress ongoing rent levels.

Repairs and maintenance

4.5 A programme of planned maintenance for 2024/25 has been prepared by South Essex Homes in conjunction with Housing Services. The programme is informed by a stock condition survey undertaken by South Essex Homes during 2018 and updated based on work undertaken. The next full survey will take place this year and is currently at the planning stage. The condition survey assesses the capital and revenue investment requirements for the Council's housing stock over the

next 30 years and informs the 30-year HRA Business Plan and detailed HRA budget.

- 4.6 The HRA budget includes provision in current and future years to reflect the ongoing Property Management Service currently provided by South Essex Homes.
- 4.7 The Capital Plan submitted for approval at Annexe B has also been prepared based upon the stock condition survey. Future development opportunities undertaken by utilising receipts from right to buy sales as well as other sources of capital funding have been built into the Capital Plan. This includes the provision for the three current schemes agreed by Cabinet in October 2023.
- 4.8 The Capital Plan constitutes an affordable core plan that can be financed within the HRA business plan.
- 4.9 In April 2012 and as part of the implementation of HRA self-financing, a borrowing cap of **£37.5m** was placed on the authority, meaning that the authority could borrow up to a further **£1m**. In the Autumn 2018 budget the Government announced that the borrowing cap would be removed so that local authorities would be permitted to undertake additional borrowing to enable investment in new homes, as stated in 4.9 above plans have been presented to Cabinet for a programme of new developments, additional borrowing is not anticipated to be necessary to deliver these but may be required for future schemes. The first of the loans taken out in April 2012 was repaid in 2021/22, with a further **£2.451m** having been repaid in 2022/23. Having reviewed the HRA Business Plan the Assistant Director Finance and Procurement anticipates that in 2024/25 when the next loan is due for repayment it may be necessary to take out borrowing to replace this. Any additional borrowing will be subject to financial viability and be affordable within the 30-year HRA Business Plan.

Basis for preparation of estimates

- 4.10 Estimates have generally been prepared by the Housing Department and agreed with the Resources Department and are:
- based on the current staffing establishment and current service delivery.
 - based on out-turn prices, i.e. to include anticipated pay and price increases.
- 4.11 The estimates are submitted to Cabinet as officers' recommendations on the net spending necessary to deliver approved HRA policies and strategies in 2024/25. These estimates have been tested in the HRA business plan and have been shown to be sustainable over the Medium Term.
- 4.12 The Cabinet is encouraged to concentrate on the policy aspects of the estimates to link spending plans to Council policies and strategic objectives, e.g. appropriate resources are directed to housing management and maintenance services respectively.

5. Proposals

HRA Social Rent

- 5.1 The table below provides a comparison between Castle Point's "formula", "limit" and actual rents, based on a 7.7% increase in rent for all properties, applied based on September 2023 CPI of 6.7% + 1%.

	Rent 2023/24	Increase		Rent 2024/25
	£	£	%	£
Formula rent	101.16	7.78	7.70	108.94
Limit rent	101.26	7.80	7.70	109.06
Actual rent	101.11	7.79	7.70	108.90

- 5.2 The increase on the three rental levels all move in unison, with Actual rent still being below Limit rent, thus minimising the risk of any Housing Benefit subsidy loss and below Formula rent indicating that there are still some unconverged rent levels being charged.
- 5.3 The proposed 2024/25 average weekly rent for Castle Point is **£108.90**, an increase of **£7.79** on the actual average 2023/24 rent of **£101.11**.

HRA Affordable Rent

- 5.4 Affordable rent properties are not subject to the Formula and Limit rent calculations but are subject to the government's rent policy. These rents are set locally below the maximum of the appropriate Local Housing Allowance (LHA) cap.

	Rent 2023/24	Increase		Rent 2024/25
	£	£	%	£
Actual rent	211.44	16.28	7.70	227.72

Garage Rents

- 5.5 It is proposed to implement a 4.2% rent increase for Council owned garages for 2024/25 of **£0.71** excl VAT. The last increase applied was in 2023/24.

Revenue and Capital Estimates

- 5.6 Annex A presents the HRA revenue estimates and Annex B presents the HRA Capital Plan, the latter should be read in conjunction with the Corporate Capital Strategy section of the Policy Framework and Budget Setting report. There are columns on both annexes for:

- Actual expenditure / income for 2022/23.
- Original estimate for 2023/24 as approved by Cabinet on 15 February 2023, updated where applicable for any subsequent approved amendments since that date.
- Revised estimate for 2023/24 now submitted for approval.
- Estimate for 2024/25 now submitted for approval.

HRA Reserves

- 5.7 The advice of the Assistant Director Finance and Procurement on HRA reserves is that a safe minimum level would be approximately **£666k** as at 31 March 2024 and **£694k** as at 31 March 2025. These are based on previous Government guidance for a minimum level of reserve for each property, uprated for inflation.
- 5.8 Whilst the HRA budget provides for levels of reserves at the end of 2023/24 and 2024/25 in excess of these balances, the ongoing impact of previous rent reductions and the capping of the increase in 2024/25 will lead to a significant reduction in reserves over future years and in the medium to longer term will fall below the minimum level recommended. To ensure the sustainability of the HRA the Council will continue to model options within the Business Plan including the level of future loans held, programming of capital works to meet decent homes and maximising income within the rent setting guidance issued by DLUHC. But as shown we continue to invest in the current and future housing stock with in excess of £10m being planned to be spent on Capital works over a 3 year period contained within this report. This ability is as a result of the strong budgetary controls and forward plans in place and allows us to maintain a target of 98% Decent Homes compliance compared to an average of 90% across all social housing sector organisations.
- 5.9 The HRA also maintains a separate earmarked reserve consisting of sums set aside for the scheduled repayment of debt in future years.

6. Corporate Implications

a. Financial implications

Financial implications are outlined in sections 4 and 5 above. Whilst HRA reserves for the period as reported above are currently at a satisfactory level, future levels will be monitored, and action taken to maintain the ongoing viability of the HRA.

b. Legal implications

The HRA is “ring-fenced” by legislation and must therefore be self-financing. There is no general power to transfer surpluses to the General Fund or to meet a deficit by contribution from the General Fund.

The Council has a statutory duty to set a budget for the HRA that avoids a deficit. This includes provision for a prudent level of reserves to call upon in the event of unforeseen circumstances, emergency expenditure or major budget variations. Failure to maintain adequate reserves could possibly result in an additional mid-year rent increase; this may push rent levels above limit rents and thus result in the loss of rent rebate subsidy on part of the rental income.

c. Human resources and equality implications

The Council has a responsibility to deliver the Government’s Decent Homes Standard and to work towards the national provision of 1 for 1 replacement of homes sold through the Right to Buy. The 2024/25 Capital Plan is currently mainly prioritised towards those programmes of repair, maintenance and modernisation which tackle identified non-decency issues in the housing stock. But it may be required to support the development of new homes as well, utilising capital receipts and borrowing, in combination with additional funds being allocated from revenue.

d. Timescale for implementation and risk factors

The proposed rent level for 2024/25 must be approved at this meeting so that the statutory notice to tenants is given in order for the new rents to be effective from 1st April 2024.

Preparation for implementation of the 2024/25 Capital programme will commence immediately following Cabinet's approval.

The implications of not approving the proposed programmes would be a failure in the Council's responsibility to tackle known non-decency issues in its stock.

The implication of not approving the recommended rent increases for dwelling rents would be that the Council would not receive additional income to the Housing Revenue Account. This would have a direct impact on service delivery. Furthermore, if the dwelling rent increase is not approved, the Council's actual rent levels would diverge further from social housing rent policy and due to the restrictions on increases would result in ongoing lower income levels, with limited opportunity to recoup the lost income.

7. Background Papers:

HRA Business Plan and associated DLUHC guidance

Housing Strategy and associated DLUHC guidance

DLUHC guidance on the delivery of the Decent Homes Standard

Direction on the rent standard 2019 from 1 April 2020 (DLUHC)

Direction on the rent standard 2023 for 2023/24 (DLUHC)

Welfare Reform and Work Act

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Housing Revenue Account - Revenue budgets

No	Housing Revenue Account summary	Note	2022/23 Actual	2023/24 Estimate	2023/24 Revised	2024/25 Estimate
			£000s	£000s	£000s	£000s
	Income					
	Gross dwelling rents		(7,299)	(7,815)	(7,782)	(8,466)
	Gross non-dwelling rents		(86)	(88)	(72)	(77)
	Charges for services and facilities		(665)	(873)	(905)	(944)
1	Total Income		(8,050)	(8,776)	(8,759)	(9,487)
	Expenditure					
	Supervision and management		2,493	2,973	2,951	2,699
	Repairs and maintenance		1,964	1,788	2,039	1,767
	Increased provision for bad or doubtful debts		62	45	45	45
	Rents rates taxes and other charges		273	211	250	250
	Depreciation and revaluation/impairment of fixed assets		2,136	2,330	2,330	2,419
	Amortisation Costs		0	0	0	0
2	Total Gross Expenditure		6,928	7,347	7,615	7,180
3	Net cost of HRA services		(1,122)	(1,429)	(1,144)	(2,307)
4	Total other operating Income and Expenditure	1	736	610	578	617
5	Total Net Statutory Adjustments	2	2,287	(79)	(79)	1,336
6	(Surplus) on HRA services		1,901	(898)	(645)	(354)
	Reserves					
	HRA Main Reserve					
7	Reserve balance brought forward		2,074	1,477	1,173	817
8	Surplus/(deficit) for the year		(1,901)	898	645	353
9	Transfer (to) / from HRA Earmarked Reserves		1,000	(1,000)	(1,000)	216
	Reserve balance carried forward		1,173	1,375	817	1,386
	HRA Earmarked Reserves					
10	Reserve balance brought forward	3	1,000	2,000	0	1,000
11	Net transfer to / (from) HRA Earmarked Reserves		1,000	1,000	1,000	1,333
12	Loan Repayments made		0	0	0	(1,549)
	Reserve balance carried forward		2,000	3,000	1,000	784
	Notes					
1	Various including interest payable and receivable and asset valuation adjustments					
2	Various statutory adjustments and reversals, to ensure that rental income is not affected by income and expenditure relating to non-current assets, such as gains and losses on revaluations and disposals, and other similar items. Includes repayment of first HRA self-financing loan and contributions to capital for new build housing developments					
3	HRA earmarked reserves including a specific reserve for sums set aside for future repayment of loans					

Housing Revenue Account - Capital Plan

No	Housing Revenue Account Capital Plan summary	Note	2022/23 Actual	2023/24 Estimate	2023/24 Revised	2024/25 Estimate
			£000s	£000s	£000s	£000s
1	Annual Programmes for replacement and repair					
	Disabled adaptations to council properties	1	75	279	279	180
	Central heating replacement	2	153	162	162	177
	Window Replacements	2	435	600	600	343
	Insulation		1	108	108	100
	Kitchen replacement and improvements	2	210	402	402	252
	Environmental improvements		92	50	10	10
	Digital TV		14	0	0	0
	Roofing maintenance	2	187	400	400	550
	Structural Repairs	3	69	0	36	50
	Electrical rewiring	2	27	46	146	101
	Chimney Replacement		7	20	20	12
	Replacement Doors		6	408	408	50
	Bathroom replacement and improvements	2	123	259	259	232
	Maintenance and redevelopment of communal areas	2	29	44	100	110
	Water Supply and tank replacement		11	10	10	10
	UPVC fascias and soffits	2	88	230	230	180
	Wall finishes	2	29	80	93	100
2	New Build construction and Periodic Programmes					
	Affordable Housing		11	20	20	20
	New Build at Link Road	4	374	720	720	0
	New Build at 54-60 Linden Way	4	327	741	741	0
	New Build at Cedar Road	4	183	426	426	0
	New Build at Benderloch	5	0	0	50	0
	New Build at Carlton Drive	5	0	0	50	0
	New Build at 43-45 Linden Way	5	0	0	50	0
	Unallocated Provision	6	0	100	0	100
			2,452	5,103	5,318	2,576
	Notes					
1	Provision for adaptations from the Council's waiting list for council owned properties					
2	Programmes based on the current stock condition survey, update to be undertaken in 23/24					
3	Budget agreed at November 2022 Cabinet for emergency works at Manor Road					
4	Budget approved by Cabinet September 2022					
5	Budget approved by Cabinet October 2023					
6	Unallocated provision used to support updated programmes					
7	2023/24 Estimate figures include budgets rolled forward					