This Report will be made public on 14 February 2023

Folkestone & Hythe District Council

Report Number **A/22/30**

To: Council
Date: 22 February 2023
Status: Key Decision
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Members: Councillor David Monk, Leader of the Council and Councillor David Godfrey, Housing, Transport and Special Projects

SUBJECT: **DRAFT HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2023/24**

SUMMARY: This report sets out the Housing Revenue Account ('HRA') Revenue and Capital Budget for 2023/24 for approval and proposes an increase in weekly rents and an increase in service charges for 2023/24 both for approval.

REASONS FOR RECOMMENDATION:
Cabinet is requested to agree the recommendations set out below as the Local Government Housing Act 1989 requires the Council, as a Local Housing Authority, to keep a separate Housing Revenue Account and to produce estimates to ensure that the account does not go into deficit. The authority also has a duty to set and approve rents in accordance with government guidelines that are outlined in the self-financing determination. The Constitution requires that the annual Budget and any variations to the Budget are approved by Council.

RECOMMENDATIONS:
1. **To receive and note Report A/22/30.**
2. **To approve the Housing Revenue Account Budget for 2023/24. (Refer to paragraph 2.1 and Appendix 1)**
3. **To approve the Housing Revenue Account Capital Programme budget 2023/24. (Refer to paragraph 4.1 and Appendix 2)**
4. **To approve the increase in rents of dwellings within the HRA on average by £6.25 per week, representing a 7% increase with effect from 3 April 2023 (Refer to paragraph 3.2)**
5. **To approve the increase in rents of shared ownership dwellings within the HRA by 7%, with effect from 3 April 2023 (Refer to paragraph 3.2)**
6. **To approve the increase in service charges. (Refer to section 3.5)**
7. **To approve the Housing Revenue Account Medium Term Capital Programme 2023/24 – 2026/27 (Refer to paragraph 5.1 and Appendix 3)**

1. INTRODUCTION

1.1. The Housing Revenue Account (HRA) is a ring-fenced account and is outlined and projected within the HRA Business Plan. The HRA Business Plan determines HRA budget setting, as estimates need to be closely aligned to the model to ensure that the HRA remains financially viable.

1.2. The Reform of Council Housing Finance came into effect from 1 April 2012, and significantly brought an end to the subsidy regime where councils such as Folkestone & Hythe made a contribution to the national pot. Instead, authorities are now part of the self-financing arrangements following a re-distribution of the national housing debt and the abolition of rent restructuring.

1.3. In October 2018, Government announced the removal of the HRA borrowing cap to enable local authorities to build more homes. In light of this and following a review of the financial position within the HRA, there was an opportunity for the Council to expand its New Build Programme to significantly increase the number of new homes in the district. In February 2020 Cabinet approved the updated HRA Business Plan to deliver 1,200 homes by 2034/35, subject to the availability of capital funding resources.

1.4. The HRA Business Plan is the cornerstone of the financial and business planning requirement for the HRA in terms of delivery of its plans for social housing and the affordability of this, coupled with the long-term plans for the overall development and maintenance of the housing stock.

1.5. The current HRA Business Plan is being refreshed to allow for the recent and extensive stock condition survey results and for the costs of future stock modification work to bring the stock into line with Energy Performance ‘C’ and ‘A’ requirements by 2030 and 2050 respectively. The Business Plan will also be updated for the Council’s HRA new build programme which is being considered by the Council’s Housing team in light of available funding resources available.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2023/24

The proposed HRA Revenue Budget for 2023/24, at Appendix 1, shows a forecast deficit of £2.15m. This is in line with the agreed and current HRA Business Plan which has fluctuated from year to year, depending on the profile of the stock, size of the new build programme and the resources available. The year-end HRA revenue reserve balance as at 31 March 2024 is expected to be £3.7m as shown at Table 1 below:

Table 1	£000's
Original estimate of balance at 31 March 2023	**(5,867)**
Movement from Original 2022/23 to Original budgets 2023/24	
Decrease in revenue contribution to Capital	(2,300)
Increase in rents and other service charges (see 2.1.2)	(1,162)
Increase in depreciation charges (see 2.1.3)	685
Increase in repairs and maintenance (see 2.1.4)	263
Increase in special management (see 2.1.4)	209
Increase in general management (see 2.1.4)	172
Increase in bad debt provision (see 2.1.5)	150
Other net movements	75
Subtotal Movement from Original 2022/23 to Original 2023/24 budget	**(1,908)**
Deficit 2022/23	4,061
Original estimate of balance at 31 March 2024	**(3,714)**

2.1.1 **HRA Revenue budget**

The HRA revenue budgets are reflected in the HRA business plan. The business plan (currently being refreshed) sets out the Council's income and expenditure plans for its landlord service over a 30 year period, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

2.1.2 **Rents**

The dwelling rents have been increased in line with the Rent Standard 2023 of 7% for both social rent housing and affordable rent housing. This revised policy was announced by the government (within the Autumn Statement) in November 2022 and allows social landlords to increase rents by 7% for 2023/24 only with a view to revisit for the rent setting of 2024/25 depending on the economic climate. Note, however, that any affordable rent increases are capped at the Local Housing Allowance (LHA) rate, in line with the agreed HRA business plan of March 2016 at paragraph 7.6 (report C/15/87).

2.1.3 **Depreciation charges**

The movement in depreciation charges for fixed assets is due to an increased asset valuation of council stock of approximately 20% at 31 March 2022. This had the effect of increasing the depreciation charged. It should, however, be noted that the increased depreciation charge provides a matched increase to the Major Repairs Reserve (see 2.2 below) which is used to fund capital spending. In turn, a corresponding saving can been made to the revenue funding of capital expenditure, offsetting the increase in the depreciation charge.

2.1.4 **Repairs, Maintenance & Management costs**

The increase in repairs, maintenance and management costs relates predominantly to inflation (materials and labour and landlord utility costs) which have been driven by the current economic and financial climate which has been impacted by the war in Ukraine and effects of increases in inflation, energy costs and costs of borrowing. The impact of this is to increase the recharge costs for the HRA's allocation of Council resources (e.g. staff costs).

2.1.5 **Bad Debt Provision**

An increase in the HRA's provision for bad debt has been factored into the budget this year to account for the cost-of-living crisis which is affecting households across the spectrum and which will likely impact the rent collection and could ultimately lead to bad debts due to stretched household finances. This increase in the provision is considered a prudent measure.

2.2 **HRA Reserve Balances**

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan. The actual reserve balance on the HRA at the start of 2022/23 was £9.93m, this has increased due to the planned accumulation of balances to help fund future capital expenditure.

Table 2 below shows the estimated HRA balances to 31 March 2024.

Table 2	**2022/23**	**2023/24**
	£000's	£000's
Balance as at 1 April	9,928	5,867
Balance as at 31 March	5,867	3,714

The HRA reserve is expected to decrease by £2.1m from the close of 2022/23 and the end of the financial year 2023/24.

The changes with the introduction of HRA Self-Financing have significantly increased the flexibility for the Council to manage the resources and debts within the HRA to best meet the needs of existing and future tenants. The estimated HRA balances, set out in table 2, are above the revised recommended minimum balance, which is £2m.

Major Repair Reserve (MRR) – This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

3. RENT SETTING GUIDANCE & RENTS

3.1 Rent Policy – National context

On the 31 August 2022 a consultation was launched to invite views from social housing tenants and landlords on a proposed rent cap to understand how best to support households with the cost of living.

Under the proposals, a cap on social housing rent increases would be put in place for the forthcoming financial year, with options at 3%, 5% and 7% being considered. The move would prevent rents for council and housing association houses from rising significantly, saving tenants an average £300 per year and providing stability as inflation rises.

The government regulates how much social housing rents can increase each year. Currently this is set at up to the consumer price index (CPI) rate for September in a given year, plus 1% - meaning potential increases for 2023/2024 of 11% in line with the latest data from the Office of National Statistics.

Following the conclusion of the consultation, a 7% cap was introduced by the Government (as announced in the Autumn Statement), subject to specific exceptions for supported housing and accommodation when first let or subsequently re-let. For stockholding councils, the 7% cap on the rents for social housing is higher than the original 5% proposal by the Government. This will give the council more room for manoeuvre in balancing the need to fund the maintenance and improvement of social housing without imposing unaffordable increases on tenants.

3.2 Rent Increase – Local context

In line with last years approved report, Housing Services will be charging the ‘formula rent’[1] when a property is re-let to a new tenant and service charges that fall under utilities will be charged at the ‘actual’ cost on new lets.

The proposed increase of 7% in line with Government guidelines, equates to an increase of £6.25 per week or £325.00 per annum. This gives an average rent of £99.40 (over 50 weeks) in 2023/24 (average rent in 2022/23 is £92.82 (over 50 weeks)).

The HRA has 15 shared ownership properties. Shared Ownership rents are not covered by the 7% cap announced last week. As set out in the terms of most lease agreements, rents are permitted to increase by a maximum of the Retail Prices Index (RPI) for a given month plus 0.5%. In November, RPI

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[1] *The ‘formula rent’ is the amount an individual rent can be set at before taking into account the rent restructuring restrictions and maximises the rental income received without penalising any individual.*

was 14%. This means that rents could increase by as much as 14.5% in 2023-24. This particularly high increase would come at a time when shared owners will also be facing other pressures on their household finances, including rising interest rates.

The government is, therefore, pleased to note that housing associations responsible for 90% of that sector's Shared Ownership homes have voluntarily committed to limiting rent increases for their shared owners in 2023-24 to no more than 7%.

The Secretary of State is eager for this voluntary commitment to be extended as widely as possible so that all shared owners may benefit, regardless of who their landlord is. Members may wish to determine if a 7% cap on shared ownership rents brings this into line with affordable rents.

3.3 **New Build rents & Affordable Rents**

In line with proposals set out in the Council's current HRA Business Plan, the rents for any new homes will be set at affordable rent levels. Affordable rents are defined as being a maximum of 80% of the prevailing average market rent for the area and should be no more than the prevailing local housing allowance (LHA) rates for the area to ensure that properties remain affordable.

The local housing allowances rates for 2023/24 were made available on 31 January 2023. The rates will be frozen for 2023/24. The indicative 2023/24 affordable rents for the Folkestone & Hythe area are as follows:

Bedsits	£65.00 per week
1 bedroom houses	£100.11 per week
2 bedroom houses	£132.33 per week
3 bedroom houses	£172.60 per week
4 bedroom houses	£207.12 per week

3.4 **Rent Comparisons**

The table below compares Folkestone & Hythe's average weekly rent to that of other authorities in Kent.

Table 3	**Average weekly rent over 52 weeks (2023/24) £**	**Difference between FHDC and other authorities £**
Folkestone & Hythe	95.58	-
Dover	96.88	1.30
Canterbury	103.47	7.89
Thanet	92.50	(3.08)

- Subject to Dover, Canterbury and Thanet's approval at their own Council meetings.

3.5 Service Charges

3.5.1 **General Service Charges**

The general principle for service charges for tenants is that they are set to fully recover the costs of the service they fund. However, the Government also limits increases in service charges as part of rent setting guidance which for 2023/2024 is 7%, as opposed to CPI + 1%. The CPI for September 2022 was 10.1%, therefore the rate increase would have been a maximum of 11.1% (10.1% + 1%).

Local authorities can increase charges above this level where costs are increased that are beyond the authorities' control. Utility charges, such as heating and hot water in sheltered housing schemes are an example where this applies. Proposals for these charges for 2023/24 are set out in 3.5.2 below.

3.5.2 **Heating charges in Sheltered Housing**

Residents in 12 of the Council's sheltered housing schemes have heating and hot water provided to their flats by communal systems. Charges are made for this service based on the floor area of each flat.

Over time fuel costs have increased significantly above the rate of inflation, so that the charges raised for this service no longer cover the costs. The proposed charges for this service, set against the actual cost of providing the service, are in line with the principle agreed last year. This continued move to full cost recovery may result in some tenants facing significant increases and it is therefore proposed to set charges that provide some interim protection against the highest increases.

Following the same approach as previous years, it is recommended that the 2023/24 service charges for heating and hot water in sheltered housing schemes should be set at actual cost or 10% increase, subject to the following limits:

- Bedsit flats £28.02 per week (£1,401 per year)
- 1 bed flats £31.24 per week (£1,562 per year)
- 2 bed flats £34.30 per week (£1,715 per year)

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 **Original Budget 2023/24**

The proposed HRA Capital Budget for 2023/24, shown in Appendix 2, is £12.7m. Table 4 below shows the key movements in the programme from the 2022/23 original budget to the original budget for 2023/24.

Table 4	**£000's**
Original estimate 2022/23	**14,720**
Changes in programme	
New Builds (see 4.1.1)	(2,493)
Thermal Insulations (see 4.1.2)	(48)
Ross House (see 4.1.3)	(900)
Rewiring (see 4.1.4)	(200)
SHDF Wave 2 - Capital Works (see 4.1.2)	881
SHDF Wave 2 - A & A (see 4.1.2)	155
Telecare (see 4.1.5)	619
Remodelling Independent Living Schemes (see 4.1.6)	250
Estate improvement works (see 4.1.7)	(89)
Treatment works (see 4.1.8)	90
Other net variances	(247)
Total decrease in expenditure	**(1,982)**
Original estimate 2023/24	**12,738**

4.1.1 **New Build**

The budget required for the new build programme will vary from year-to-year depending on the profile of the programme. This is reflected within the HRA Business Plan update which was agreed by Cabinet on 19 February 2020 and stated that 1,200 new homes would be delivered by 2034/35 (subject to available capital resources) and is currently being refreshed.

The movement in the budget for 2023/24 reflects the current plans for new builds and acquisitions for 2023/24, all subject to availability of capital financing resources in 2023/24 and future years. The budget for 2023/24 is therefore comprised of the following schemes; Shepway Close (£1.4m), Biggins Wood (£804k) and funding for HRA acquisitions to add to the overall stock (£1m).

4.1.2 **Thermal Insulations**

The 2019 Conservative Manifesto committed to a £3.8bn Social Housing Decarbonisation Fund (SHDF) over a 10-year period to improve the energy performance of social rented homes, on the pathway to Net Zero 2050. The SHDF aims to deliver warm, energy-efficient homes, reduce carbon emissions and fuel bills, tackle fuel poverty, and support green jobs.

The budget for ‘thermal insulation’ is being used for the F&HDC element of match funding for the Social Housing Decarbonisation Fund Wave 1 (‘SHDFW1’) programme which seeks to achieve the goal of increasing thermal efficiency and reducing carbon emissions in use and to achieve a property EPC rating of ‘C’. The proposed budget a carry forward to 2023/24 and is expected to be utilised in Q1 2023/24 on the SHDFW1 cohort of properties.

Following a successful application for Wave 1 funding and receipt of £1,989,090, the Council has submitted an application for Wave 2 funding and a budget has been provided for match funding in 23/24 (50% grant funding, 50% Council funding), should the application be successful. A separate heading is therefore included in the budget for the F&HDC match funding for Wave 2.4.1.3 **Ross House**

As part of the Wave 1 SHDF funding, it was planned that Ross House would receive upgrades to improve its energy efficiency in 22/23. Whilst the programme has been subject to delay in the completion of works, which are likely to extend into 2023/24, the Ross House specific budget will spent in full in 2022/23, with any further works required to achieve the required efficiency ratings provided from the carry forward of Thermal Insulations (see 4.1.2 above). This specific entry is therefore to be removed from the HRA Capital budget.

4.1.4 **Rewiring**

A programme of electrical recertifications (required every 5 years) and identification of works required has been conducted, with approximately 190 properties remaining. The movement in budget reflects the level of work required for 2023/24 compared to 2022/23.

4.1.5 **Telecare digital upgrade**

Existing telecare systems for vulnerable residents within the HRA estate are based on the national copper phone line network as provided by BT Openreach. With the forthcoming 'copper switch off' where the existing Openreach copper phone networks are being replaced with full fibre networks as part of the broader national rollout, F&HDC's existing telecare systems will no longer function from 2025 (the planned switch off date). As such, a 2-year programme of digital replacement units is planned to ensure the system continues to work with the new national network from 2025. The spend profile for the 2023/24 budget is for the first half of planned replacement costs, with the remainder to be covered in 2024/25.

4.1.6 **Remodelling Independent Living Schemes**

A full asset review by ARK (covering redevelopment, refurbishment & remodelling) has been carried out. A capital budget is required to mitigate issues identified in some schemes.

4.1.7 **Estate Improvement Works**

The capital budget for estate improvement works has been removed for 2023/24 based on current need. Planned works are likely to feature in the HRA medium term capital programme which will be brought to Cabinet along with the HRA business plan, however.

4.1.8 **Treatment Works**

The increase to the treatment works budget over 2022/23 is entirely a carry forward. Increased capital spend will help to alleviate current spend on responsive maintenance of the pumping stations over the longer term.

4.2 **HRA Reserve Balances**

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan.

The following table shows the required resources to finance the original budget for 2022/23 and original budget for 2023/24 for the HRA capital programme.

Table 6	Major Repairs Reserve	Use of RTB Capital Receipts	Use of Other HRA Capital Receipts	Capital Financing	Carry forwards	Revenue Contribution	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Original budget 2022/23	2,399	2,279	3.384	0	0	6,658	14,720
Original budget 2023/24	3,084	600	0	3,204	1,492	4,358	12,738

5. HRA MEDIUM TERM CAPITAL PROGRAMME 2023/24 – 2026/27

5.1 Given the significant funding pressure the HRA faces in the medium term as a result of the factors outlined in this report, a new 4-year medium-term capital programme has been constructed for the 4-year period through to 2026/27. This is attached at Appendix 3. This programme of works is based, among other things, on the results of the extensive stock condition survey completed in 2021 and the existing New Build and Acquisition originally scheduled over the next 4 financial years. There are many demands on the HRA capital reserves including tenant health and safety and property compliance, Decent Homes standards, other capital investment, retrofit of the existing stock and the new build programme. The proposed programme has been assembled based on considerable work by officers to identify the critical capital works requirements over the medium term for the existing HRA stock, taking into account the above demands.

5.2 It is important to note that this programme does not include a budget for the Highview project which is being separately considered by Cabinet and is prepared on the basis that Members agree with the recommendations in that report. In addition, as no decisions have yet been taken regarding the purchase of new build stock from developers at Biggins Wood once complete, this is also omitted from the medium-term capital programme.

5.3 It should be noted that the current economic and financial climate has resulted in increasing inflationary pressures on costs and increases in interest rates and the cost of borrowing. This has had a marked impacted on the Council's HRA Capital Programme. This factor, in tandem with the costs arising from the recent stock condition survey and costs of achieving Energy Performance Certificate 'C' and 'A' by 2030 and 2050 respectively have led to the requirement for a more medium term (4 year) resource plan for HRA capital spending requirement and funding assessment.

6. RISK MANAGEMENT ISSUES

6.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Capital programme does not reflect work required	Medium	Low	The budgets have been drafted following a comprehensive stock condition survey to identify works required
Spending profile and budget are unaligned	High	Low-Medium	Stringent budget monitoring during the financial year will enable early corrective action

7. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

7.1 **Legal Comments** (NM)

There are no legal implications arising directly out of this report other than as already stated therein. (Following the coming into force of Schedule 15 of the Localism Act 2011, English local authorities are required to be self-financing in relation to their housing stock, financing their housing stock from their own rents.)

7.2 **Finance Comments** (LW)

All financial effects are included in this report.

7.3 **Diversities and Equalities Implications** (GE)

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

7.4. **Climate Change implications** (OF)

There are no climate change implications arising from this report.

Consideration should be given to ensure that houses are built, repaired and upgraded using materials and techniques that are suitable to our changing climate.

7.5 **Communications and Engagement Implications** (KA)

There are no communication implications arising from this report

8. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

This report has been prepared by:

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The following background documents have been relied upon in the preparation of this report:

None

Appendices:
Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme

Appendix 3 – HRA Medium Term Capital Programme 2023/24 – 2026/27