

This Report will be made
public on 15 February
2022

Report Number **A/21/30**

To: Council
Date: 23 February 2022
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 2022/23

SUMMARY: This report sets out the Housing Revenue Account Revenue and Capital Budget for 2022/23 and proposes an increase in weekly rents and an increase in service charges for 2022/23.

REASONS FOR RECOMMENDATION:

Council 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/21/30.
2. To approve the Housing Revenue Account Budget for 2022/23. (Refer to paragraph 2.1 and Appendix 1)
3. To approve the increase in rents of dwellings within the HRA on average by £3.52 per week, representing a 4.1% increase with effect from 4 April 2022 (Refer to paragraph 3.2)
4. To approve the increase in service charges. (Refer to section 3.5)
5. To approve the Housing Revenue Account Capital Programme budget 2022/23. (Refer to paragraph 4.1 and Appendix 2)

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 system where authorities 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.
- 1.4 Cabinet considered the proposed HRA budget and rent levels for 2022/23 on 26 January 2022, and recommended the proposals incorporated within this paper for approval. There has been a small update to the position presented within this report following the incorporation of recharges for the strategic projects resources, included within the general management costs.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2022/23

The proposed HRA Budget for 2022/23, at Appendix 1, shows a forecast deficit of £4.1m. This is in line with the agreed HRA Business Plan which will continue to fluctuate 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 2023 is expected to be £3.0m as shown at Table 1 below:

| Table 1 | £000's |
|---|----------------|
| Original estimate of balance at 31 March 2022 | (6,939) |
| | |
| Movement from Original 2021/22 to Original budgets 2022/23 | |
| Increase in rents and other service charges (see 2.1.2) | (1,428) |
| Reduction in special management costs (see 2.1.4) | (560) |
| Reduction in depreciation charges | (244) |
| | |
| Increase in general management costs (see 2.1.3) | 1,139 |
| Other net movements | 56 |
| | (1,037) |
| Deficit 2021/22 | 5,098 |
| Original estimate of balance at 31 March 2023 | (2,878) |

2.1.1 HRA Revenue budget

The HRA revenue budgets are reflected in the HRA business plan. The business plan 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 2020 of CPI + 1% using the September 2021 CPI. This revised policy was announced by government in February 2019 and allows social landlords to increase rents by CPI plus 1% for a period of five years from 2020. This is in line with the approach taken in 2021/22.

2.1.3 General Management Costs

The increase in general management costs is largely due to the reallocation of recharges from special management costs (which has seen a compensatory reduction of £701k). The budget also proposes an increase of £141k for consultancy costs for 2022/23 for a number of projects including Kitewell & Woodland Cottages, Lifeline next generation implementation and Zero Net Carbon initiatives. In addition recharges for the new project management and strategic projects resource have been incorporated.

2.1.4 Special Management Costs

The reduction in special management costs of (£560k) is largely due to the reallocation of recharges to general management costs of (£702k), an increase in both utility costs £108k and supplies and services £30k.

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 2021/22 was £12.0m, this has increased due to the planned accumulation of balances to help fund the future new build programme.

Table 2 below shows the estimated HRA balances to 31 March 2023.

| <i>Table 2</i> | 2021/22 | 2022/23 |
|------------------------|----------------|----------------|
| | £000's | £000's |
| Balance as at 1 April | 12,037 | 6,939 |
| Balance as at 31 March | 6,939 | 2,878 |

The HRA reserve is expected to decrease by £4.1m from the close of 2021/22 and the end of the financial year 2022/23.

The changes with the introduction of 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

In February 2019 the Government introduced a new rent policy to come into effect from 1st April 2020 permitting annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% for a period of five years.

The new policy recognises the need for a stable financial environment to support the delivery of new homes. The government is now looking to the social housing sector to make the best possible use of its resources to help provide the homes that the country needs.

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 CPI plus 1% (September 2021 CPI 3.1%) which is 4.1%, in line with Government guidelines, equates to an increase of £3.52 per week or £183.04 per annum. This gives an average rent of £92.82 (over 50 weeks) in 2022/23 (average rent in 2021/22 is £89.17 (over 50 weeks)).

3.3 New Build 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

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.

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 2022/23 will not be available until early February 2022. The Government announced in January 2020 that rates will rise by inflation from April 2020. The indicative 2022/23 affordable rents for the Folkestone & Hythe area are as follows:

| | |
|------------------|------------------|
| Bedsits | £67.01 per week |
| 1 bedroom houses | £103.21 per week |
| 2 bedroom houses | £136.43 per week |
| 3 bedroom houses | £177.95 per week |
| 4 bedroom houses | £213.54 per week |

3.4 Rent Comparisons

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

| <i>Table 3</i> | Average weekly rent over 52 weeks (2022/23) £ | Difference between FHDC and other authorities £ |
|--------------------|---|---|
| Folkestone & Hythe | 89.25 | - |
| Dover | 90.54 | 1.29 |
| Canterbury | 96.70 | 7.45 |
| Thanet | 86.45 | (2.80) |

- 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 recover the costs of the service they fund. However, the government also limits increases in service charges to the Consumer Price Index (CPI) plus 1.0% per annum as part of rent setting guidance. The CPI for September 2021 was 3.1%, CPI plus 1.0% is therefore 4.1%. As a result general service charges within the HRA will increase by 4.1% with effect from 4 April 2022.

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 2022/23 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.

As set out within last year's report, 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. Therefore, the proposed charges for this service towards the actual cost of providing the service are in line with those agreed last year. This continued move to full cost recovery would 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 2022/23 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 £25.47 per week (£1,273 per year)
- 1 bed flats £28.40 per week (£1,420 per year)
- 2 bed flats £31.18 per week (£1,559 per year)

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 Original Budget 2022/23

The proposed HRA Capital Budget for 2022/23, shown in Appendix 2, is £14.7m. Table 4 below shows the movements in the programme from the 2021/22 original budget to the original budget for 2022/23.

| <i>Table 4</i> | £000's |
|---|---------------|
| Original estimate 2021/22 | 14,460 |
| | |
| Changes in programme | |
| Carbon Reduction Improvements (see 4.1.1) | 1,330 |
| Ross House (see 4.1.2) | 900 |
| Door/Block Entry (see 4.1.2) | 409 |
| Bathroom Improvements (see 4.1.2) | 194 |
| Windows/Doors (see 4.1.2) | 192 |
| Kitchen Replacement (see 4.1.2) | 170 |
| Enhanced Capital Programme | (2,500) |
| New Builds (see 4.1.3) | (824) |
| Other net variances | 389 |
| Total increase in expenditure | 260 |
| | |
| Original estimate 2022/23 | 14,720 |

4.1.1 Carbon Reduction Improvements

The proposed 2022/23 budget for Carbon Reduction Improvements is derived from the Stock Condition Survey. There is also an allowance of £834k which relates to the Council's contribution to our Social Decarbonisation bid, a decision on this bid has not yet been made by government but if successful the grant funding will be £1.7m against a project cost of £2.5m.

4.1.2 Decent Homes Standard

The increased budget requirement is to address recommendations and carry out works identified from verified surveys from the Rapleys Stock Condition Survey and sample testing to maintain the Decent Homes Standard.

4.1.3 New Build Programme

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 which was agreed by Cabinet on 19 February 2020 and stated that 1,200 new homes would be delivered by 2034/35.

Works on the High View scheme are now due to commence in 2022/23 as there have been delays to this scheme commencing in 2021/22, therefore, £4m will be requested as a carry forward for this scheme in 2021/22.

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 2021/22 and original budget for 2022/23 for the HRA capital programme.

| | Major Repairs Reserve | Use of RTB Capital Receipts | Use of Other HRA Capital Receipts | Revenue Contribution | Total |
|-------------------------|------------------------------|------------------------------------|--|-----------------------------|--------------|
| | £000's | £000's | £000's | £000's | £000's |
| Original budget 2021/22 | 5,880 | 1,956 | 0 | 6,624 | 14,460 |
| Original budget 2022/23 | 2,399 | 2,279 | 3,384 | 6,658 | 14,720 |

5. RISK MANAGEMENT ISSUES

5.1 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 |

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 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.)

6.2 Finance Comments (LW)

All financial effects are included in this report.

6.3 Diversities and Equalities Implications

This report is in line with the Council's Diversity and Equality policies.

7. 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:

Cheryl Ireland, Chief Financial Services Officer
Telephone 01303 853213 Email: cheryl.ireland@folkestone-hythe.gov.uk

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

This page is intentionally left blank