

This Report will be made public on 16 January 2024.

Report Number **C/23/85**

To: Finance & Performance Sub-Committee
Date: 23 January 2024
Status: Key Decision
Head of Service: Lydia Morrison, Interim Director Governance and Finance
Cabinet Members: Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance.
Councillor Rebecca Shoob, Cabinet Member for Housing and Homelessness

SUBJECT: DRAFT HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2024/25

Finance & Performance Sub-Committee are asked to review and note the Cabinet report below that will be presented to the Cabinet on 31st January 2024.

SUMMARY: This report sets out the Housing Revenue Account ('HRA') Revenue and Capital Budget for 2024/25 for approval and proposes an increase in weekly rents and an increase in service charges for 2024/25 both for approval.

REASONS FOR RECOMMENDATION:

The Committee 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 C/23/85.

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 business plan model to ensure that the HRA remains financially viable in the long term.
- 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 increase the number of new homes in the district.
- 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.

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2024/25

The proposed HRA Revenue Budget for 2024/25, at Appendix 1, shows a forecast deficit of £930k. This is in line with the agreed and current HRA Business Plan which fluctuates 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 2025 is expected to be £3.9m as shown at Table 1 below:

Table 1	£000's
Original estimate of balance at 31 March 2023	(4,848)
Movement from Original 2023/24 to Original budgets 2024/25	
Increase in rents and other service charges (see 2.1.2)	(1,954)
Decrease in revenue contribution to Capital (see 2.1.3)	(756)
Decrease in loan charges – interest (see 2.1.4)	(146)
Increase in repairs and maintenance (see 2.1.5)	886
Net increase in pension interest costs (see 2.1.6)	295
Increase in general management (see 2.1.5)	267
Increase in depreciation charges (see 2.1.7)	114
Other net movements	71
Subtotal Movement from Original 2023/24 to Original 2024/25	(1,223)
Deficit 2023/24	2,153

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 repairs, maintenance and improvements agreed with tenants.

2.1.2 Rents

The dwelling rents have been increased in line with the Rent Standard 2024 of CPI + 1%. This revised policy was announced by the government in January 2024 and allows social landlords to increase rents by CPI as at September 2023 6.7% + 1% which is 7.7% for 2024/25. 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); no changes are proposed to this policy. The LHA rates have not previously increased in the past 3 years and government have indicated that there will be an increase in 2024/25, the indicative rates are shown at 3.3 below, the confirmed rates are generally not published until 31st January 2024.

2.1.3 Revenue contribution to Capital expenditure

The reduction in revenue contribution to capital expenditure is due to changes to the financing of the capital programme. This will entail using Other HRA Capital Receipts of £1.05m and a loan of £5m for the New Build project as per the proposed HRA Business Plan.

2.1.4 Loan charges – interest

The increase in loan charges is due to an increase in the anticipated borrowing required to fund new builds and acquisitions as per the HRA Business Plan.

2.1.5 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 i.e. 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). There has also been an increase in the volume of work, in part to disrepair claims and additional work around mould and damp.

2.1.6 Pension interest costs

Pension costs are a non-controllable item and the increase in pension interest costs are based on the latest estimates from the most recent triennial pension revaluation.

2.1.7 Depreciation charges

The movement in depreciation charges for fixed assets is due a small increase in asset value of council stock as at 31 March 2023. This had the effect of increasing the depreciation charge. 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 be made to the revenue funding of capital expenditure offsetting the increase in the depreciation charge.

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 2023/24 was £7.0m, 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.

<i>Table 2</i>	2023/24	2024/25
	£000's	£000's
Balance as at 1 April	7,001	4,848
Balance as at 31 March	4,848	3,918

The HRA reserve is expected to decrease by £930k from the close of 2023/24 and the end of the financial year 2024/25.

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 4 January 2023 the government released the Limit on annual rent increases 2024/2025 from April 2024.

The government regulates how much social housing rents can increase social housing rents each year. It is set at up to the consumer price index (CPI) rate for September in a given year, plus 1% - meaning potential increases for 2024/2025 of 7.7% in line with the latest data from the Office of National Statistics.

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 7.7% in line with Government guidelines, equates to an increase of £7.37 per week or £390.61 per annum. This gives an average rent of £107.10 (over 51 weeks) in 2024/25 (average rent in 2023/24 is £99.40 (over 50 weeks)).

The HRA has 14 shared ownership properties. Shared Ownership rents are set out in the terms of most lease agreements, rents are permitted to increase by a maximum of the Retail Prices Index (RPI) plus 0.5%. In September, RPI was 8.9% this means that rents could increase by 9.4% in 2024-25.

A Shared ownership rents reform was published on the 12 October 2023, these reforms will apply to the leases of new shared owners who purchase homes delivered through the Affordable Homes Programme and through the planning system via Section 106 developer contributions. It will also apply to the leases of new shared owners who purchase a leasehold interest in their homes through the Right to Shared Ownership and Rent to Buy schemes.

Shared ownership rents can currently be increased by RPI plus 0.5%, under the reform new shared owners can be increased by no more than the CPI plus 1%. This reform brings shared ownership rents into line with the limit that normally applies to annual rent increases in other forms of social housing.

There are currently 5 properties in Arras Close which we are in the process of purchasing so the new regulations will apply to these properties in 2024/25.

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.

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 2024/25 are due to be increased indicative rates were published on the 9 January 2024. The figures below are indicative for 2024/25 with the confirmed rates being released on the 31 January 2024:

	Dover-Shepway Area
Bedsits	£99.30 per week
1 bedroom houses	£117.37 per week
2 bedroom houses	£159.95 per week
3 bedroom houses	£199.07 per week
4 bedroom houses	£276.16 per week
	Ashford Area
Bedsits	£90.50 per week
1 bedroom houses	£172.60 per week
2 bedroom houses	£195.62 per week
3 bedroom houses	£252.64 per week
4 bedroom houses	£331.40 per week

As the indicative LHA rates exceeds the 7.70% increase proposed for Social Housing rents affordable housing rents should be increased in line with the Rent Standard 2024 of CPI + 1%.

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 53 weeks (2024/25) £	Difference between FHDC and other authorities £
Folkestone & Hythe	103.06	-
Dover	104.35	1.29
Canterbury	111.44	8.38
Thanet	99.62	(3.44)

- 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 2024/2025 is CPI + 1%. The CPI for September 2023 is 6.7%, therefore the rate increase will be a maximum of 7.7% (6.7% + 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 2024/25 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 2024/25 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 £30.82 per week (£1,603 per year)
- 1 bed flats £34.36 per week (£1,787 per year)
- 2 bed flats £37.73 per week (£1,962 per year)

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 Original Budget 2024/25

The proposed HRA Capital Budget for 2024/25, shown in Appendix 2, is £13.4m. Table 4 below shows the key movements in the programme from the 2023/24 original budget to the original budget for 2024/25.

<i>Table 4</i>	£000's
Original estimate 2023/24	12,738
Changes in programme	
Thermal Insulations (see 4.1.1)	(997)
Door Block Entry Systems (see 4.1.2)	(306)
Fire Protection Works (see 4.1.2)	(300)
Bathroom Improvements (see 4.1.2)	(94)
New Builds (see 4.1.3)	1,926
SHDF Wave 2 - Capital Works (see 4.1.1)	464
Other net variances	23
Total increase in expenditure	716
Original estimate 2024/25	13,454

4.1.1 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 2 ('SHDFW2') 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'.

Following a successful application for Wave 2 funding and a receipt of £2,591m across 2 years 2024/25 and 2025/26, a budget has been provided for match funding in 24/25 (50% grant funding, 50% Council funding).

4.1.2 Door Block Entry System, Fire Protection Works, and Bathroom Improvements

The investment which has been made in the Capital programme over the past few years has improved the condition of the Council's stock which has resulted in the reduction of the following budgets from 2023/24 to 2024/25:

Door Block Entry System	£306k
Fire Protection Works	£300k
Bathroom Improvements	£ 94k

4.1.3 New Build

Although we have allocated £5m a year (index linked) for acquisitions and affordable new build to 2042/43, 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 30-year HRA Business Plan agreed by Cabinet on 13 December 2023 and supersedes the update which was agreed by Cabinet on 19 February 2020.

Officers are currently working on the new build pipeline and will bring a report back to Cabinet / Committee in due course.

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 2023/24 and original budget for 2024/25 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 2023/24	3,084	600	0	3,204	1,492	4,358	12,738
Original budget 2024/25	3,198	600	1,054	5,000	0	3,602	13,454

4.3 Attached at Appendix 4 is the proposed HRA Medium Term Capital Programme. This is based on the first 5 years of the HRA Business Plan, set out in detail at section 5 of this report.

5. BUSINESS PLAN

5.1 The Housing Revenue Account (HRA) 30-year Business Plan Report agreed by Members at Cabinet meeting 13 December 2023, (attached at Appendix 3) sets the parameters of the work and spend that is undertaken by the Council's housing service, underpinning every decision taken in the HRA.

The HRA Business Plan focuses on meeting statutory and legislative requirements, agreed priorities around decarbonisation, asset management and providing an excellent customer service to our tenants and leaseholders across the district.

It also sets out the Council’s ambition around acquisitions to the HRA and a £126m capital investment over an eighteen-year period to deliver 360 new affordable homes, followed by investing a further £14m in their capital maintenance.

This Business Plan model aligns with the direction and objectives of the Medium-Term Financial Strategy (MTFS) by continuing to deliver a financially balanced housing management service, alongside the commitments of the HRA capital programme, allowing for some capital investment in new HRA led housing.

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 30-year Business Plan Report

Appendix 4 – HRA Medium Term Capital Programme