

Dear Member

**HOUSING AND HOMELESSNESS OVERVIEW AND SCRUTINY PANEL –
WEDNESDAY, 18TH JANUARY 2023**

Please find attached, for consideration at the next meeting of the Housing and Homelessness Overview and Scrutiny Panel, taking place on Wednesday, 18th January 2023, the following reports that were unavailable when the agenda was published.

Agenda No Item

5. **Housing Revenue Account Budget and the Housing Public Sector Capital Expenditure Programme for 2023/24 (Pages 3 - 30)**

To consider the HRA budget and the housing public sector capital expenditure programme for 2023/24, including a presentation on the 30 year Business Plan.

6. **Housing Services Rent Setting and Service Charge Policy (Pages 31 - 48)**

To consider the proposed Rent Setting and Service Charge Policy for 2023/24 and beyond.

Yours sincerely

Democratic Services

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HOUSING AND HOMELESSNESS OVERVIEW AND SCRUTINY PANEL – 18 JANUARY 2023

PORTFOLIO: HOUSING AND HOMELESSNESS SERVICES

HOUSING REVENUE ACCOUNT BUDGET AND HOUSING PUBLIC SECTOR CAPITAL EXPENDITURE PROGRAMME 2023/24

1. RECOMMENDATIONS

- 1.1 That the Panel consider the HRA budget and housing public sector capital expenditure programme for 2023/24 which recommends:
- i) that the HRA budget, as set out in Appendix 1 of this report, be agreed;
 - ii) that from 03 April 2023, an increase in rents of 7.0% from the 2022/23 weekly rent level, in accordance with Government guidelines, be agreed;
 - iii) that from 03 April 2023, an increase in garage rents of 13% from the 2022/23 weekly rent level be agreed;
 - iv) that from 03 April 2003, an increase in shared ownership property rents of 7% from the 2022/23 weekly rent level, varied from the allowed RPI +1% increase of 13.1%, in accordance with Government requests of the Housing Sector, be agreed;
 - v) that from 03 April 2023 a further uplift in domestic energy service charges, up to a maximum of 25% and an increase of 7% in communal service charges, in line with the annual rent increase, ahead of a wider review and consultation later in the year, be agreed;
 - vi) that a Housing Capital Programme to 2025/26, as set out in Appendix 4, be agreed.

2. INTRODUCTION

- 2.1 This report sets out the proposed Housing Revenue Account (HRA) budget, the proposed rent levels and other charges, the maintenance programme and a proposed Housing Public Sector Capital Programme for 2023/24 – 2025/26.
- 2.2 The proposed budgets for 2023/24 will be considered by tenants on the Tenants Involvement Group on 18 January 2023. Their comments will be included in the report to Cabinet on 15 February 2023.
- 2.3 The proposed HRA budget is attached as **Appendix 1**, the detailed maintenance programme at **Appendix 2**, the 3-year forecast medium term financial position at **Appendix 3**, the 30-year business plan at **Appendix 4** and

the proposed Capital programme at **Appendix 5**. Cabinet will be required to recommend budgets for consideration at Council on 27 February 2023.

3. KEY ISSUES

3.1 Housing Authorities and Registered Providers face on-going challenges to maintain the continuation of high-quality services to their tenants, ensuring that buildings are safe and free from hazards and gearing up to deliver greater energy efficiency measures in the retrofitting of their stock, as well as delivering more affordable homes. Tenants, too, are facing challenges over rises in the cost of living and increases in energy bills. The proposal set out below to increase rents in line with the Government's current recommendation is considered to strike the right balance to ensure that the Council continues to provide high quality services to tenants and that the necessary programmes of maintenance and repairs to council housing stock are undertaken, as well as delivering new affordable council homes in the District.

3.2 Members are asked to consider a number of financial issues for 2023/24.

3.3 Housing Rents

3.3.1 The proposed budget identifies a social rent increase of 7.0%, in line with the Government's notified rent increase cap. It is the fourth increase, following a previous four-year social rent reduction programme. Increases in the last three years were based on Government guidelines of CPI+1%. If the cap had not been introduced the increase would have been 11.1%.

3.3.2 Following the rent increase, average weekly rents will be £113.71 for 2023/24. The actual increase will vary by property but will amount to an average increase of £7.44 per week.

3.4 Service Charges – Hostels & Flat Accommodation

3.4.1 Service Charges are currently used by the Council as a method to recover domestic energy costs from tenants where their personal usage costs are charged directly to the Council by the respective Utility Company. Service Charges are also used to recover some aspects of communal heating and lighting costs from tenants, which are also incurred in their respective blocks.

3.4.2 Although there was an interim review of charges in January 2019, and each year charges are nominally increased in line with inflation, the type of services eligible to be charged to tenants have not been fundamentally reviewed for a number of years.

3.4.3 The recent rise in energy costs has only stood to exacerbate the difference between the Council's actual costs and what it charges for energy use to tenants, through service charges. This means the Council's landlord function is under recovering costs incurred in

providing tenants with domestic energy, and/or communal heating and lighting. In this example the shortfall of costs incurred in this provision would effectively be borne by wider housing service budgets. In November 2022, Cabinet agreed to a 25% increase of domestic energy charges to be levied from 3rd January 2023. This report proposes a further uplift, up to a maximum of 25%, with effect from April 2023, and a 7% uplift of the charges for communal services received, to match the proposed increase in the basic rent for 23/24 from 3rd April 2023. This will help to ensure that the gap between actual charges incurred by the Housing Revenue Account and that charged to tenants (relating to existing charges), is not too disproportionate ahead of a wider review and consultation later in the year.

3.4.4 Currently only 693 dwellings receive a charge. The proposal is to recover additional annual income of circa £103,000 from these tenants from 3 April 2023.

3.4.5 The impact on tenants is varied. In some cases, the weekly charge is lower than currently charged. This is due to the new transparent approach using actual costs. In most cases the weekly charges increase, within a range from £0.27 to £5.15 for domestic energy and £0.22 to £1.49 for communal charges. Communal costs are eligible for Housing Benefit and Universal Credit so the majority of tenants will be unaffected by an increase.

3.4.6 A wider review will be undertaken during 2023/24 with a view to ensuring a fair and transparent charging mechanism is in place for all properties liable for a service charge.

3.5 **Garage Rents**

3.5.1 Garage rents were last increased in 2020/21. It is proposed that charges are increased in 2023/24 by 13% (£1.39 per week) to £12.09 per week, plus VAT where applicable.

3.6 **Planned Maintenance & Improvement Works**

3.6.1 The report proposes total budgetary provision of £10.100 million for planned maintenance and improvement works to houses and estates. Details of the proposed works for 2023/24 and an indication of proposals for the following two years are set out in **Appendix 2**.

3.7 **Fire Risk Assessment Works**

3.7.1 The Council set up a new Housing Compliance and Asset Management Section to ensure fire safety and statutory compliance matters are given the appropriate priority. Following a comprehensive review of fire safety and fire risk assessments, separate budget is included within the capital programme to deal with fire risk assessment actions. Budget, totalling £5.5 million has been earmarked over a 3-year period (£3 million in 2022/23, £2 million in 2023/24 and £0.5 million in 2024/25) to

deal with implementing new fire doors, where required, across the Council's blocks of flats, other fire remedial work including compartmentation works and new alarms, to ensure that the risk of fire is as low as reasonably practicable.

3.8 Housing Improvement Regime

3.8.1 In order to meet additional requirements on the Council arising under the Social Housing Regulation Bill, the new Tenant Satisfaction Measures regime and the Social Housing Residents Charter, a review has been carried out and additional staffing resources of £328,000 have been allocated, principally within the Housing Maintenance and Housing Management Teams. In addition, £108,000 has been allocated for external consultancy, tenant surveys, tenant data capture and tenant engagement computer software.

4. HRA INCOME 2023/24

4.1 Estimated total income for 2023/24 is £2.328 million higher than the original budget for 2022/23. The income variations from the 2022/23 approved budget are set out below:

	Change £000	Paragraph
Dwelling Rents	(1,813)	4.2
Non – Dwelling Rents	(48)	4.3
Service Charges	(117)	4.4
Other Income	(350)	4.5
Total	<u>(2,328)</u>	

4.2 **Dwelling Rents (£1.813 million increase)** – The proposed budget for 2023/24 includes the benefits of £1.974 million arising from the proposed 7.0% rent increase and £47,000 from an increase in dwelling numbers but this is offset by a loss of income of £208,000 due to continuing void levels.

4.3 **Non - Dwelling Rents (£48,000 increase)** – This income is derived from garages and rents of other housing land. The overall increase reflects the proposed increase in charges (£79,000) offset by a reduction of £31,000 due to the impact of reduced lettings from voids and anticipated development opportunities on garage sites.

4.4 **Service Charges (£117,000 increase)** – The service charges proposals detailed in Section 3 will generate additional income of £103,000. This together with income from new units acquired during 2022/23 will result in total additional income in 2023/24 of £117,000.

4.5 **Other Income (£350,000 increase)** – Despite utilising reserves to fund the capital programme, interest earnings have increased by £320,000 following an increase in interest rates. The Shared Amenities contribution from the General Fund has increased by £30,000 to cover inflationary increases in costs and increases in expenditure on trees and other estate budgets.

5. HRA EXPENDITURE 2023/24

- 5.1 Budgeted operating expenditure for 2023/24 is £3.029 million higher than the approved budget for 2022/23. After allowing for increased depreciation charges and transfers from reserves for specific earmarked projects, surplus resources available for making principal repayments on borrowing are reduced by £1.331 million to maintain a balanced Housing Revenue Account for the year, as detailed in paragraph 5.8. The major variations are set out below:

	Change £000	Paragraph
Cyclical/Reactive Maintenance	1,252	5.2
General Management	923	5.3
Special Services/Homeless Assistance	522	5.4
Rents, Rates, Taxes and other charges	8	5.5
Capital Financing Costs - Interest	324	5.6
Operating Expenditure	<u>3,029</u>	
Contribution to Capital – Supporting Housing Strategy	<u>580</u>	5.7
	3,609	
Capital Financing Costs – Principal	<u>-1,331</u>	5.8
Total	<u>2,278</u>	

- 5.2 **Cyclical/Reactive Maintenance £1.252 million** – Increased maintenance budgets are principally due to pay and prices increases of £610,000, an increase of £359,000 on cyclical maintenance due to the reintroduction of external decorations and sheltered accommodation decoration works and maintenance costs of new alarm systems, £181,000 from the Housing Improvement Regime staffing review, a £50,000 staff transfer from capital works to revenue void works and £28,000 additional costs from the vehicle replacement programme.
- 5.3 **General Management £923,000** - Supervision and Management budgets will increase principally due to pay and prices increases of £494,000, £222,000 for additional staffing, largely within the Housing Repairs and Housing Estate Management Teams and £108,000 in supplies and services budgets following the Housing Improvement Regime and senior management team reviews. In addition, there are increased corporate allocations of £23,000, increased premises insurance costs of £20,000, a £46,000 transfer of Housing Development Team staffing costs previously allocated to General Fund activities and £52,000 increased building cleaning allocations for general needs housing areas. These costs are offset by the removal of a £50,000 non-recurring ICT software budget that was funded in 22/23 from the ICT Reserve.
- 5.4 **Special Services/Homeless Assistance £522,000** – An increase in budgets is principally due to utility bill increases of £393,000, other pay and prices increases of £105,000 and an increase of £38,000 in the Trees Maintenance budget, offset by a reduction in cleaning budgets due to the reallocation of a greater level of costs to general needs housing.

- 5.5 **Rents, Rates, Taxes and Other Charges £8,000** – Additional costs are due to the inclusion of latest updated budgets for hostel unit Council Tax charges and general needs housing whilst void repairs are being carried out.
- 5.6 **Capital Financing Costs £324,000** – Capital Financing costs have increased by £324,000. This is due to interest costs of £218,000 on new borrowing for the proposed capital programme set out in Section 8 of this report and £211,000 additional interest costs of existing internal borrowing, due to increased interest rates, offset by a reduction of £105,000 in interest costs due to the repayment of the next £4.1 million instalment of the settlement borrowing in March 2023.
- 5.7 **Contribution to Capital - Supporting Housing Strategy £580,0000** – This budget is the prescribed calculation of dwellings depreciation that needs to be charged to the Housing Revenue Account and is used to part fund the capital programme. The figure has increased principally because of an increase in the housing stock value that needs to be depreciated.
- 5.8 **Capital Financing Costs – Principal -£1.331 million** – After allowing for any transfers from reserves, the Council is required to set a balanced budget for the year. Increased expenditure and notional depreciation costs in 2023/24 of £3.609 million exceed anticipated increased income of £2.328 million, reducing the annual amount available for repaying principal on borrowing by £1.331 million. The maturing loan of £4.1 million will be repaid during 2023/24 and replaced with new borrowing of £1.331 million.

6. HRA RESERVE BALANCE

- 6.1 The HRA Reserve balance as at 1 April 2022 was £1 million. This is considered to be a prudent level.
- 6.2 The original 2022/23 HRA budget showed a net operating deficit position of £200,000 which was to be met from earmarked reserves. A financial update report for the year will be presented to Cabinet on 6 February 2023. In accordance with current policy, any surplus or deficit for the year will be balanced by a transfer to or from the Acquisitions and Development Reserve, which stood at £11.729 million as at 31 March 2022.
- 6.3 The proposed HRA budget for 2023/24 currently shows a net operating deficit position of £150,000 but this relates to non-recurring expenditure and will be funded from earmarked reserves, resulting in no change to the general HRA reserve balance. The estimated Housing Revenue Account balance at 31 March 2023 and 31 March 2024 will therefore be £1 million.

7. HRA MEDIUM TERM FINANCIAL PLAN

- 7.1 Attached as **Appendix 3** is an indication of HRA budgets for two years post 2023/24 and is included to enable decisions for 2023/24 to be made in the context of affordability for the medium term. While these budgets will be

amended in future years, it shows that estimated operating surpluses enable resources to be allocated to part fund the Capital Programme but the Council's ability to repay the annual maturing borrowing is not possible and therefore spending pressures will need to be controlled.

8. 30 YEAR BUSINESS PLAN

- 8.1 The Council, with the assistance of an external consultant has produced a 30- year HRA business plan. This will be used to monitor the long-term implications of budget plans and aspirations. A summary of the initial document is set out in **Appendix 4**.

9. CAPITAL PROGRAMME

- 9.1 The proposed Housing Public Sector capital expenditure programme for 2023/24 totals £27.610 million. The detailed programme and anticipated funding is set out below:

	Original 2022/23 £000	Latest 2022/23 £000	Original 2023/24 £000
Proposed Expenditure			
Fire Risk Assessment Works	3,000	3,000	2,000
Major Structural Refurbishments	1,000	1,000	1,000
Planned Maintenance & Improvements	5,500	5,500	7,760
Robertshaw House	0	0	500
Estate Improvements	200	200	200
Disabled Facilities Adaptations	1,000	1,000	950
Development Strategy	14,200	10,200	15,200
TOTAL	24,900	20,900	27,610
Funded by			
Revenue	9,120	9,700	9,700
Capital Receipts	2,000	2,000	2,000
Acquisitions and Dev. Reserve	2,150	3,760	2,970
Government Grant	1,950	1,360	3,660
Internal Borrowing	2,270	4,080	1,530
External Borrowing	7,410	0	7,750
TOTAL	24,900	20,900	27,610

- 9.2 Significant works to properties, including compartmentation and new fire doors, are being carried out following detailed Fire Assessment surveys. Funding of £2 million is proposed for 2023/24.
- 9.3 The Authority is holding several properties requiring significant structural refurbishment works, a number of which are currently void. Funding of £1 million is proposed to upgrade these properties.

- 9.4 The Major Repairs budget was reduced in 2022/23 to partially offset the new expenditure items detailed in paragraphs 9.2 and 9.3 but has been increased in 2024/25 to £7.760 million to reflect identified programme needs. Details of the proposed programme are set out in **Appendix 2**.
- 9.5 Robertshaw House - Budget provision of £500,000 has been allocated for major internal and external refurbishment and improvement works at Robertshaw House.
- 9.6 The proposed capital programme for 2023/24 includes £15.200 million to be invested in additional homes. This level of expenditure is also expected over the period post 2023/24 through to 2025/26, in line with the Council's new Housing Strategy, as covered in more detail in paragraph 9.7. **Appendix 5** shows the proposed capital programme to 2025/26.
- 9.7 The Council's Housing Strategy targets the delivery of at least 600 new homes covering the period 2018 - 2026. The delivery of the Housing Strategy to 2026 will seek to ensure ring-fenced Housing Revenue Account (HRA) resources are maximised to their full potential. The recent removal of the borrowing cap gives Local Authorities enhanced flexibilities in terms of playing a key part in the delivery of new affordable homes across the Country. The Council should be prepared to consider any opportunities that arise, and the potential should be there to fund the delivery of new homes through borrowing as long as a sound financial viability appraisal confirms it is suitable to do so. The Council has a sound financial platform to build upon and the delivery of the Housing Strategy to 2026 will seek to further enhance the financial performance of the existing HRA. By venturing into new tenures, the financial performance of the HRA will improve, as additional rental income is made available for the essential maintenance and management of the Council's overall Portfolio and to fund more new affordable homes.
- 9.8 Based on latest estimates, the proposed capital programme will result in the total accumulated borrowing requirement exceeding the level of Housing specific cash reserves held during 2023/24. This would necessitate external borrowing during 2023/24 to finance the programme. However, the decision about timing of actual borrowing will be taken as part of the Council's overall Treasury Management Strategy.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1 The capital works programme continues to provide more sustainable measures to improve the thermal efficiency of Council housing stock, through more efficient window replacement programmes, insulation, boiler replacements and air source heat pumps. Through the work undertaken by the Greener Housing Task and Finish Group and the emerging Greener Housing Strategy, the Council is committed to undertaking more sustainable measures year on year including through the retrofitting of its stock.
- 10.2 All products used in the repair, maintenance and improvement of Council homes are selected to ensure the minimum impact upon the environment and

at the same time balance the need to improve the energy efficiency of tenants' homes in order to meet the requirement for thermal efficiency under the Decent Homes Standard.

11. CRIME AND DISORDER IMPLICATIONS

11.1 Many aspects of work identified in this report will improve the security of tenants' homes.

12. EQUALITY AND DIVERSITY IMPLICATIONS

12.1 All equality and diversity implications will be considered at every stage of the process of commissioning and carrying out planned maintenance, improvement and cyclical maintenance works. In addition, any contractor used for works will have been assessed, as part of the process in becoming an approved NFDC contractor, in respect of their adherence to equality and diversity principles.

13. TENANTS' VIEWS

13.1 To be added to the Cabinet report after the Tenants Involvement Group have considered this paper on 18 January 2023.

14. PORTFOLIO HOLDER COMMENTS

14.1 To be added to the Cabinet report following the meeting of this Panel and discussion by the Tenants Involvement Group.

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Background Papers:

Published documents as referred to within this report.

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HOUSING REVENUE ACCOUNT BUDGET

	2022/23 £'000	2023/24 £'000	Variation £'000	Para
INCOME				
Dwelling Rents	-28,414	-30,227	-1,813	4.2
Non Dwelling Rents	-672	-720	-48	4.3
Charges for Services & Facilities	-732	-849	-117	4.4
Contributions towards Expenditure	-60	-60	0	4.5
Interest Receivable	-58	-378	-320	4.5
Sales Administration Recharge	-33	-33	0	4.5
Shared Amenities Contribution	-256	-286	-30	4.5
TOTAL INCOME	-30,225	-32,553	-2,328	
EXPENDITURE				
Repairs & Maintenance				
Cyclical Maintenance	1,196	1,640	444	5.2
Reactive Maintenance	3,648	4,456	808	5.2
Supervision & Management				
General Management	6,209	7,132	923	5.3
Special Services	1,377	1,846	469	5.4
Homeless Assistance	91	144	53	5.4
Rents, Rates, Taxes and Other Charges	81	89	8	5.5
Provision for Bad Debt	150	150	0	
Capital Financing Costs - Interest/Debt Management	4,198	4,522	324	5.6
TOTAL EXPENDITURE	16,950	19,979	3,029	
HRA OPERATING SURPLUS(-)	-13,275	-12,574	701	
Contribution to Capital - Supporting Housing Strategy	9,120	9,700	580	5.7
Capital Financing Costs - Principal	4,355	3,024	-1,331	5.8
HRA Total Annual Surplus(-) / Deficit	200	150	-50	
Use of Reserves for Major Projects	-200	-150	50	5.3
HRA TOTAL ANNUAL SURPLUS(-) / DEFICIT	0	0	0	

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2023/24 - 2026 MAINTENANCE BUDGETS

CYCLICAL MAINTENANCE	2023/24	2024/25	2025/26
Cyclical External Cleaning and Decoration	200,000		
Appliance servicing (including gas, oil, solid fuel)	980,000		
Lift Servicing	90,000		
Fire Alarm Servicing	70,000		
Portable Appliance Testing	4,000		
Cyclical Internal Decoration	100,000		
Fire Risk Assessments	25,000		
Air Source Heat Pump Servicing	1,000		
Legionella Testing	22,000		
Automatic Door Servicing	20,000		
Window Cleaning	21,000		
Emergency Lighting	71,000		
Miscellaneous	36,000		
TOTAL CYCLICAL MAINTENANCE BUDGET	1,640,000	1,722,000	1,756,000

PLANNED MAINTENANCE & IMPROVEMENTS	2023/24	2024/25	2025/26
Kitchen Modernisations	700,000		
Bathroom Modernisations	700,000		
Heating - domestic gas boiler replacements	881,600		
Heating - electric heating replacement	100,000		
Commercial Boiler replacement	295,000		
Electrical Works	499,800		
Low Maintenance Eaves	100,000		
External Doors and Windows	1,000,000		
Roofing	830,000		
Fire alarm upgrades	100,000		
Structural Works	300,000		
Asbestos surveys and removal	100,000		
Garages	200,000		
Telecare Upgrade	63,000		
Miscellaneous PPM	630,600		
Green housing initiatives	1,260,000		
TOTAL PLANNED MAINTENANCE & IMPROVEMENT BUDGET	7,760,000	8,000,000	8,200,000

ROBERTSHAW HOUSE, LYNDHURST	2023/24	2024/25	2025/26
Internal and external refurbishment/improvement works	500,000	0	0
TOTAL ROBERTSHAW HOUSE BUDGET	500,000	0	0

ESTATE IMPROVEMENTS	2023/24	2024/25	2025/26
Provision of estates works and paving	200,000	200,000	200,000
TOTAL ESTATE IMPROVEMENTS BUDGET	200,000	200,000	200,000

TOTAL FORECAST MAINTENANCE EXPENDITURE	2023/24	2024/25	2025/26
TOTAL EXPENDITURE	10,100,000	9,922,000	10,156,000

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MEDIUM TERM FINANCIAL PLAN - HOUSING REVENUE ACCOUNT

	Budget 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000
INCOME			
Dwelling Rents	-30,227	-32,041	-32,681
Dwelling Rents - Growth	0	-50	-150
Non Dwelling Rents	-720	-756	-771
Charges for Services & Facilities	-849	-891	-909
Contributions towards Expenditure	-60	-60	-60
Interest Receivable	-378	-283	-202
Sales Administration Recharge	-33	-33	-33
Shared Amenities Contribution	-286	-300	-306
TOTAL INCOME	-32,553	-34,414	-35,113
EXPENDITURE			
Repairs & Maintenance			
Cyclical Maintenance	1,640	1,722	1,756
Reactive Maintenance	4,456	4,679	4,772
Supervision & Management			
General Management	7,132	7,331	7,478
Special Services	1,846	1,938	1,977
Homeless Assistance	144	151	154
Rents, Rates, Taxes and Other Charges	89	93	95
Provision for Bad Debt	150	150	150
Capital Financing Costs - Interest/Debt Management	4,522	4,789	5,029
TOTAL EXPENDITURE	19,979	20,854	21,412
HRA OPERATING SURPLUS(-)	-12,574	-13,561	-13,701
Contribution to Capital - supporting Housing Strategy	9,700	10,185	10,389
Capital Financing Costs - Principal	3,024	3,376	3,312
HRA Total Annual Surplus(-) / Deficit	150	0	-0
Use of Reserves for Major Projects	-150	0	0
HRA TOTAL ANNUAL SURPLUS(-) / DEFICIT	0	0	-0

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Appendix 4

Housing Revenue Account 30 Year Business Plan

1. Introduction

This report presents a baseline summary of the Housing Revenue Account.

This report summarises expenditure, investment, capital financing and borrowing projections in respect of New Forest District Council's housing operations over a 30 year period, starting in 2022/23. The report presents a baseline position that reflects the authority's best available data and assumptions at the current time. The baseline allows for inflationary pressures impact on budgets and programmes from 2023/24. It also assumes a continuation of existing Central Government rent policy, after applying a 7% cap to the maximum rent increase for existing tenants in 2023/24.

The report then demonstrates the impact on the baseline position by applying two separate alternative scenarios which are proposed in the proposed rent policy:

1. Adopting a policy of re-letting vacant properties at the formula rent
2. Further adopting the use of rent flexibility

These scenarios are intended to illustrate potential changes to the baseline, which may flow from policy decisions. They do not constitute a full stress test of the authority's position but demonstrate how changes to income changes affordability, balances and debt repayment positions.

2. Baseline projections

2.1. Baseline assumptions

The baseline assumptions reflect the revised 2022/23 revenue budget, draft 2023/24 budget and medium-term projections for capital and revenue. Other information and assumptions that have been used in preparing this baseline projection include:

- The authority's medium term HRA capital programme
- Updated information on the authority's programme for developing and acquiring new dwellings over the medium term
- Data from the right to buy pooling returns that the authority submits to DLUHC
- An assumption that the authority sells 23 homes a year under the right to buy
- The authority aims to maintain a minimum HRA balance of £1.000m, adjusted for inflation
- Any sums generated by the HRA that are in excess of the minimum balance are made available to pay for the capital programme or to repay debt
- Actual rents increase up to the maximum rate currently permitted by the rent standard. Due to the rent cap, the maximum rent increase for existing tenants in 2023/24 has been set at 7% for general needs housing. Under the current policy statement an increase of CPI +1% is expected to apply until 2024/25. The government plans to consult separately on rent increases from 2025/26. While the Council awaits this consultation a prudent assumption that rent increases will be limited to a CPI uplift from April 2025 has been applied.
- Formula rents increase at CPI +1% in 2023/24 and 2024/25, in line with the rent standard and government policy statement. As for actual rent increases, it has been assumed that formula rents increase in line with CPI from 2025/26, pending consultation by government.
- In 2022/23 the authority re-lets 5.5% of its social rent stock (277 units in 2023/24) at formula rent, with future relets in the same proportion.
- Depreciation costs have been estimated in line with the authority's budget, uplifted for inflation at RPI.
- Inflation has been applied as follows:
 - Underlying inflation for 2023/24 is linked to the inflation rates for September 2022, as published by the Office for National Statistics, and the house price index published by HM Land Registry for August 2022.
 - CPI at 5.2% in the final quarter of 2023, based on projections prepared by the Bank of England and published in the November 2022 monetary policy report. This rate has been used to reflect underlying inflation for 2024/25. From 2025/26 onwards it is assumed CPI runs at 2% pa.
 - RPI tracks at CPI +1%
 - General management and special management cost increase by 5% and 7% respectively for 2023/2, then reflect underlying CPI.
 - Building costs increase by 25% over the three years to 2025/26 (after allowing for inflation already built into the authority's budgets), then continue to increase at RPI. This affects spending projection for day to day repairs and maintenance, major works to existing homes and the provision or acquisition of new homes.
 - Other costs in the capital programme have been inflated by CPI.
- Major works and component replacements are treated as 100% variable from 2025/26. These costs have an element that flexes to reflect increases and reductions in the housing stock.

- At the start of the planning period HRA debt includes internal borrowing from the Council of £5.874m. It is assumed the HRA would make repayments from this debt until 2024/25, in line with its medium term financial plan. From 2025/26 onwards it is assumed that the authority would not reduce this internal debt further.
- The projections assume an interest rate of 3.8% would be charged on all new external loans, with 0.5% interest payable on internal borrowing

In preparing this projection it is assumed that the HRA would attempt to repay any additional external borrowing that it undertakes as quickly as possible. Our reason for making this assumption is that it gives a clearer indication of how well the HRA can service and repay any borrowing that is required to deliver its long term capital programme. Any actual borrowing undertaken by the authority would be subject to the prevailing market conditions and guidance received from the authority's treasury advisors.

2.2. Gaps in the data and potential risks

There are gaps in the data available to the authority, which have required us to make assumptions about future expenditure in key areas. The two principal gaps identified relate to:

- The profile of component replacements required for the existing stock
- the scale of EPC-C and decarbonisation works required to the existing stock

The profile of component replacements required for the existing stock is normally generated from a stock condition survey. A full stock condition survey is underway with a target completion of January 2024.

At the moment, every authority's assessment of the decarbonisation works required to its existing stock is a developing area, and estimated costs can vary substantially as the specific requirements emerge. In estimating costs data from the authority's Greener Housing Strategy work has been used, which currently represents the best available information. However, these assumptions will be updated in due course as the Greener Housing Delivery Manager progresses their work to identify a programme for EPC-C and decarbonisation works.

Other key risks include:

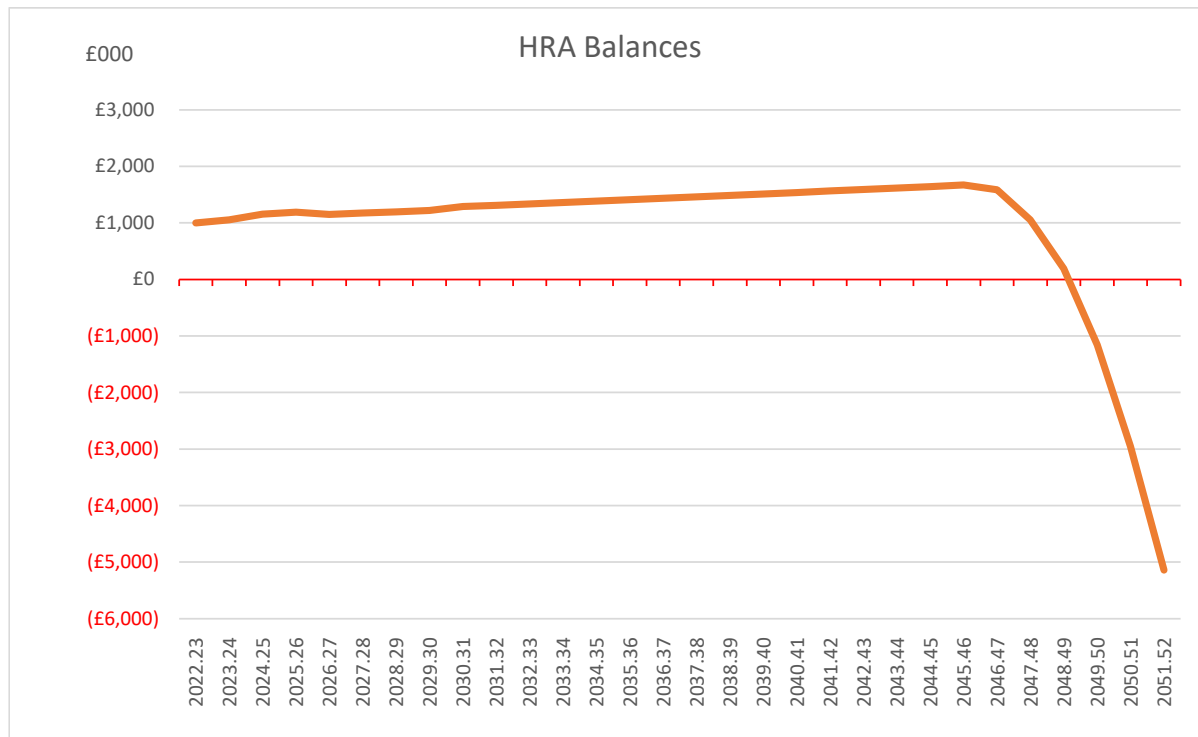
- fluctuations in the underlying rate of inflation, which can impact on both costs and income
- further constraint imposed on rent increases by government, or by the authority itself
- increases in the costs of works and services that are not matched by increases in income
- changes to underlying interest rates
- absence of compiled information on stock condition and future component replacements

The effects of the baseline assumptions are shown in the following sections.

2.3. Baseline - revenue position

In the chart below the orange line projects the cumulative HRA balance at the end of each year.

The chart therefore shows the authority's ability to maintain a minimum level of balances during the 30 year period covered by the baseline projection:



In this chart the orange line projects the cumulative HRA balance at the end of each year.

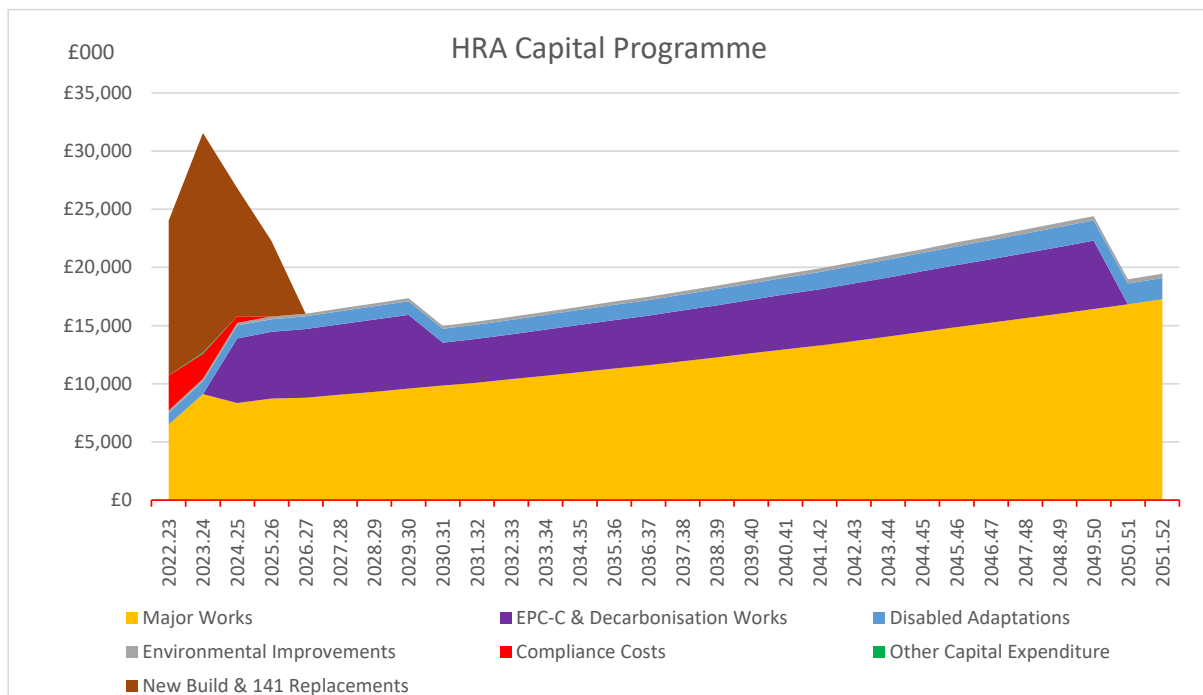
The authority maintains its minimum HRA balance of £1.000m (plus inflation) until 2045/46. During this period, any "spare" rents generated are used to pay for capital projects or to repay debt.

Without further mitigating actions from 2046/47, spending pressures on the HRA prevent it from maintaining the minimum balance and the position deteriorates, causing the HRA to fall into deficit from 2049/50. By the end of the period the deficit grows to £5.140m.

It would be unlawful for the authority to budget for a deficit on its HRA. This chart indicates that the baseline assumptions require action to mitigate the situation to ensure a financially sustainable HRA over the long term.

2.4. Baseline -capital programme

The next chart shows the scale and composition of the authority’s projected capital programme:



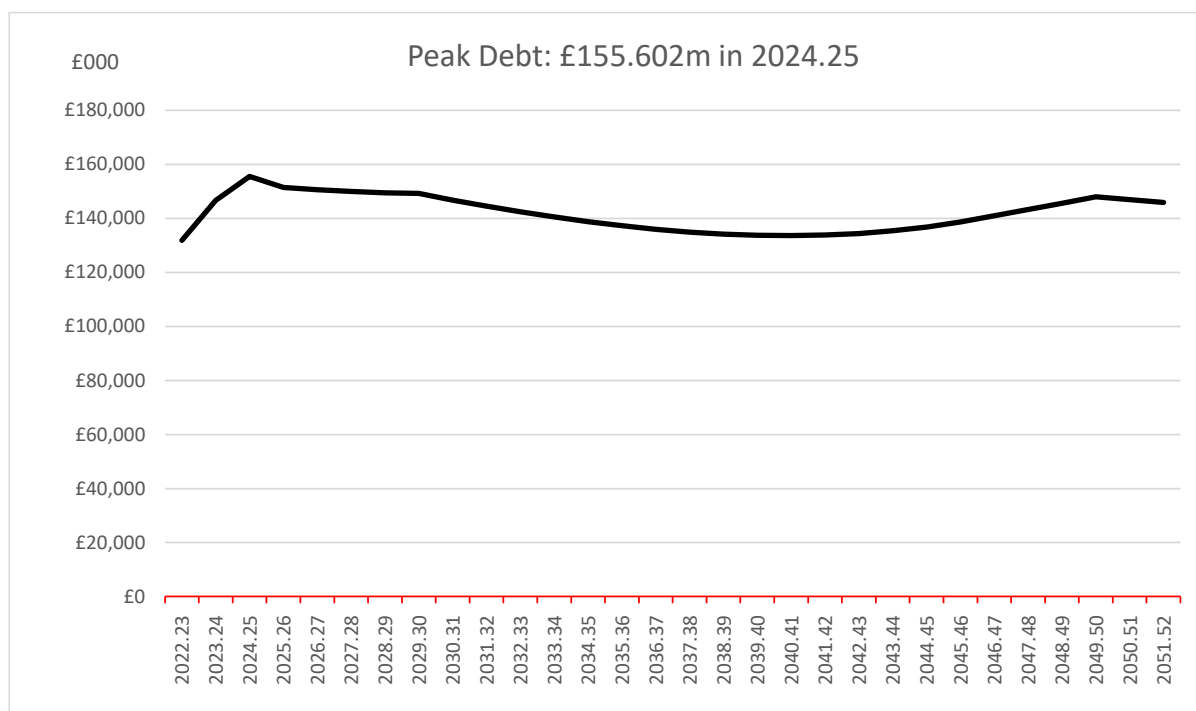
This programme includes projects for new build and stock purchase that produce 188 new properties between 2022/23 and 2025/26 (brown area) to meet the Council’s commitment to deliver 600 units of social housing.

The yellow area allows for investment required on stock condition, based on projected expenditure levels in 2024/25. The purple area shows an allowance for improving energy efficiency of existing homes to EPC level C standard by 2030, plus wider decarbonisation works by 2050. The total amount of investment in the above chart steps down in 2030/31 and in 2050/51, at the conclusion of the EPC-C and wider decarbonisation programmes.

The average annual cost of major works at current prices, averages £1,203 per existing unit over 30 years (excluding EPC-C and decarbonisation works). While this is consistent with the “rule of thumb” range of between £1,200 and £1,300 per unit that some other authorities have used, this is not based on a detailed assessment of stock condition. As a result, the projections do not allow for the profiling of any future, and amended, planned component replacement programmes Which will be updated once projections are established from the Stock Condition Survey programme.

2.5. Baseline – debt

The next chart projects movements in the level of HRA debt during the planning period:



On these assumptions, the authority is unable to finance its capital programme entirely from its Major Repairs Reserve, revenue surpluses generated by the HRA and projected right to buy receipts. This causes the HRA to rely on borrowing to part-finance the HRA capital programme until the decarbonisation programme ends in 2049/50.

HRA-related debt is projected to rise to a peak of £155.602m in 2024/25, which is the year after peak delivery for the current development programme. From 2025/26 onwards HRA-related debt gradually reduces until it reaches £133.660m 2040/41. However, from 2041/42 the authority needs to resume borrowing to deliver its capital programme, with total debt climbing back to £148.027m in 2049/50, which coincides with the end of the decarbonisation programme. Over the last two years the requirement for debt finance reduces, with debt falling slightly, to £145.927m by the end of 2051/52.

The HRA can repay little of the peak debt required to deliver the authority's baseline capital programme by the end of the projections. This is caused by the combined effects of additional spending pressure (through the effects of cost inflation) and constraint on rents (due to the 2023/24 rent cap and an expectation that increase from 2025/26 would reflect CPI, instead of CPI +1%).

2.6. Baseline – summary

The baseline assumptions produce a position that looks affordable over the medium term, but deteriorates from mid-plan. The HRA can use borrowing to increase the number of units over the medium term, but it is unable to service and repay that debt over the long term, unless further corrective action is taken.

The projections also indicate some potential risks, which the authority needs to manage. These include:

- Additional costs projected by the stock condition data.
- Assumptions around the costs of decarbonisation works are based on partial information and will be influenced by a developing market. Consequently, there is a risk that the authority could be understating the levels of investment required in these areas, which in turn could affect the affordability of future plans.
- While prudent assumptions about future government policy on social rents have been made, we currently await details of the approach that will be taken from 2025/26. Any reduction in future rent levels would have an adverse impact on the financial capacity of the authority's HRA.
- Failure on the part of the Council to maximise rental income or minimise the costs that are charged to the HRA would impact negatively on the financial health of the HRA

The baseline HRA projections suggest that the authority retains insufficient “wriggle room” to respond to emerging risks and pressures over the long term. The Council will need to take action to minimise its exposure to these risks. Where possible, spending pressures should be contained within the levels of income growth the authority can achieve from rents and other charges.

3. Scenarios

3.1. Scenarios tested

The alternative income scenarios proposed and their respective impact on the baseline position are outlined below.

Scenario 1 – re-letting vacant dwellings at the formula rent

The authority currently re-lets dwellings at the rent paid by the previous tenant, and that the rent most tenants currently pay is at or near the formula rent for their home.

The government's updated policy statement for rent increases from 2023/24 means that rents for existing general needs tenants will be subject to a maximum increase of 7% in April 2023, and that the formula rent for a dwelling will not be subject to a cap and would increase by 11.1%, which is in line with CPI. This means that formula rents for 2023/24 will increase by much more than the actual rent a tenant pays, and that most tenants will be paying less than the formula rent.

The government policy statement on social rents expects authorities to relet homes for social rent at the formula rent set for that dwelling. If it were to do so, the authority would be able to recover some of the rent lost by the application of the 7% cap on rent increases in 2023/24 as dwellings are re-let in future years. Scenario 1 indicates the effects of making this change to the authority's rent policy.

For Scenario 1 it is assumed that 5.5% of the social rent stock would be re-let at the formula rent in 2023/24 (277 units), with the same proportion of dwellings below the formula rent being re-let in each subsequent year.

Scenario 2 – adopting the use of rent flexibility

Rent flexibility is available to the authority under the government's policy statement and the rent standard. It permits a social landlord to charge up to 5% more than the formula rent for a general needs social rent property (or up to 10% more for supported housing). In order to apply rent flexibility, the authority must have a rationale for doing so, which takes into account local circumstances and is affordable to tenants. It also needs to consult with tenants.

Scenario 2 takes Scenario 1 a step further and models the impact of adding rent flexibility to a policy of re-letting units at the formula rent. For the purposes of this exercise, Scenario 2 assumes that rent flexibility of 5% is applied to all new social rent dwellings delivered, plus 9% of re-lets where the Council has invested over £40,000 to repair the property or where the property has been part of decarbonisation upgrade programmes.

3.2. Further testing

The scenarios tested are simply designed to provide an indication on key policy decisions that the authority may wish to make during its forthcoming budget-setting process.

The Council will need to regularly review its assumptions on inflation and interest rates, while updating expenditure assumptions to reflect its in-year monitoring of budgets and programmes.

Adopting a rigorous approach to stress testing the authority's HRA will help it to identify the effects of potential risks at an early stage, test its response and take appropriate action to eliminate or mitigate the risk.

3.3. Scenario results

The table below summarises the effects of each scenario on the health of the HRA Balance at 10 year intervals during the projections. These are shown alongside the results produced by the baseline position:

Scenario/ Sensitivity	HRA Balance			
	2022.23 £000	2031.32 £000	2041.42 £000	2051.52 £000
Baseline	£1,001	£1,310	£1,564	-£5,140
Relet at Formula Rent	£1,001	£1,324	£1,597	£1,986
Relet at Formula Rent + Rent Flexibility	£1,001	£1,326	£1,602	£1,994

Reletting vacant dwellings at the formula rent (Scenario 1) improves the operating surplus and allows the authority to maintain a minimum balance on its HRA for the duration of the 30 year projections. If we add rent flexibility (Scenario 2), the authority uses the additional income generated to repay debt and continues to maintain balances at the minimum level.

Our next table shows the impact of each scenario on the level of HRA-related debt:

Scenario/ Sensitivity	HRA CFR			
	2022.23 £000	2031.32 £000	2041.42 £000	2051.52 £000
Baseline	£131,882	£144,522	£133,848	£145,927
Relet at Formula Rent	£131,882	£141,007	£118,225	£114,146
Relet at Formula Rent + Rent Flexibility	£131,882	£140,340	£115,656	£108,039

Both scenarios increase the rental income available to the HRA, which improves the ability to repay debt. As a result, the authority has more revenue resource available, which means it is better able to part-finance its capital programme using revenue contributions. When it does have to borrow to finance the capital programme, it needs to borrow less, and the additional revenue resource available means that it can repay the debt more quickly.

If the authority adopts a policy of re-letting units at the formula rent (Scenario 1), its debt after 30 years drops to £114.146m, which is £31.780m lower than the baseline position. If 5% rent flexibility is also added to applicable re-let rents (Scenario 2), the authority can repay more of its external HRA debt within 30 years and is left with HRA related debt of £108.039m.

The following table shows the impact of each scenario on the interest cover performance of the HRA:

Scenario/ Sensitivity	Interest cover ratio			
	2022.23 %	2031.32 %	2041.42 %	2051.52 %
Baseline	172.59%	178.30%	158.11%	102.75%
Relet at Formula Rent	172.59%	193.60%	201.42%	166.52%
Relet at Formula Rent + Rent Flexibility	172.59%	196.33%	209.13%	180.69%

Our final table shows the full impact on the finances of the HRA over 30 years, based on the combined movement in the HRA balance and HRA debt:

Impact over 30 years (Compared with Baseline)	Movement in HRA Balance £000	Increase in HRA Debt £000	Combined Impact £000
Relet at Formula Rent	£7,126	-£31,780	-£38,906
Relet at Formula Rent + Rent Flexibility	£7,134	-£37,888	-£45,022

Both scenarios have a strong positive impact on the HRA over 30 years. If the authority re-lets units at the affordable rent (Scenario 1), the combined benefit of increased balances and reduced debt comes to £38.906m at the end of the period. Adding rent flexibility to re-let units increases this benefit by a further £6.116m after 30 years (a combined positive impact of £45.022m, compared with the baseline).

It is clear from this table that differences the ability to generate additional rental income has a potentially substantial cumulative impact over 30 years. Accordingly, it would be in the financial interests of the HRA to maximise the income it generates from rent each year (while ensuring compliance with the government policy statement), as this maximises the resources available to improve existing homes and deliver new council housing.

3.4. Scenarios – summary

Both of the scenarios improve on the position set by the baseline assumptions. It is clear that increasing the income generated by rents:

- Reduce the authority’s reliance on debt finance; while
- increasing the ability to repay debt.

The scenarios presented do not represent a full stress test of the authority’s HRA. Stress testing a wide range of potential risks would allow the authority to identify the effects of emerging situations at an early stage, test its response and take appropriate action to eliminate or mitigate the risk.

It is important that the authority takes steps to ensure that it protects the capacity of its HRA to deliver the investment required over the medium and long terms. The two scenarios presented show how it can do this by maximising the rental income it generates. Other steps to consider include:

- Ensuring that service charges are sufficient to cover the costs of the services provided
- Committing to a medium term efficiency programme to maintain downward pressure on operating costs
- Generating additional capital receipts from disposal of appropriate assets on the open market
- Seeking additional external funding (e.g. for decarbonisation investment)
- A combination of the above measures

CAPITAL PROJECTS REQUIREMENTS WITH FINANCING

PUBLIC SECTOR HOUSING CAPITAL PROGRAMME

Fire Risk Assessment Works	HRA
Major Structural Refurbishments	HRA
HRA - Major Repairs	HRA
Robertshaw House	
Estate Improvements	HRA
Council Dwellings - Strategy Delivery	HRA
Disabled Facilities Grants	HRA

PROJECT REQUIREMENTS £			2023/24 PROJECT FINANCING £				
2023/24	2024/25	2025/26	Grants & Conts.	Cap Receipts / DC's	Internal/External Borrowing	HRA	HRA Reserves
2,000,000	500,000					2,000,000	
1,000,000	0	0			1,000,000		
7,760,000	8,000,000	8,200,000	560,000			7,200,000	
500,000	0	0				500,000	
200,000	200,000	200,000					200,000
15,200,000	15,200,000	15,200,000	3,100,000	2,000,000	8,280,000		1,820,000
950,000	950,000	950,000					950,000
27,610,000	24,850,000	24,550,000	3,660,000	2,000,000	9,280,000	9,700,000	2,970,000
							27,610,000

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HOUSING & HOMELESSNESS OVERVIEW & SCRUTINY PANEL – 18 JANUARY 2023

HOUSING SERVICES RENT SETTING AND SERVICE CHARGE POLICY

1. RECOMMENDATIONS

1.1 That HHOSP: -

- 1.1.1 Considers the proposed rent setting and service charge policy (Appendix 1) in the context of government rent setting policy, HRA housing revenue account budget and housing public sector capital expenditure programme 2023/24.
- 1.1.2 Considers the proposed changes to current rent setting processes to apply formula rent to the reletting of social rent dwellings and rent flexibility where applicable.
- 1.1.3 Considers the further proposed increase to domestic energy charges of up to 25%, and a 7% uplift of the charges for communal services received, to match the proposed increase in the basic rent for 23/24 from 3rd April 2023.
- 1.1.4 Makes recommendations to Cabinet on the points of consideration above.

2. INTRODUCTION

- 2.1 This report introduces a new rent setting and service charge policy for implementation from 2023/24 onwards at Appendix 1. The policy introduces additional measures to increase the rent of void social rent properties at a subsequent relet to the formula rent, plus the application of rent flexibility of 5% on top of formula rent for new build social rent properties, or where significant investment has been made.
- 2.2 A policy is required to ensure decision making in relation to rent and service charge setting is transparent and appropriately monitored. Further, a policy is required to align rent setting with the HRA Medium Term Plan and 30 Year Business Plan, to enable effective planning and assurances over rent income levels as far as can be practically forecast.
- 2.3 The Policy also details a revised approach to setting and recovering service charges.

3. BACKGROUND

3.1 Rent Setting

- 3.2 Actual rents increase up to the maximum rate currently permitted by the rent standard using a standard formula. This is called the formula rent. Each property has a formula rent level. Under the current Government policy statement an increase of CPI +1% was permitted until 2024/25. The government plans to consult separately on rent increases from 2025/26. Due to the costs of living pressures and high inflation

the Government deviated from the settlement to set a maximum rent increase of 7% for existing tenants in 2023/24.

- 3.3 The formula rent represents the maximum rent level that the Council could have set for each of its properties. If the Council had set rents lower than the maximum permitted each year the actual rent would vary from the formula rent, in greater or lower values depending on how much the respective deviation was from the formula rent. NFDC has consistently agreed the annual increase at the formula rent. Therefore, by the end of 22/23 the average difference between actual rents and formula rents is £0.10.
- 3.4 However, whilst actual rents are capped at a maximum increase of 7%, the formula rent is not capped, resulting in a formula rent that increases by 11.1% in 23/24. National rent policy allows Local Authority Housing Landlords to increase the rent of social rent properties at their relet, following a void period, up to the formula rent.
- 3.5 National rent policy also provides the ability to introduce rent flexibility where it can be justified. This allows a further 5% increase on top of formula rent to recover additional income.
- 3.6 Service Charges**
- 3.7 Service Charges are currently used by NFDC as a method to recover domestic energy costs from tenants where their personal usage costs are charged directly to the Council by the respective Utility Company. Service Charges are also used to recover some aspects of communal heating and lighting costs from tenants, which are also incurred in their respective blocks.
- 3.8 Although there was an interim review of charges in January 2019, and each year charges are nominally increased in line with inflation, the type of services eligible to be charged to tenants have not been fundamentally reviewed for a number of years. The recent rise in energy costs has only stood to exacerbate the difference between the Council's actual costs and what it charges for energy use to tenants, through service charges.
- 3.9 This means the Council's landlord function is under recovering costs incurred in providing tenants with domestic energy, and/or communal heating and lighting. In this example the shortfall of costs incurred in this provision would effectively be borne by wider housing service budgets. In November 2022, Cabinet agreed to a 25% increase of domestic energy charges to be levied from 3rd January 2023. This report proposes a further uplift up to a maximum of 25%, with effect from April 2023, and a 7% uplift of the charges for communal services received, to match the proposed increase in the basic rent for 23/24 from 3rd April 2023. This will help to ensure that the gap between actual charges incurred by the Housing Revenue Account and that charged to tenants (relating to existing charges), is not too disproportionate.
- 3.10 A wider review will be undertaken during 2023/24 with a view to ensuring a fair and transparent charging mechanism is in place for all properties liable for a service charge.

4. PROPOSED RENT SETTING AND SERVICE CHARGE POLICY

- 4.1 The proposed policy explains how the council will calculate and charge rent for all the residential properties in its Housing Revenue Account (HRA) and the factors involved with this decision. The purpose of this policy is to:

- Ensure that the council adheres to government legislation and regulation when setting rents.
- Provide a clear and consistent framework for setting and reviewing the rents of all properties accounted for in the HRA.
- Provide as much financial certainty for the HRA as possible.
- Maximise the income available to maintain our existing housing stock and to construct or acquire new homes.
- Support the delivery of the HRA Business Plan.
- Ensure the Council meets its statutory obligations.

4.2 It is proposed to apply the following principles:

- Actual Rents and Affordable Rents will increase by an amount recommended by New Forest District Council's Cabinet, to be approved by Full Council, up to CPI + 1% each April from 2020/21 for a period of five years, except for the financial year 2023/24 where the maximum increase is capped at 7%.
- CPI will be taken as at September of the previous year.
- All newly built dwellings that are not let at Affordable Rent, or Shared Ownership, will be let at Formula Rent, plus 5% rent flexibility, unless it has been otherwise agreed with Homes England. The option to apply rent flexibility to this category of property is to recognise the additional quality and high energy efficiency standards (EPC A or B) that each of these properties delivers to our tenants. In having a high energy performance rating of A or B the resulting energy costs will be lower and more affordable to the occupying tenants, reducing any impact of a higher rent.
- Properties purchased under the 'Buyback' scheme will be let at formula rent.
- All dwellings, including age restricted and extra care properties, that become vacant and available for re-let, and that are not let at Affordable Rent or Shared Ownership, will be let at the Formula Rent, to be applied from 2023/24 onwards to ensure the Council has the necessary funds to achieve planned maintenance and energy efficiency targets on the existing stock, and to contribute towards a programme to build and/or acquire new council homes.
- Rent Flexibility of 5% will be applied to the weekly rent of empty social rent properties upon reletting, in addition to the uplift to formula rent, where the empty property:
 - Is part of an energy efficiency improvement programme
 - Receives significant expenditure, over £40,000, to remedy substantial property faults
- On each occasion that an Affordable Rent tenancy is granted, including the granting of a further flexible tenancy term to the same tenant, the rent is re-set based on a new market rental valuation. The rent of an existing Affordable Rent tenant (including where they have a new tenancy) may not be increased by more than CPI+1% in any year, subject to specified limits.

4.3 It is further proposed to increase the service charges to those tenants currently charged for domestic energy, up to a maximum of 25% on top of charges levied on 3rd January 2023.

4.4 Tenants, who are part of the current service charge regime also pay for communal charges such as communal heating and lighting and cleaning services. It is proposed to increase these charges by 7%, in line with the annual rent increase, ahead of a wider review and consultation later in the year.

4.5 During 2023 it is proposed to launch a fundamental review of service charging, looking across the board, to consider how many tenants are benefitting from communal services provided and paid for by the HRA, with a view to better recovering the actual costs of services provided, to aid fairness and transparency.

Consultation with relevant tenants will take place, which will feed into the Council's decision-making processes in the autumn of 2023 in respect of the wider review.

5. FINANCIAL IMPLICATIONS

- 5.1 Both the addition of formula rent at relet and applying rent flexibility where applicable have a positive impact on the health of the HRA over the 30-year business planning period. If either of these policy tools were not applied the Council is projecting a £5m HRA deficit after 30 years.
- 5.2 Reletting vacant dwellings at the formula rent (Scenario 1) improves the operating surplus and allows the authority to maintain a minimum balance on its HRA for the duration of the 30-year projections. If we add rent flexibility (Scenario 2), the authority uses the additional income generated to repay debt and continues to maintain balances at the minimum level.
- 5.3 Both scenarios increase the rental income available to the HRA, which improves the ability to repay debt. As a result, the authority has more revenue resource available, which means it is better able to part-finance the capital programme using revenue contributions. When borrowing is required to finance the capital programme, the HRA will need to borrow less, and the additional revenue resource available means that it can repay the debt more quickly.
- 5.4 If the authority adopts a policy of re-letting units at the formula rent (Scenario 1), the debt after 30 years drops to £114.146m, which is £31.780m lower than the baseline position. If 5% rent flexibility is also added to applicable re-let rents (Scenario 2), the authority can repay more of its external HRA debt within 30 years and is left with HRA related debt of £108.039m.
- 5.5 The increase in service charges to match expenditure, and the introduction of additional Service Charges not currently recovered, will recoup additional annual income of circa £103,000. The range of service charge increases will be from £0.27 to £5.15 for domestic energy and £0.22 to £1.49 for communal charges.
- 5.6 There is some likelihood that tenants will be impacted financially. Tenants new to social housing, or who transfer to another Council property, will be impacted by an additional 5% increase in rent at the relet of the new property. However, NFDC social rents remain well below private rent levels in the district and 73% of current tenants receive some form of financial assistance toward their rent. Therefore, most tenants will be shielded, to some degree, from these increases.
- 5.7 Where rent flexibility is concerned the properties affected will benefit from investment and energy efficiency measures, resulting in lower running costs. Therefore, whilst the weekly rent is increased the properties will be more affordable to run.

6. EQUALITY AND DIVERSITY IMPLICATIONS

- 6.1 The current situation with regard to service charging requires overhaul but will be reviewed in phases to lessen the impact on vulnerable people. 693 Tenants who live in flats receive services under the current charging regime. A situation has arisen which means the HRA is offsetting its budgets to cover the shortfall in income, which is not sustainable in the future.
- 6.2 The proposed rent policy aims to redress this situation and ensure equity amongst tenants who do, and do not receive services in a phased approach, beginning with

tenants who are part of the current regime later in 23/24. In addition, the new policy will increase transparency and demonstrate to those tenants who are charged, what they are paying for and for what service.

- 6.3 As per para. 5.6 there is likely to be an impact on Tenants, particularly by the proposed changes to service charges. In particular those living in flats will be affected. This will include those living in Extra Care, age restricted flats and single person flats. This will include a number of vulnerable, elderly, disabled people, and/or those on low incomes.
- 6.4 In mitigation, all communal charges are eligible for benefits. The majority of tenants in these flats will be in receipt of financial assistance so will be largely protected.
- 6.5 In addition, the Council has a well-established approach to local support and assistance with cost-of-living pressures, with a Council Steering Group linking in with local voluntary groups providing practical support to residents. The Housing Services' Tenancy Support Worker will be made available to support vulnerable tenants where necessary, whilst the Council's team of Tenancy Account Officers are now regularly attending community drop-in sessions around the district; ready to provide support and signposting where necessary.

7. TENANT INVOLVEMENT GROUP COMMENTS

- 7.1 These will be reported at the meeting.

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Background Papers:

None

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HOUSING LANDLORD SERVICES

Rent setting and service charge policy



Document

Name of policy	Housing Landlord Services Rent Setting and Service Charge Policy
Purpose of policy	<p>New Forest District Council (the Council) is committed to a transparent approach to rent and service charge setting in accordance with social housing regulatory standards.</p> <p>This policy explains how the council will calculate and charge rent for all the residential properties in its Housing Revenue Account (HRA) and the factors involved with this decision. The purpose of this policy is to:</p> <ul style="list-style-type: none"> ▪ Ensure that the council adheres to government legislation and regulation when setting rents. ▪ Provide a clear and consistent framework for setting and reviewing the rents of all properties accounted for in the HRA. ▪ Provide as much financial certainty for the HRA as possible. ▪ Maximise the income necessary to maintain our existing housing stock and to construct or acquire new homes. ▪ Support the delivery of the HRA Business Plan.
Policy applies to	This policy applies to the setting of rent and service charges to all tenants and leaseholders of New Forest District Council, and includes all housing and garages operated by the landlord function of New Forest District Council
Lead officer	Service Manager – Housing Options, Rents, Support and Private Sector Housing
First issued	6 January 2023
Latest update	
Version control	V1.0 – 6 January 2023
Review period	Annually ahead of the rent setting process each year. Otherwise, as required by legislative, contractual, or organisational changes.
Update overview	V1.0 – New Policy

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p2	Policy and Legislation
p3	Purpose
p4	Formula Rent
p5	Rent Setting

1. Introduction

Rent income from its Housing and property portfolio is the main source of revenue for the Housing Revenue Account (HRA), funding management, maintenance, and property improvement activities. It also services the loans which enable the development of new council owned social housing and enabled the Council to leave the national HRA subsidy system.

A regulatory framework determines how rents must be set and increased by social housing landlords. From 1 April 2020, Registered Providers must comply in full with all the requirements and expectations set out in the Regulator of Social Housing's Rent Standard. They must also comply with the Rent Policy Statement on Rents for Social Housing 2019 on the setting, increase and decrease of rents and service charges.

The Council's Landlord Service sets out how this income will be allocated to meet the strategic objectives for its housing stock in its HRA Business Plan. This plan balances the pressures on income and expenditure over the long term so that the HRA remains viable at all times throughout the plan period.

This policy:

- Details how the Council will calculate, and charge rent for all properties in its HRA.
- Sets out the approach to levy service charges for tenants and leaseholders where appropriate

2. Policy and legislation

Since 2001, rents for properties let at Social Rent have been based on a formula set by the government. This creates a 'formula rent' for each property, which takes account of the relative value of the property, relative local income levels, and the size of the property. A principal aim of this formula-based approach is to ensure that similar rents are charged for comparable properties across the country.

In 2011, the government introduced Affordable Rent, which permits rents to be set at up to 80% of market rent (inclusive of service charges). The introduction of Affordable Rent was intended to fund the construction of more new homes at a sub-market rent. Landlords can only let new properties at Affordable Rent where it has agreed the principle with Homes England, or where the Council is using retained s141 right to buy receipts to part pay for new affordable homes. NFDC delivered its first affordable rent properties in 2020.

In October 2017, the government announced its intention to set a rent regime for local authority landlords and housing associations that permits annual increases of the formula rents, for social rented properties and Affordable Rents of up to CPI + 1% from 1 April 2020, for a period of at least five years. The formula rent calculation returns a notional rent figure which demonstrates what the Council could charge up to each year.

Where a council has not deviated from setting rent levels at the maximum allowed under the formula each year, the actual rent charged to tenants will be the same as the formula rent. Where a Council has increased its rent at less than the maximum formula rent for any 1 year or more, there will be a difference in the formula rent and the actual rent charged to tenants.

Due to the result of compounding interest on income over time a 1-year deviation will grow over a business plan period and will result in an income gap that may never be recovered but could be reduced by additional measures.

The council has limited discretion over rent levels for individual properties, to take account of local factors and concerns. This discretion allows for social rents to be set at the formula rent when such a property is relet, and for new build or acquisitions to be newly let at the formula rent.

In addition, it provides flexibility to set rents at up to 5% above Formula Rent for general needs properties and 10% for supported housing. This is known as rent flexibility.

Rent and service charge setting is governed by:

- Housing Act 1985 Section 24.
- Landlord and Tenant Act 1985.
- Local Government and Housing Act 1989.
- Housing and Regeneration Act 2008 (a) Section 197.
- Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016.
- Welfare Reform and Work Act 2016.
- Direction on the Rent Standard 2019.
- Policy Statement on Rents for Social Housing issued by the Secretary of State February 2019.
- Rent Standard 2020 - Regulator of Social Housing, 1 April 2020.

3. Purpose

3.1 The purpose of this policy

This policy explains how the council will calculate and charge rent for all the residential properties in its Housing Revenue Account (HRA) and the factors involved with this decision. The purpose of this policy is to:

- Ensure that the council adheres to government legislation and regulation when setting rents.
- Provide a clear and consistent framework for setting and reviewing the rents of all properties accounted for in the HRA.
- Provide as much financial certainty for the HRA as possible.
- Maximise the income available to maintain our existing housing stock and to construct or acquire new homes.
- Support the delivery of the HRA Business Plan.
- Ensure the Council meets its statutory obligations.

3.2 Residents affected by this policy

This policy applies to all tenants of New Forest District Council, properties and assets that are accounted for in the HRA, including:

- Rented residential accommodation.
 - Service charges for HRA rented residential accommodation.
- It does not cover:
- Rents and service charges for General Fund residential properties.
 - Ground rents and service charges for leasehold residential accommodation.
 - Garages.

4. Formula rent

4.1 Rent Setting at New Forest

This section of the policy does not apply to 'Affordable rent' properties set at up to 80% of market levels and the Council's stock of low-cost shared ownership properties.

New Forest District Council has largely approved annual social rent increases at the maximum level of rent increase as determined by the rent setting formula. This has applied increases as follows, in the last 3 financial years:

Year	Maximum Increase allowed %	Actual Increase applied %
2020/21	2.7	2.7
2021/22	1.5	1.5
2022/23	4.1	4.1

As at the last annual rent increase application on 4 April 2022 all New Forest District Council owned social rented properties were let at a rent at or below formula rent.

4.2 Formula Rent

Weekly formula rent is to be calculated using the following formula:

- 70% of the national average rent in April 2000.
- Multiplied by the average manual earnings for the county in which the property is located divided by the English average manual earnings, both at 1999 levels.
- Multiplied by a bedroom factor (or weight).
- Plus 30% of the English average rent.
- Multiplied by an individual property's value divided by the English average property value, as at January 1999 prices.
- Putting the relevant information into the above formula gives the Formula Rent for 2000/01 for the property, which must then be updated, for each year, using the relevant uplifts stated in the *Policy statement on rents for social housing*. This may be amended from time to time, and the council adheres to the most current edition.

The Government determined Formula Rents will increase by CPI + 1% each year from 2020/21 onwards for a period of five years. CPI is taken at September of the previous year.

However, due to a significant increase in inflation (10.1%) to September 2022 the Government intervened and implemented a maximum cap on the rent increase for the year 2023/24 to 7%.

4.3 Rent Caps

Formula Rent is subject to a rent cap based on the number of bedrooms in a property. If Formula Rent would be higher than the rent cap for a particular property, the rent cap is used instead. The rent cap is expected to increase by CPI + 1.5% each year.

5. Rent setting

5.1 Rent Setting Policy

The council sets rents for its residential accommodation in the HRA in accordance with the Policy Statement on Rents for Social Housing issued by the Secretary of State on 26 February 2019 and the Rent Standard 2020 issued by the Regulator of Social Housing, on 1 April 2020 and any subsequent amendments in legislation regulation or guidance.

New Forest District Council will apply the following principles:

- Actual Rents and Affordable Rents will increase by an amount recommended by New Forest District Council's Cabinet, to be approved by Full Council, up to CPI + 1% each April from 2020/21 for a period of five years, except for the financial year 2023/24 where the maximum increase is capped at 7%.
- CPI will be taken as at September of the previous year.
- All newly built dwellings that are not let at Affordable Rent, or Shared Ownership, will be let at Formula Rent, plus 5% rent flexibility, unless it has been otherwise agreed with Homes England. The option to apply rent flexibility to this category of property is to recognise the additional quality and high energy efficiency standards (EPC a or B) that each of these properties delivers to our tenants. In having a high energy performance rating of A or B the resulting energy costs will be lower and more affordable to the occupying tenants, reducing any impact of a higher rent.
- Properties purchased under the 'Buyback' scheme will be let at formula rent.
- All dwellings, including age restricted and extra care properties, that become vacant and available for re-let, and that are not let at Affordable Rent or Shared Ownership, **will be let at the Formula Rent**, to be applied from 2023/24 onwards to ensure the Council has the necessary funds to achieve planned maintenance and energy efficiency targets on the existing stock, and to contribute towards a programme to build and/or acquire new council homes.
- Rent Flexibility of 5% will be applied to the weekly rent of empty social rent properties upon reletting, in addition to the uplift to formula rent, where the empty property:
 - Is part of an energy efficiency improvement programme
 - Receives significant expenditure, over £40,000, to remedy substantial property faults
- On each occasion that an Affordable Rent tenancy is granted, including the granting of a further flexible tenancy term to the same tenant, the rent is re-set based on a new market rental valuation. The rent of an existing Affordable Rent tenant (including where they have a new tenancy) may not be increased by more than CPI+1% in any year, subject to specified limits.

5.2 Affordable Rents

Affordable Rent properties are accommodation which Homes England or the Secretary of State have agreed can be let at an Affordable Rent (including service charges), at a level no lower than the formula rent. Affordable Rents are higher than Formula Rents. The council will enter into agreements with Homes England to build new homes at Affordable Rent to help fund investment in new council housing, where applicable.

5.3 Calculating Affordable Rents

Affordable Rent will not exceed 80% of gross market rent (including applicable service charges). Gross market rent is the rent the property would reasonably be expected to be let for in the private sector. Factors including property size, location type and service provision will be considered when determining gross market rent. The council will comply with the terms of any agreements with Homes England or the Secretary of State when setting Affordable Rents. The council will have regard to the local market context, and, at the initial letting, its Affordable Rents will not exceed 80% of gross market rent or Local Housing Allowance for the Broad Rental Market Area in which the property is located. The Affordable Rent will be initially set at the lower of these two figures.

5. Rent setting (Cont'd)

5.4 Re-setting Affordable Rents for follow on tenancies

The initial rent will be re-set, based on a new market rental value, on issuing a new tenancy. Subject to Homes England approval initial rents and reset Affordable Rents will be 'capped' to not exceed Local Housing Allowance levels relevant to the size of accommodation and the Broad Rental Market Area in which they are located.

If the accommodation is re-let to the same tenant because of a probationary tenancy ending, the rent will not be re-set. If the council is re-setting the rent because of re-letting Affordable Rent housing to an existing tenant of the specific property concerned, it will not increase the rent by more than CPI + 1%.

5.5 Shared Ownership

Shared Ownership rents will increase by an amount recommended by New Forest District Council's Cabinet, to be approved by Full Council, up to RPI + 1% each April.

5.6 Service Charges

The council will:

- Set reasonable and transparent service charges which reflect the service being provided to tenants.
- Ensure that the cost of services provided to tenants are charged to the tenants who benefit from those services and are not cross subsidised by tenants not in receipt, where practicable.
- Ensure that all tenants who live in flat accommodation where a specific service is provided to their dwelling receive a service charge for their share of their building's respective costs. These charges relate to the servicing of lifts, mechanical ventilation systems, fire alarms, solar panels, etc.
- Ensure that the services and works are of a reasonable standard.
- Supply tenants with clear information on how service charges are set.
- Identify service charges separately from the rent charge.
- Where new or extended services are introduced, and an additional charge may need to be made. The council will consult with tenants in such circumstances.
- Service charges will be based, where possible, on actual expenditure for the preceding financial year.
- An asset management strategy and planned maintenance delivery programme will be put in place to enable service charges for leaseholders to be levied in advance, if appropriate. This will help leaseholders to budget for major items of expenditure.
- If service charges are less than actual expenditure, they will be raised by an amount which recovers actual expenditure, or a phased increase over a set period will be applied. Any increase will be recommended by the Council's Cabinet to be approved by Full Council and will follow the approved process for increasing charges.
- If actual expenditure is less than the current charge, the service charge may be reduced accordingly.

In 23/24 The Council will implement a new regime of service charging which demonstrates to tenants, where applicable, a clear breakdown of charges for all services they enjoy, including where tenants have not previously been charged for services.

5.7 Rent variation: timing, roles, responsibilities, and authority

The council varies rent and service charges annually, normally at the beginning of the financial year in April. Tenants must receive at least four weeks' notice in writing of any changes to their rent or service charges and

5. Rent setting (cont'd)

the reasons for the rent change. The yearly change to rental and service charges are part of the annual HRA Revenue and Capital Budget setting process, which is a decision for Full Council.

5.8 Consultation

The council consults the Tenant Involvement Group on the contents of the draft annual HRA Revenue and Capital budget, including proposals to change rents and service charges before it is considered by Full Council. The draft annual HRA Revenue and Capital budget, including proposals to change rents and service charges, is available to the public for consultation as part of the wider budget consultation.

The Changes to Service charges were subject to a 3 week consultation commencing 12 Jan 2023. Results to follow.

5.9 Monitoring, Review and Evaluation

This Policy will be reviewed on an annual basis ahead of the rent setting process and will be modified as necessary to accord with any new legislation, regulation or changes to the legislative and regulatory framework or significant change to the benefits system.

5.10 Equality and diversity

The Council is committed to ensure that this policy does not impact disproportionately on different equality groups. This strategy has been subject to an Equalities Impact Assessment which can be found at Appendix A.

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