

Report to:

COUNCIL

Relevant Officer:

Steve Thompson, Director of Resources

Relevant Cabinet Member:

Councillor Lynn Williams, Leader of the Council

Date of Meeting:

22 February 2023

PROPOSED RENT REVIEW AND HOUSING REVENUE ACCOUNT BUDGET 2023/24

1.0 Purpose of the report:

- 1.1 To consider the recommendations of the Executive from its meeting on 6 February 2023 in relation to the level of rents and service charges to be charged in connection with Housing Revenue Account dwellings during 2023/24 and the Housing Revenue Account budget for 2023/24. The decision notice from that meeting can be found via [this link](#). The recommendations are set out in 2.1 to 2.4 below.
- 1.2 In accordance with The Local Authorities (Standing Orders) (England)(Amendment) Regulations 2014, the Council is asked to note that a recorded vote is required on all revenue budget decisions taken by Council including any amendment to it.

2.0 Recommendation(s):

- 2.1 That rents for all Housing Revenue account properties are increased by 5% in 2023/2024.
- 2.2 That the 2023/2024 Housing Revenue Account budget as set out in Appendix 3a is approved.
- 2.3 That the minimum level of Housing Revenue Account balances remain protected at £1 million, as previously agreed.
- 2.4 That Housing Revenue Account service charges (as detailed in Appendix 3b) and that other General Fund service charges (as detailed in Appendix 3c) are charged as outlined.

3.0 Reasons for recommendation(s):

3.1 To ensure that rent levels are appropriate and the Housing Revenue Account is financially secure as the Council Homes Investment Plan is delivered over the next few years. The proposed budget for 2023/24 will ensure the necessary investment to maintain and grow the Council's stock can continue, alongside minimising any negative financial impact on tenants.

Retaining the previously agreed minimum reserves level of £1 million ensures that prudent balances are maintained in the Housing Revenue Account.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Not applicable - the report if approved will become part of the Council's new approved budget.

4.0 Other alternative options to be considered:

4.1 Rents could be set at a lower level but this would jeopardise the future viability of the Housing Revenue Account. A 5% increase enables the necessary investment in our existing council housing stock and investment in new Council homes.

5.0 Council priority:

5.1 The relevant Council priorities are:

- "The economy: Maximising growth and opportunity across Blackpool"
- "Communities: Creating stronger communities and increasing resilience"

6.0 Background information and context

6.1 Introduction

As part of the preparation of the draft 2023/2024 Housing Revenue Account (HRA) Budget, Members are asked to consider the level of rents and service charges to be set in connection with Council Housing dwellings during the next financial year.

Attached at Appendix 3a is the draft Budget for the Housing Revenue Account for the year 2023/2024.

6.2 National Social Housing Rent Policy

Since 2001, social rents have been set with reference to a formula issued by the

Government. This creates a 'formula rent' for each property, calculated based on local income levels and property size and value. The aim is to ensure similar rents are charged for similar social rent properties.

In 2011, the Government introduced 'affordable rents', permitting some rents (inclusive of service charges), to be set at up to 80% of market rents, where specific permission has been granted under the terms of the Government's affordable homes programmes.

With the advent of self-financing there have been controls on the maximum amount of rent increase a provider of social housing can impose, with the intent of letting providers manage self-financing while removing the possibility of excessive rent rises. A formula of capping rent rises at CPI plus 1% was introduced as a prudent control. Despite this policy in October 2017 the Government announced a period of 1% rent cuts to March 2020. This policy had the effect of reducing the ability of the Housing Revenue Account to effectively deliver the necessary investment to maintain a healthy 30 year Housing Revenue Account Business Plan. In 2020 it was announced there would be a five year period where maximum increases would return to CPI plus 1%.

In August 2022 in response to the cost of living crisis the government consulted on options to cap rent rises at 3%, 5% or 7%, recognizing the need to avoid rent rises impacting excessively on tenants but also the need to maintain viable Housing Revenue Accounts. Following the consultation the government announced the maximum rent increase for 2023/24 could be no more than 7%.

Each year the Housing Revenue Account 30 year business plan is independently evaluated to help ensure ongoing viability. Blackpool has since the introduction of self-financing been able to run an effective and prudent Housing Revenue Account, allowing it to invest in new stock such as the new developments replacing time expired stock at Queens Park and Troutbeck and new additional stock at Grange Park. Every reduction in the standard formula of CPI plus 1% reduces the ability to invest and repay borrowing to carry out that investment. An external consultant has assisted in modelling the proposed caps on rent and concluded that limiting rises to 5% or 7%, while reducing the ability to continue to invest would be affordable in the context of the 30 year Business Plan. Any freeze or rent reduction lower than 5% would carry significant risk to the Housing Revenue Account remaining viable over the long term and reduce the ability to continue to invest in the stock.

The need to maintain a viable 30 year business plan while also seeking to limit the impact of rent rises on tenants already feeling the cost of living pressures means that after modelling a 5% and a 7% rent rise, the lower option of 5% is proposed for 2023/4. This 5% rent rise best accommodates the twin objectives of maintaining a viable Housing Revenue Account while limiting the immediate impact on household budgets. We anticipate that most other providers will implement a full 7% rise.

6.3 **Projected Outturn 2022/2023**

The projected outturn position for the Housing Revenue Account is detailed at Appendix 3a.

There is a projected in year contribution from balances of £408,000, compared to a budgeted deficit of £107,000; this is a negative variation of £301,000. Audited balances brought forward on 1 April 2022 were £1,807,000, therefore projected balances on 31 March 2023 are £1,399,000.

Variations against budgets have been reported at quarterly intervals to the Board of Blackpool Coastal Housing (BCH). The Council's Director of Resources and Director of Strategy/ Assistant Chief Executive also receive quarterly budget information on the Housing Revenue Account and explanations for any significant variances in performance. In addition the Shareholder Committee of the Executive considers the performance of Blackpool Coastal Housing including overview of financial management.

6.4 **Housing Revenue Account Budget 2023/24**

6.5 **Blackpool Coastal Housing Management Fee and Management Agreement**

The management fee for Blackpool Coastal Housing in 2023/24 will be £11,826,000. There is an uplift from the fee in 2022/23 largely for inflationary pressures and to ensure key activities identified in the Social Housing White Paper are implemented. Blackpool Coastal Housing is also expected to deliver efficiency savings to meet the increased cost of the 2022/23 pay award.

Blackpool Coastal Housing continues operate under the terms of the extension to the management agreement referred to in previous rent reports. The Council and Blackpool Coastal Housing are aware of the requirements coming out of the White Paper and are taking preparatory steps in the areas of building safety compliance, ensuring adequate customer involvement and maintaining appropriate levels of governance and Council oversight.

6.6 **Treasury Management**

Treasury Management costs have been calculated with regard to the present and projected levels of interest rates, anticipated borrowing requirements and depreciation. Housing Revenue Account loans are managed by the Council's Accountancy team, but are kept separate from General Fund loans and investments as legally required. The Director of Resources of Blackpool Coastal Housing is a member of the Council's Treasury Management Panel. The Housing Revenue Account is taking

on new borrowing to fund the cost of the new development on Grange Park and will act on the advice of the Panel on this.

6.7 **Income**

Rental income has been impacted by the impacts of the pandemic on customers and continues to face pressure in the current cost of living crisis. Over 81% of tenants are in receipt of benefit and as such receive direct support for housing related costs. Despite the pressures of the last few years overall rent collection rates have remained high as a result of the balanced approach taken to not just collection of rent but also the support given to tenants to maximise their income with financial advisors working as part of the rents team and a separate project assisting the long term unemployed back into the labour market.

Rent collection arrangements are externally reviewed annually to ensure they are in line with industry practice, and earlier in the current year an internal performance review was undertaken to identify further improvements that can be made. New software to assist with the collection of former tenant arrears has been implemented and the board and senior management team of Blackpool Coastal Housing has taken action to reduce void turnaround times to ensure that this element of income maximisation is also robust.

6.8 **Value for Money (VFM)**

The Housing Revenue Account operates with a view to generating ongoing operational efficiencies. This has been reflected in procurement activities that have driven down costs and increased the levels of social value generated. Benchmarking with peer organisations also confirms that Blackpool Coastal Housing back office costs continue to be low. The most recent external review of Blackpool Coastal Housing was favourable in its assessment of the value for money of Blackpool Coastal Housing and the Council housing client function. This should stand the Council in good stead in terms of the extension of some regulation to Arm's Length Management Organisations and Council landlords in the Social Housing White Paper as mentioned above.

Blackpool Coastal Housing continues to focus on efficiency options when re-tendering contracts and in service design but this is becoming increasingly tough in the current economic climate.

6.9 **Capital Programme**

The revenue contribution to the Capital Programme is expected to be in the region of £7,430,000 in 2023/24 (compared with £7,154,000 budget and projected outturn in 2022/23). This is to fund agreed redevelopment referred to earlier in this report

whilst retaining Housing Revenue Account balances above the agreed minimum level of £1,000,000. Revenue contributions to the Capital Programme are the preferred option to minimise borrowing costs, however borrowing is required during the year to fund the Grange Park redevelopment in particular.

The Housing Revenue Account remains an outlier nationally in terms of low levels of borrowing, and the Council Housing Investment Programme reflects a commitment to prudent borrowing to finance additional housing development. In addition, whilst the exact costs of addressing the social housing costs in relation to Blackpool's Climate Emergency Action Plan are still being assessed, it is clear that there will be a significant capital outlay required to retrofit existing properties and ensure new properties are more environmentally friendly and sustainable.

Housing Revenue Account borrowing is expected to rise significantly in the coming years as part of our plans to invest in existing stock and continue to build new council homes. Borrowing is projected to be £20,561,000 on 31 March 2023 and £33,662,000 on 31 March 2024.

6.10 **Housing Revenue Account self-financing for Council Housing**

Since 1 April 2012 self-financing has been in place for local authority housing provision. This replaced the previous subsidy system with a requirement for Councils retaining a Housing Revenue Account to maintain viable 30 year Housing Revenue Account Business Plans on a rolling basis. At the onset of self-financing the Council received a one-off capital sum of £41,523,000 offset against the housing related debt held at that time. A maximum debt cap of £35,739,000 was also imposed on Blackpool's Housing Revenue Account.

In 2018 the government announced the abolition of the debt caps on local authority Housing Revenue Accounts. In practice this puts the Housing Revenue Account into a similar position to the General Fund with regard to capital investment appraisal, in that there is no maximum level of borrowing that can be undertaken but a robust assessment needs to be undertaken to ensure that proposed schemes cover their costs. In exceptional circumstances it could be justifiable to undertake individual investments that do not break even in the required timeframe, but these would need to be offset by surpluses from other schemes.

6.11 **Rent Change for 2023/24**

In 2022/23 the average weekly rent charged in Blackpool was £73.58 for general rent properties and £98.07 for affordable rent properties.

Blackpool has some of the lowest social rents in the country. In 2020/21 they were the 5th lowest in the country, 19% below the national average and 34% below the highest

social rents in the North West. Blackpool social rents remain below Local Housing Allowance levels which is the benchmark for rents to qualify for benefit support. While low social rents can be beneficial for tenants not in receipt of support through the benefit system they can have an adverse impact on the ability of the Housing Revenue Account to continue to provide the necessary investment to maintain, improve and grow the social housing stock through a balanced 30 year business plan that is also subject to inflation and cost pressures as a result of the current economic climate.

Over 81% of the Council's tenants are in receipt of benefit and as such would receive support with any rent increase as rents will remain significantly below the Local Housing Allowance rate. Even with an increase at the Government's proposed 7% cap, average rent across the stock would still be at 36% below the average local housing allowance rent levels.

It is proposed that rents for all Housing Revenue Account homes in 2023/4 increase at the same level as the planned Council Tax increase of 5%. At this level there would be some adverse impact on the Housing Revenue Account and the Council's ability to continue to invest in the maintenance of existing stock, the development of new houses and work to deliver against the Council's aim of becoming carbon zero by 2030.

A 5% rent increase would see a slight reduction in balances over 30 years but still retain enough income to meet peak debt. The key assumption in this calculation is there is no capital allowance to meet carbon zero targets, leaving the Council reliant on additional external grant to match fund existing capital maintenance programmes to deliver the necessary work to achieve carbon reduction ambitions.

Vacant properties will continue to be let at the formula/target rent. This is a policy that Blackpool has adopted for several years now.

6.12 **Other Charges**

Service Charges

Councils can charge separately for services such as cleaning communal areas and gardening. These charges should reflect the level of costs to provide the services including any administration and should not be used to make a profit on these charges. Government policy states that Councils should provide tenants with a breakdown of the additional services they receive and the charges for them, so they can see how much they pay for rent and services on an individual basis.

Listed below are the services currently provided:

- Communal Lighting
- Alarm Systems
- Satellite Television Systems
- Communal Cleaning
- Door Entry Systems
- Sheltered Community Centres
- Grounds Maintenance
- Intensive Housing Management
- Community Centres
- Fitted Furnishings

All of these service charges are eligible for Housing Benefit / Universal Credit in general needs stock, some ineligible services are provided within hostel accommodation.

Attached at Appendix 3b are the proposed service charges for 2023/24 relating to Housing Revenue Account services. Existing service charges are shown for each service, with an indication of what new charges would be based on cost of provision. It is proposed to increase all service charges for the financial year 2023/24 by 5%. This is to ensure consistency with increases in Housing Rents and Council Tax during a period where the external financial pressure on tenants are great.

Leaseholder Charges

The Leaseholder Charge, including a management charge, has been calculated to reflect the actual cost of providing the service. Whilst charges to leaseholders are a sensitive area the need to ensure that this customer group is not treated unfairly needs to be balanced against the risk of genuine costs relating to the upkeep of their properties being subsidised by the wider tenant group.

Non-Housing Revenue Account Properties

These rents fall outside the national social housing rent policy set out in section 6.2. It is recommended that these charges be increased by 5% in 2023/24 in line with the general proposed rent increase.

7.0 Does the information submitted include any exempt information? No

8.0 List of Appendices:

8.1 Appendix 3a: Housing Revenue Account Draft Budget 2023/24
 Appendix 3b: Housing Revenue Account charges
 Appendix 3c: General Fund housing charges

9.0 Financial considerations:

9.1 These are set out in the report and appendices.

10.0 Legal considerations:

10.1 The proposed rent increase is line with the rent increase allowed by Government for 2023/2024.

11.0 Risk management considerations:

11.1 These are set out in the background information section.

12.0 Equalities considerations:

12.1 None.

13.0 Sustainability, climate change and environmental considerations:

13.1 The Council is committed to achieving climate change targets by 2030 and there are also national policies requiring decarbonisation of housing stock. In common with all other stock holding local authorities Blackpool has many units currently heated by carbon derived options and investment in new technologies and solutions is required.

14.0 Internal/external consultation undertaken:

14.1 The rent report is shared with the board of Blackpool Coastal Housing, which includes tenant and leasehold representatives and independent members.

15.0 Background papers:

15.1 None.