

**DERBY HOMES BOARD
23 NOVEMBER 2023
HRA BUSINESS PLAN AND RENTS 2024/25**

ITEM A7

Report of the Finance Director & Company Secretary

1. SUMMARY

- 1.1 The Council consults Derby Homes on its Housing Revenue Account Business Plan (HRABP) and rent & service charge proposals each year.

This year, a consultation paper was discussed at the Operational Board meeting on 7th September 2023. That report (see Appendix 1) is required to be read prior to reading the remainder of this report (rather than comments being replicated in this Board report).

The suggestions agreed at the Operational Board, regarding the 2024/25 rents and service charge increase, are detailed in the recommendations to Board below. The key one being that rents are recommended to increase by the maximum allowed being (September 2023) CPI inflation plus 1% = 7.7% and most service charges to increase in line with inflation at 6.7%.

- 1.2 The Board is already aware that the Council (along with all other Councils with a HRA) is facing difficulties in balancing the HRABP. There are significant savings required to make the plan balance. A partnership approach in tackling these challenges is required so that the short and long term strategy for both the HRA and Derby Homes can be set.

This is during a period of uncertainty around the future levels of rent setting to be allowed (by the Regulator), obligations being placed on Providers under the Consumer Standards and Building Safety Bill. Obligations around energy efficiency and net carbon zero and increasing oversight from the Housing Ombudsman.

- 1.3 In a period of such economic volatility, with increasing inflation levels, increasing interest rates and the cost-of-living crisis – striking a balance between the affordability of rents for tenants, the cost to the general taxpayer to the welfare bill and the costs in providing service to tenants and their homes (now and in the future) is all to be considered when recommending a rent increase for 2024/25. For Councils there is also the political element to consider.

- 1.4 As Derby Homes is also a Registered Provider, the maximum level of rent increase for 2024/25 is (like the Council) determined by the Regulator for Social Housing. The Board have always applied the maximum rent increase allowed and is recommended to do so again in 2024/25, to sustain services to its tenants and its properties.

2. RECOMMENDATION

- 2.1 To recommend to the Council that the maximum rent increase allowed by Government is applied in 2024/25 of 7.7%
- 2.2 To recommend to the Council, that for 2024/25 services charges increase in line with inflation at 6.7% bar those noted in recommendations 2.3, 2.4 and 2.5.
- 2.3 To recommend to the Council, that for 2024/25 grounds maintenance service charges have a capped 10% increase applied, subject to no one individual service charge increasing by more than £1 per week.
- 2.4 To recommend to the Council, that for 2024/25 the communal cleaning charge is set at:
 - Where a site service charge matches current costs – an inflation charge of 6.7% is applied.
 - Where a site service charge is below costs, then a capped 10% increase is applied, subject to no one individual service charge increasing by more than £1 per week.
- 2.5 To recommend to the Council, that for 2024/25, furniture pack service charges are frozen as costs can be contained within existing charges.
- 2.6 To approve a 2024/25 rent increase for Derby Homes owned properties of 7.7% and for service charges to increase in line with inflation at 6.7%.

3. REASONS FOR RECOMMENDATION

- 3.1 Proposing a rent increase in line with the maximum allowed, increase considers all factors listed in Section 1.2 & 1.3 and is the proposal recommended by the Operational Board also.
- 3.2 Service charge income is an important element of income for the HRA and can be increased in line with costs.

Applying an inflationary increase to the majority of services is considered fair and reasonable.

For those services where costs are in excess of the service charge level charged, applying a capped 10% increase, with assurance that no one individual service charge increases above £1 a week, is a fair balance to keep service charges roughly in line with costs. This was also supported by the Operational Board.

Furniture pack service charges are proposed to be frozen again as costs can be contained within existing charges.

4. MATTER FOR CONSIDERATION

- 4.1 Please refer to Sections 4.1 to 4.9 in Appendix 1 Operational Board report. All comments and figures stated remain the same, bar those updated below.
- 4.2 At the time of drafting the Operational Board report, September CPI inflation was estimated at 6%, it has since been confirmed at 6.7%. See Section 4.1 of the Operational Board report.
- 4.3 The table in Section 4.3 of the Operational Board report is updated below with the actual September CPI Inflation Index and what the average weekly rent would be if a 7.7% rent increase was applied. An updated estimated market rent (using figures from the ONS website) is also amended.

The comments around council rents not keeping pace with market rents, nor even inflation remain the same.

	2015/16	2023/24	2024/25 (assume 7.7%)	Change 2015/16 to 2024/25
Council rent - £ per week (overall average – slightly above 2 bedrooms)	78	90	97	24%
Market rent (2 bed)	110	148	159	45%
% Council rent v Market rent	71%	61%	61%	(10%)
CPI Inflation index (Sept previous year)	100.3	123.8	132.0	32%

5. OTHER OPTIONS CONSIDERED

- 5.1 Within its existing service charge area, the Council (and therefore Derby Homes) is under recovering its costs on the Grounds Maintenance and Communal Cleaning contracts by circa £0.7m a year. Technically, these service charges could be increased to align with costs. But this would necessitate large increases, way above the capped 10% suggested. For example:
- Grounds Maintenance – 2023/24 the (52) week average charge is £5.50, and this would need to increase to around £7.35 a week in 2024/25
 - Communal cleaning - 2023/24 the (52) week average charge is £3.10, and this would need to increase to around £5.50 a week in 2024/25.

It should be noted that these service charges are supported by both Housing Benefit and Universal credit.

IMPLICATIONS

6. CONSULTATION IMPLICATIONS

- 6.1 The Council is consulting Derby Homes through this report. Tenants have been consulted by the Council and Derby Homes through the Operational Board meeting on 7 September 2023.

I would like to note the constructive, balanced, and pragmatic discussions held by the Operational Board group at the session.

Due to the uncertainty of what the September CPI inflation rate would be, it was considered by the Operational Board that if rents were increased between 7% to 8% in 2024/25, that would be fair and reasonable.

A sample of tenants are routinely consulted via the Perception Surveys and asked, "Thinking about the rent that you pay, how satisfied or dissatisfied are you that your rent provides value for money?". Based on 980 responses between April 23 and October 23, 86% are satisfied that their current rent represents value for money.

7. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

- 7.1 The level of rent increase and service charges increase has a material impact on the HRABP and effectively determines the financial parameters within which service to tenants and their homes can operate within.

Derby Homes has worked alongside Council colleagues on the forecasting / modelling and is appreciative of the open communication on the HRABP, enabling the potential impacts on Derby Homes financial position to be evaluated and planned for.

Derby Homes extends its support to the Council in working on further options / discussions around all costs (internal and external) currently being incurred within the HRA and options available at increasing income, specifically from the grounds maintenance and communal cleaning service charges.

8. LEGAL AND CONFIDENTIALITY IMPLICATIONS

- 8.1 There is a requirement to set rents in line with regulation as outlined in the report.

9. COUNCIL IMPLICATIONS

- 9.1 Council rents and service charges are a matter which requires the approval of the Council. Approval is planned to be sort at Council Cabinet in January 2024.

Derby Homes' rents and service charges are a matter for the Board.

10. EQUALITIES IMPLICATIONS

- 10.1 Rents and service charges will remain well below average private sector rents, offering very good value for money for tenants. Support is available to all tenants as listed in section 4.9 of the Operational Board report.

11. RISK IMPLICATIONS

- 11.1 Rental levels are critical to overall financial planning for both the Council and Derby Homes. The risk is included within both the HRA Risk Register and the Derby Homes Strategic Risk Register.

The proposals here are in line with regulations and mitigate those risks as far as possible.

12. ENVIRONMENTAL

- 12.1 There is an obligation for all properties (Council and Derby Homes) to be at least EPC C rated by 2030. There is confidence that this requirement will be met.

Longer term environmental improvement to properties – net carbon zero by 2050 will be even more challenging with reduced income available within the HRABP. This is a position that all Registered Providers are in. There is not a plan in place nationally to plan for the scale of investment required to meet this requirement.

The areas listed below have no implications directly arising from this report:

Personnel
Health & Safety
Policy Review

If Board Members or others would like to discuss this report ahead of the meeting, please contact:

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Background Information: Regulator of Social Housing's Rent Standard 2020

Supporting Information: Appendix 1 – Operational Board report 7.9.23 on HRA Rents and Service Charges

This report has been approved by the following officers where there are financial or legal implications:

Finance Director & Company Secretary Governance (checked)	Michael Kirk	5.11.23
	Chloe Gaskell	13.11.2023