

HRA BUSINESS PLAN AND RENTS 2024/2025

Report of the Finance Director & Company Secretary

1. SUMMARY

- 1.1 Derby City Council (DCC) have circa. 12,400 properties available for letting as social housing. Financially, these are managed within the Council in an account called the Housing Revenue Account (HRA).

The HRA is intended to record income and expenditure on running a council's own housing stock and closely related services, or facilities, which are provided primarily for the benefit of the council's own tenants.

There is a long-term budget called the HRA Business Plan, (HRABP), which sets out the 30-year estimated income and expenditure for the management and maintenance of the Council's housing stock, together with investment proposals for additional homes.

The Council consults with tenants through Derby Homes on its HRABP plans, and the level of rent and service charge proposals each year. Previously this has been through the Customer Voice and DACP. This year, the intention is to do this through the Operational Board.

The Regulator of Social Housing, (RSH), expects social housing providers to consult with their tenants on rents and service charges, as detailed within the Consumer Standards.

Comments from the Operational Board will be shared with the Derby Homes Board in November, who will also provide consultation comments through to the Council; who plan to discuss the HRABP at their January 2024 Cabinet meeting.

- 1.2 This year's consultation is based on the assumption that the Government will not intervene on the Rent Standard, (which determines by how much the rent increase can be uplifted by), and mandate a maximum increase that housing providers can apply to the rent. Last year for example, the Government did intervene and capped rent increases at 7%. The Rent Standard allows for housing providers to increase the rent by (September) CPI inflation level plus 1%.
- 1.3 Service charges continue to be allowed to be charged up to the cost of delivering the service; there is no enforced cap on these increases, the decision is for each housing provider. These are also discussed in this paper and the view of the Operational Board sought on what the level of any 2024/25 increase should be at.

- 1.4 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 and service charges 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 and service charge increase for 2024/25. For Councils, there is also the political element to consider.

2. RECOMMENDATION

- 2.1 To seek comments from the Operational Board on what an appropriate and fair increase to the rent would be for 2024/25, considering the points noted in section 1.4.
- 2.2 To seek comments from the Operational Board on what an appropriate and fair increase to service charges would be for 2024/25, considering the points noted in section 1.4 and the summary in section 4.8.

3. REASONS FOR RECOMMENDATION

- 3.1 Proposing a rent increase will help inform the Council in their plans to set a budget for the HRABP and to inform Councillors of the thoughts of tenants.
- 3.2 Service charge income is an important element of income for the HRA and can be increased in-line with costs. All service charge costs incur staffing and non-pay inflationary costs each year. Most service charges are eligible for Housing Benefit or Universal Credit, for those tenants in receipt of benefit.

Raising most service charges in-line with inflation maintains a fair balance of recharging for these services.

Costs for services such as grounds maintenance, the garden maintenance scheme, and some communal cleaning sites remains well above the service charge levels; hence the suggested higher increase of 10%, capped to a maximum of £1 a week increase. Tenants not in receipt of these services, are effectively subsidising the cost of these services.

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

4. MATTER FOR CONSIDERATION

4.1 Rents

Each year the Council must set rents for the following year, in-line with, or below, the RSH Rent Standard. For 2024/25, the Council has discretion on the rent increase up to the Rent Standard level, which is the September CPI level plus 1%.

For initial consultation purposes, we are currently forecasting September 2023 inflation at 6% to 7% using a Bank of England forecast and the latest inflation figures. The Consumer Prices Index, (CPI), rose by 6.8% in the 12 months to July 2023; down from 7.9% in June.

Last year the Government capped increases at 7%. To date, there is no mention of intervention again for 2024/25, but for consultation purposes, we are assuming that the maximum rent increase allowed will again be capped at 7%

- 4.2 Obviously, applying a rent increase below that technically allowed, (for the reasons listed in Section 1.4), will result in less income available in the HRABP, to be invested in services to tenants and their current and future homes. Roughly, for each 1% increase not applied, then £0.6m a year is not available for spending.

So, for every 1% below the maximum increase, over the 30-year HRABP, this equates to £24m; equivalent to just under £2,000 per property less funding available.

A reminder that following Government interventions on the rent in between 2016/17 to 2019/20, (4 years of rents reducing by 1% each year, equivalent to 13% in real terms), took £290m out of the HRABP and the 2023/24 intervention a further £100m. So those interventions have already removed over £30,000 per property from the HRABP budget.

As a consequence, the HRABP needs to examine areas for savings; these options include:

- Reductions in future number new homes that will be built and/or acquired.
- Delaying decarbonisation works to properties.
- Reviewing (stretching) the number of years at which some property components (such as boilers, roofs, electrical wiring) are replaced.
- A reduction in the management fee to Derby Homes.

- 4.3 The table below compares what the average weekly Council rent was in 2015/16, and what it could be in 2024/25, (assuming a 7% increase), compared against market rents in Derby and overall inflation as determined by the CPI rate.

	2015/16	2023/24	2024/25 (assume 7%)	Change 2015/16 to 2024/25
Council rent - £ per week (overall average – slightly above 2 bedrooms)	78	90	96	23%
Market rent (2 bed)	110	157	168	53%
% Council rent v Market rent	71%	57%	57%	(14%)
CPI Inflation index (Sept previous year)	100.3	122.3	130.9 <i>tbc</i>	30%

It is clear that council rent increases have been substantially below increases seen in market rents. Council rents are also significantly below inflation since 2015/16.

It is extremely difficult to balance budgets if income levels do not even keep up with inflation over a long period.

Obligations on Registered Providers like the Council have not changed, and are not planned to be reduced, this will actually increase with the new Social Housing White Paper and the resulting Consumer Standards. Quite rightly, tenants should expect that their landlord provides social housing, which is safe, tenants are

listened to, tenants live in good quality homes, and have access to redress when things go wrong.

All this needs to be paid for - through rents and service charges.

There is no slack in the HRABP; it will need to cut its cloth accordingly, irrespective of what rent increase is applied. The scale of the savings required, (to the areas listed in section 4.2), will be determined by the eventual increases the Council applies for 2024/25.

- 4.4 Additionally, the HRA loses around 175 properties a year to the Right to Buy (RTB). Replacement property numbers have never kept pace with RTB losses. The net loss in stock numbers, each year, further reduces the total income available in the HRABP.

4.5 **Service Charges**

Service charges are specific charges for services to tenants, which are charged for in addition to the rent charge. The charge is only applied where the tenant receives that service. Service charges must be charged at actual cost or below cost.

Service charges are unaffected by the Rent Standard and it is suggested that they increase by inflation, (September CPI level), subject to no one individual service charge having an increase above £1 a week; this is to give assurance that although the inflation percentage figure is a high number, in monetary terms this is on individual service charges, where very few are above £6 a week.

In previous years, comments from the Customer Voice group stated their priority was more on Derby Homes, ensuring that the quality of service was adequate rather than the service charge cost.

Most service charges are eligible for Housing Benefit and Universal Credit.

Two service charge areas are operating where costs are significantly above the income charged via the service charge; these are Grounds Maintenance, (see section 4.6 for details), and Communal Cleaning, (see section 4.7 for details). In previous years the Council has capped the increase on these service charges at 10%, with a longer-term plan to align the income to the costs incurred.

Furniture Pack service charges are proposed to be frozen. We are experiencing lower levels of items needing replacing; keeping scheme costs within the charges levied.

- 4.6 Tenants and leaseholders are charged a grounds maintenance service charge; this partially recovers the costs incurred in delivering a grounds maintenance service. These service charges have been increasing by 10%, each year, to smooth out the transition towards matching the service charge income with operational costs incurred.

The estimated 2023/24 costs included within the Grounds Maintenance service charge currently include:

Description of service	Annual cost £'000
Core grounds maintenance service provided by Streetpride	1,331
Depreciation costs incurred on DH owned vans, mowers etc.	55
Tree maintenance costs (trees within curtilage only, 80% of full cost)	182
Path Inspections & remedial repairs within curtilage	50
Caretaking service (share of overall costs for works relating to flats)	110
	1,728
Add Derby Homes staffing costs managing contracts	65
	1,793

There are currently, approximately 4,592 tenants paying the service charges, (an average of £288 per tenant per year). We are projecting the service charge will generate £1.323m in 2023/24. Additionally, approximately £0.12m is collected via recharges to 563 Leaseholders. A total of £1.443m recharged against a cost estimated at £1.793m.

Derby Homes/Derby City Council are currently “subsidising” this service to the 5,155 tenants and leaseholders by around £0.4m a year.

- 4.7 Tenants and leaseholders living in flats are also charged for the cleaning of communal areas of their block.

The estimated 2023/24 costs included within the Communal Cleaning service charge currently include:

Description of service	Annual cost £'000
Cleaning service to flats via service provided by Streetpride	694
Derby Homes staffing costs in monitoring the service	35
	729

There are currently, approximately 2,440 tenants paying the service charges (an average of £161 per tenant per year). We are projecting the service charge will generate £0.38m in 2023/24. Additionally, approximately £0.06m is collected via recharges to 149 leaseholders. A total of £0.44m recharged against a cost estimated at £0.729m.

Derby Homes/Derby City Council are currently “subsidising” this service to the tenants and leaseholders by around £0.3m a year.

4.8 Rents & service charges increase

In summary, the suggested rents and service charge increases for consideration by the Operational Board to pass comment back to the Council on, are:

Rents – to recommend to the Council a rent increase in line with the Rent Standard (September CPI +1%)

Service charges - To recommend to the Council, that for 2024/25, an inflation (based upon September CPI) increase is applied to service charges, subject to no one individual service charge increasing by more than £1 a week. With the exception of:

- Grounds Maintenance, where a 10% capped increase (subject to a £1 a week maximum increase) as costs remain significantly higher than the £1.433m currently generated from the charge.
- Communal cleaning, a 10% capped increase (subject to a £1 a week maximum increase) for those sites where the cost of the service is greater than the service charge currently levied. Where costs and charges are aligned, the increase is proposed to in-line with inflation.
- Furniture Pack prices are again proposed to be frozen.

4.9 Support available to tenants

The country is facing a cost-of-living crisis. There is no doubt that for some tenants a rent increase of any size will add to existing financial difficulties.

In recognition of this, tenants have access to support teams in Derby Homes, including Money Advice, Welfare Rights and Welfare Reform Teams to assist tenants with their rent payments and access to other grants/hardship funds.

Derby Homes maintains a supportive and empathetic approach to those tenants who engage and who may be experiencing financial hardship in paying their rent.

Derby Homes has over 40% of tenants already claiming Universal Credit with a further 38% claiming some Housing Benefit. So more than 3 in 4 are in receipt of some form of housing related benefit. In cash terms, approximately 55% to 60% of rents and service charges are directly covered by housing benefit or Universal Credit for tenants.

5. OTHER OPTIONS CONSIDERED

- 5.1 The Council has modelled a rent increase at a variety of levels. Obviously the lower the rent increase, the shorter the period is until the HRABP becomes financially unviable, necessitating higher savings and in a shorter time frame.

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

IMPLICATIONS

6. CONSULTATION IMPLICATIONS

- 6.1 The Council is consulting tenants via Derby Homes through this report.

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.

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 matters which require the approval of the Council. Approval is planned to be sort at Council Cabinet in January 2024.

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 4.7.

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.

12. ENVIRONMENTAL

- 12.1 There is an obligation for all properties to be at least EPC C rated by 2030. It is likely that from December 2025, any property to be re-let upon becoming vacant, must be at EPC C or above; there is confidence that these requirements 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. The costs are prudently estimated at £17,000 per property, circa. £213m for the HRABP; this funding is not currently in place. 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: None
Supporting Information: None

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

Finance Director & Company Secretary Governance (checked)	Michael Kirk	17.08.23
	Jane Haywood	23.08.23