

Meeting date: 9 February 2023

Report to: Full Cabinet

Report title: HOUSING REVENUE ACCOUNT ESTIMATES AND RENT INCREASES 2023/24

Report from: The Acting Chief Executive

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Wards affected:

- All Wards | Bickenhill | Blythe | Castle Bromwich | Chelmsley Wood | Dorridge/Hockley Heath | Elmdon | Kingshurst/Fordbridge | Knowle | Lyndon | Meriden | Olton | Shirley East | Shirley South | Shirley West | Silhill | Smith's Wood | St Alphege
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Public/private report: Public

Exempt by virtue of paragraph:

1. Executive Summary

- 1.1 To consider the Housing Revenue Account (HRA) budget estimates for 2023/24, the Management Fee payable to Solihull Community Housing (SCH) and the proposed changes in dwelling and garage rents and leaseholder management fees for 2023/24.
- 1.2 The Autumn Statement announced a reduction to the maximum rent increase temporarily to 7% following a Department of Levelling Up, Housing and Communities (DLUHC) consultation undertaken in 2022. The HRA budget presented in this report is based on a 5% rent increase and an indication of the cost implications for a 7% rent increase are shown. Cabinet is asked to consider and approve a rent increase for 2023/24.
- 1.3 The HRA and SCH budget plans for the next 3 years have been presented to Budget Strategy Group on 21 November 2022 and 16 January 2023 and to the Members Budget Seminar on 1 December 2022. The SCH Board were informed of the proposals on 8 November 2022.

- 1.4 The report includes Appendices detailing the 10-year HRA Business Plan at Appendix A, the SCH 3-year planned savings at Appendix B, a statement of HRA and SCH reserves at Appendix C and details of Fees and Charges at Appendix D.
- 1.5 The Cabinet are requested to approve the charges for HRA wholly owned and shared ownership properties, garages, Leaseholder Management Fees and note those within SCH's ownership which were approved by the SCH Board on 8 November 2022.
- 1.6 It is proposed that the SCH 5-year rolling Management Agreement is approved at a cost of £22.146million, an increase of £2.414million or 12.23% when compared to 2022/23.

2. Decision(s) Recommended

- 2.1 To approve a rent increase for all tenures;
- 2.2 To approve increases in garage rents as recommended by the SCH Board and set out in Appendix D, from 1 April 2023;
- 2.3 To approve the increase in Leaseholder Management Fees from £141 to £145 per annum;
- 2.4 To approve the Housing Revenue Account budget for 2023/24 including the SCH Management Fee as set out in the HRA Business Plan Financial Forecast at Appendix A;
- 2.5 To approve the SCH Management Agreement for 2023/24 – 2027/28;
- 2.6 To approve the removal of a £1.000million contribution to the HRA Future Capital Expenditure Reserve in 2022/23 if a 5% rent increase is agreed; and
- 2.7 To note the fees and charges approved by the SCH Board on 8 November 2022 set out in Appendix D

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2023/24

3. Matters for Consideration

Background

- 3.1 In 2012/13 the Council opted for its HRA to become self-financing by adopting £69.566million of HRA debt in exchange for being released from the government's subsidy system. The sum was set out in the self-financing settlement and there was a requirement to produce a 30-year business plan. The HRA 30-year plan included inflationary rent increases throughout this period and the repayment of debt between 2032/33 – 2041/42 although there was no legal requirement to repay debt. However, following the mandatory 1% rent decrease from 2016/17 to 2019/20 the Council recognised that the prospect of repaying debt as originally planned was no longer possible.
- 3.2 The 2022/23 SCH Management Fee is £19.732million and was approved by Full Cabinet on 10 February 2022. The period 9 forecast for SCH is an overspend of £1.278million primarily due to higher than budgeted costs for energy, staff pay and contractual inflation and will be funded from SCH reserves. SCH are also delivering the HRA capital works in line with the approved HRA Capital Programme and the SCH Asset Management Strategy.
- 3.3 The Chief Executive and the Chief Finance Officer for SCH attended the Budget Strategy Group meetings on 21 November 2022 and 16 January 2023 and the Members Budget Seminar on 1 December 2022 to present the HRA and SCH budget plans over the next 3 years. The plans were also reported to the SCH Board on 8 November 2022 and their detailed operating budget was ratified at the same meeting, subject to an increase in HRA rents of at least 5% being approved by Cabinet.

HRA Estimates and Rents

- 3.4 The Council and SCH have updated and refined Solihull's HRA Business Plan Financial Forecast as at Appendix A. The medium-term assumptions of inflation are in line with the latest available forecasts published by the Office for Budget Responsibility (OBR) in March 2022 and CPI was updated in line with HM Treasury's publication of collated inflation forecasts.
- 3.5 The HRA budget includes the removal of contributions to the Future Capital Expenditure Reserve (FCER) for 2022/23 to 2024/25 and the estimated SCH Management Fees for the 4-year period 2022/23 to 2025/26. The balanced 4-year period is maintained by managing year-on-year fluctuations through contributions and use of the HRA working balance, included within the HRA revenue reserves balances.
- 3.6 The contributions to the Future Capital Expenditure Reserve were originally planned to ensure there would be sufficient funding available to match fund the 1-4-1 Right to Buy Receipts which were increasing at the time. The risk is now deemed to be low as there is currently sufficient match-funding available for known 1-4-1 receipts and there have been no further Right to Buy sales triggering 1-4-1 receipts since 2018/19. The removal of these planned contributions enable additional funds to be available to pay

a higher Management Fee to SCH due to the significant increased costs incurable for energy, pay inflation and contractual inflation.

- 3.7 In recent years the HRA rent increase has been agreed at the legislated maximum which is capped at the September CPI rate plus 1%. In anticipation of a significant CPI rate increase for 2022 the modelling presented to the Budget Strategy Group meeting and the SCH Board was based on a rent increase of 5% for 2023/24 resulting in average weekly HRA social rents increasing from £89.56 to £94.04, or £4.48 per week over an annual 50-week year.
- 3.8 The Department of Levelling Up, Housing and Communities (DLUHC) launched a consultation seeking views on introducing revised legislation to limit increases temporarily to 5%.
- 3.9 Subsequently, the Office of National Statistics confirmed the September 2022 CPI rate as 10.1% compared to 3.1% in September 2021 and the outcome of the DLUHC consultation on a rent increase cap was announced as part of the Autumn Statement at a maximum 7% rent increase.
- 3.10 Rents for Shared Ownership properties would usually increase as per their tenancy agreements which are subject to RPI (at February 2023) + 0.5% with effect from 1 April 2023. Recent communications from DLUHC have identified this issue across landlords and is supportive of these rental increases also being limited to the temporary maximum increase. Therefore, it is proposed that rents for Shared Ownership properties are also set at the same rate of increase as social and affordable rents.
- 3.11 Whilst the rent modelling shown at Appendix A is based on a 5% rent increase, there is the potential to increase rents by a further 2% to 7% following the 2022 Autumn Statement. Informal consultation with many other local councils have indicated they will be considering agreeing the 7% maximum level of rent increase and the benefits of doing so is the longer term cumulative effect.
- 3.12 For Solihull, this would see the average HRA weekly social rent increase from £89.56 to £95.83 resulting in an increase of £6.27 per week over 50 weeks. The additional cost from a 5% increase to a 7% increase is £1.79 per week. It would allow the FCER contributions to be reinstated and provide funding for stock improvement or development of additional stock.
- 3.13 The housing stock managed by SCH includes a variety of ownership and tenure types which are detailed in Table 1. During 2022/23 there were 55 social housing rent properties acquired from Bromford Housing, although 6 of these are utilised as providing support staff facilities. The charges for HRA owned properties require Cabinet approval and those within SCH's ownership are approved by the SCH Board.
- 3.14 The SCH Board had considered rent increases for SCH owned properties on 8 November 2023 and approved a 5% rent increase for affordable rent and a RPI (at February 2023) +0.5% rent increase for shared ownership properties. A report will be provided to the next SCH Board meeting following the outcome of the Autumn Statement and tonight's Cabinet decision.

3.15 A summary of all average rent increases for both a 5% and 7% increase are shown at Table 1 below. All rental properties are based on a 50-week, weekly basis and shared ownership rents are shown on a monthly basis.

Table 1 – Average Rents

Type	No. of Units	Average Rent 2022/23	Average Rent 2023/24	
			5% Inc	7% Inc
Rental Properties - Rents charged weekly (50 week basis)				
HRA - Social Rent	9,673	£89.56	£94.04	£95.83
HRA - Affordable Rent	63	£116.63	£122.46	£124.79
HRA - Saxon Court (Affordable)	51	£107.30	£112.67	£114.81
SCH - Affordable Rent	29	£126.04	£132.34	£134.86
Shared Ownership Properties - Rent on unsold portion charged monthly				
HRA - Shared Ownership	48	£329.72	£346.21	£352.80
SCH - Shared Ownership	7	£262.90	£276.05	£281.30

3.16 The assumptions included in the HRA Business Plan Financial Forecast shown at Appendix A are:

- An annual rent increase of 5% for 2023/24 across all tenure types.
- A net contribution to the HRA Debt Impairment Allowance of £692,000. This is a decrease of £81,000 from the £773,000 forecast for 2023/24 during last year's budget setting process as a consequence of reviewing the risk and revising assumptions in the calculation based on more recent experience.
- The removal of £2.071million contributions to the FCER (2022/23 of £1.000million, £0.500million in 2023/24, £0.285million in 2024/25 and £0.286million in 2025/26).
- A proposed SCH Management Fee of £22.146million for 2023/24. This is an increase of £2.414million (+12.23%) from £19.732million in 2022/23.
- A proposed contribution of £14.049million towards the proposed 2023/24 HRA capital programme of £41.057million which will be detailed in a separate HRA capital report to be presented at the next Cabinet meeting.
- A balanced HRA position over the four-year period from 2022/23 (forecast) and 2023/24 to 2025/26 (budgeted).

SCH Management Fee

- 3.17 Despite the proposed SCH Management Fee increasing from £19.732million to £22.146million, SCH still needed to identify £1.560million savings to ensure a balanced budget over the 4-year period 2022/23 to 2025/26 and further details of the agreed savings considered by the SCH Board on 8 November 2023 is set out at Appendix B. In addition, the West Midlands Pension Fund (WMPF) has recently informed SCH of their triannual valuation which will require an increase in SCH employer contributions from 16.00% to 22.60% with effect from 1 April 2023. The total additional cost is estimated at £663,000 for 2023/24 and the SCH Chief Finance Officer will discuss the increase with WMPF to see what options are available to reduce this. Any additional cost will be funded from the SCH Budget Strategy Reserve 2023/24 and reconsidered during the budget preparations for future years.
- 3.18 In 2015 the Management Agreement between the Council and SCH was revised to reflect the HRA funding available to spend on a Management Fee. Funding is considered over a five-year period where each year may have a net surplus or deficit when looked at in isolation. The agreement is subject to satisfactory performance financially and for service delivery. The performance of SCH is considered through a Quarterly Monitoring Board (QMB) chaired by the Deputy Leader for the Council and has been satisfactory. It is therefore recommended that Cabinet approve the SCH Management Agreement continues for 2023/24 – 2027/28

HRA Reserves

- 3.19 The reserve balances detailed within Appendix C include the HRA Working Balance, which is used to manage annual surpluses and deficits within the balanced four-year budget. The total HRA reserves have an estimated balance at the end of 2023/24 of £15.081million, compared to an estimated £21.268million at the start of the financial year.
- 3.20 Within this overall balance, the HRA holds capital balances from retained receipts for right to buy sales, shared ownership and other property sales. These are forecast to decrease in 2023/24 from £10.026million to an estimated £8.485million; assuming receipts in the year of £3.417million, less financing of £4.958million towards new build development costs.
- 3.21 Cabinet has previously approved additional funding for the retrofit of sprinklers to all of the High Rise Residential Buildings (HRRBs). The project is nearing completion and the reserves schedule shows the total committed funding for 2023/24 of £2.192million.
- 3.22 The Welfare Reform Reserve was established to address any additional HRA costs the Council could incur as a consequence of the implementation of Universal Credit. The roll out of Universal Credit is complete for any new applicants and a managed migration is taking place from 2020 until 2023 for existing housing benefit applicants. It has now been possible to reassess the financial risk and the level of funding required in the reserve.
- 3.23 Latest statistics on housing benefit in Solihull show that 16.18% of SCH tenants receive full housing benefit, 17.22% of tenants receive partial benefit and a further 39.30% of tenants receive Universal Credit. The balance of the reserve for Welfare

Reform support at the end of March 2023 is expected to be £0.998million. This balance is fully committed in the 3-year MTFs period: £685,000 set-aside to underwrite the increased risk within the debt impairment allowance, £129,000 for debt collection software costs and £184,000 to support money advice and employment support. Appendix C reflects £553,000 at the end of 2023/24 with the further commitments detailed relating to 2024/25 and 2025/26.

- 3.24 Other minor reserve balances of £212,000 for Regeneration and £100,000 for Homelessness initiatives are also available.

Garage Rents

- 3.25 It is recommended by the SCH Board that tenants' garage rents be increased by 18p (2.36%) from £7.62 to £7.80 per week (on a 50-week year) with effect from 1 April 2023 and the budget as presented has included this increase. The increase is based on the Office of Budget Responsibilities GDP Deflator estimate for 2023/24 which was published in March 2022.
- 3.26 The same level of increase has been recommended for other garage types as set out in Appendix D.

Other Miscellaneous Charges

- 3.27 The charge for tenant content insurance is passed through to tenants at cost.
- 3.28 SCH are responsible for setting a range of fees and charges some for their own commercial ventures and some under delegated powers. Appendix D details the full list of fees and charges and these were approved by SCH Board on 8 November 2022.

Leaseholder Management Fees

- 3.29 Under the terms of their leases, the Council is entitled to levy a management fee on all leaseholders with the aim of recovering the costs of managing their leases (including the costs of collecting amounts due and calculating the costs of managing and delivering services). This management fee must be reasonable and reflect the actual costs of management and administration of leaseholder services.
- 3.30 SCH have reviewed the total number of leaseholders and the management fee and propose that it should increase by 2.84% from £141 to £145 per annum. In line with usual practice this figure is rounded to the nearest pound. As in previous years, leaseholders in mews flats, who only pay insurance and ground rent, will pay a lower rate of management fee set at 50% of the full fee (£72.50 per annum).

4. What options have been considered and what is the evidence telling us about them?

- 4.1 The rent modelling in Appendix A is based on a 5% rent increase. There is an option to increase rents by a maximum 7%.
- 4.2 The additional funding could be used to alleviate a range of housing service financial pressures such as the evolving additional requirements for building safety, improving

the sustainability of the current stock and addressing the expected pressures that emerge from stock condition survey improvements.

- 4.3 If the additional 2% rent increase is applied at Solihull, it would be possible to reinstate the contribution to the HRA Future Capital Expenditure Reserve and increase the HRA working balance over a 4-year period from net nil to a surplus of £0.612M. It would also ensure the rent base for future years would benefit from the cumulative effect. The impact of this change is shown at Table 2

Table 2 – Change in Impact of a 7% rent increase on HRA Surplus

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Total £M
HRA (Surplus)/Deficit @ 5% rent increase	(0.839)	0.585	0.032	0.222	0
Net increase in rent*	-	(0.862)	(0.899)	(0.922)	(2.683)
Less Reinstated FCER contribution	1.000	0.500	0.285	0.286	2.071
HRA (Surplus)/Deficit @ 7% rent increase	0.161	0.223	(0.582)	(0.414)	(0.612)

5. Reasons for recommending preferred option

- 5.1 Not applicable

6. Implications and Considerations

- 6.1 State how the proposals in this report contribute to the priorities in the [Council Plan](#):

Priority:	Contribution:
<p>People and Communities:</p> <ol style="list-style-type: none"> 1. Improving outcomes for children and young people in Solihull. 2. Good quality, responsive, and dignified care and support for Adults in Solihull when they need it. 3. Take action to improve life chances and health outcomes in our most disadvantaged communities. 4. Enable communities to thrive. 	<p>The HRA rents will fund strategic investments in programmes that provide additional safety to Council tenants within High Rise Residential Buildings and make improvements to HRA localities across the Solihull Borough.</p>
<p>Economy:</p> <ol style="list-style-type: none"> 5. Develop and promote the borough's economy, with a focus on revitalising our town and local centres. 6. Maximising the opportunities of UK Central and HS2. 	<p>The total funding generated from housing rents contributes towards the Council's HRA capital funding which is utilised towards both stock improvement and generating new stock growth. Further details will be provided within the Council's HRA Capital Programme 2023/24 report next month.</p>

Priority:	Contribution:
7. Increase the supply of affordable and social housing that is environmentally sustainable.	
Environment: 8. Enhance our natural environment, improve air quality and reduce net carbon emissions.	Improving energy efficiency for tenants is an item of investment that housing rents contributes to through SCH's revenue budget and the HRA Capital Programme. Schemes aim to tackle fuel poverty and deliver commitments due to be set out in the low carbon strategy.
9. Promote employee wellbeing	None.

6.2 Consultation and Scrutiny:

6.2.1 The Budget Strategy Group has agreed that consultation with the public will take place on key specific savings proposals.

6.3 Financial implications:

6.3.1 Financial implications with regard to the HRA budget and the changes in rents are set out in the report.

6.4 Legal implications:

6.4.1 The proposed rent increase is in keeping with current Department for Levelling Up, Housing and Communities (DLUHC) guidance.

6.4.2 Generally, annual rent increases for shared ownership leases are limited to the Retail Price Index (RPI) plus 0.5%, using the RPI figure for a specified month which is published annually.

6.4.3 However, paragraph 4.2 of Chapter 1 of Homes England's Capital Funding Guide states that Homes England's permission is not required should a landlord wish to charge a lower annual rent increase than is set out in the lease for a given year. This means that, for example, an increase can be applied that is less than RPI + 0.5%.

6.5 Risk implications, including Risk Appetite:

6.5.1 Financial risks relating to rent collection are protected through the reserves detailed in this report.

6.6 Equality implications:

6.6.1 The impact on the tenants arising from the proposed average rent increase will be an additional cost to those that are not in receipt of Housing Benefit or who are already receiving the maximum Universal Credit allowance. The most disadvantaged tenants

are in receipt of Housing Benefit or Universal Credit payments lessening the financial impact to them.

- 6.6.2 Both the Council and SCH provide support to financially vulnerable tenants. SCH has a Money Advice Team dedicated to HRA and SCH tenants and there is the ability to pay discretionary payments in some cases
- 6.7 Linkages to our work with the West Midlands Combined Authority (WMCA), Local Enterprise Partnership or the Birmingham & Solihull Integrated Care System (ICS):
 - 6.7.1 SCH are currently working with WMCA colleagues to access funding to support carbon reduction within the HRA housing stock. Updates on progress will be provided through the regular QMB meetings

7. List of appendices referred to

- 7.1 Appendix A – HRA Business Plan Financial Forecast
- 7.2 Appendix B – SCH Savings 2023/24 – 2025/26
- 7.3 Appendix C – HRA and Solihull Community Housing Statement of Reserves
- 7.4 Appendix D – Fees & Charges 2023/24

8. Background papers used to compile this report

- 8.1 None.

9. List of Other Relevant Documents

- 9.1 Solihull Community Housing Asset Management Strategy 2020-2022.
- 9.2 Solihull Community Housing Delivery Plan 2022/23