

COUNCIL

DATE OF MEETING: 5 FEBRUARY 2020

REPORT BY: COUNCILLOR BURGESS (CHAIRMAN OF THE COMMUNITY BOARD)

At its meeting on 22 January 2020 the Community Board considered a report Borough Treasurer and Housing Services Manager request consideration of the Housing Revenue Account (HRA) Business Plan Financial Model including the revised 2019/20 budget and the 2020/21 budget including recommendations on rent levels for the next year. .

BUSINESS PLAN FINANCIAL MODEL UPDATE AND COUNCIL DWELLING RENTS 2020/2021

RECOMMENDATION:

That the Community Board recommend to Council that:

- The revised HRA Business Plan Financial Model extract (Appendix A) and associated 2019/20 Revised Budget and 2020/21 Budget (Appendix B) is agreed.
- That Council Dwelling rents increase by CPI(1.7%@sept 2019) plus 1% .This is the first year of the five year policy programme as detailed in the new national rent policy introduced in February 2019.
- The rent for older style garages is increased in line with inflation, as agreed in the Garage Renewal strategy and rent for non GBC tenants who have garages is increased by £1 per week.

PART I MINUTES OF THE COMMUNITY BOARD

Consideration was given to a report of the Borough Treasurer and the Housing Services Manager considering the Housing Revenue Account (HRA) Business Plan Financial Model including the revised 2019/20 budget and the 2020/21 budget including recommendations on rent levels for the next year.

Councillor Mrs Batty left the room and took no part in the discussion or voting thereon.

Members thanked officers for their report and complimented them on the clarity of the appendices.

In answer to a Member's question the Board was advised that the £900,000 was allocated to the Council's 200-250 void properties.

RESOLVED:

That the Community Board recommend to Council that:

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- That Council Dwelling rents increase by CPI(1.7%@sept 2019) plus 1% .This is the first year of the five year policy programme as detailed in the new national rent policy introduced in February 2019.
- The rent for older style garages is increased in line with inflation, as agreed in the Garage Renewal strategy and rent for non GBC tenants who have garages is increased by £1 per week.

Board/Committee:	COMMUNITY BOARD
Date of Meeting:	22 JANUARY 2020
Title:	BUSINESS PLAN FINANCIAL MODEL UPDATE AND COUNCIL DWELLING RENTS 2020/2021
Author:	BOROUGH TREASURER AND HOUSING SERVICES MANAGER
Status:	FOR RECOMMENDATION TO FULL COUNCIL

Purpose

This report considers the Housing Revenue Account (HRA) Business Plan Financial Model including the revised 2019/20 budget and the 2020/21 budget including recommendations on rent levels for next year.

It also provides updates for members on the latest information with regard to policy changes that impact directly on local authority housing finance services.

Recommendation

That the Community Board recommend to Council that:

- The revised HRA Business Plan Financial Model extract (Appendix A) and associated 2019/20 Revised Budget and 2020/21 Budget (Appendix B) is agreed.
- That Council Dwelling rents increase by CPI(1.7%@sept 2019) plus 1% .This is the first year of the five year policy programme as detailed in the new national rent policy introduced in February 2019.
- The rent for older style garages is increased in line with inflation, as agreed in the Garage Renewal strategy and rent for non GBC tenants who have garages is increased by £1 per week.

1.0 Background

1.1 The delivery of Housing is a key priority for the Council. The Housing Revenue Account resources are focused on delivering the efficient management and maintenance of existing council owned stock alongside building and acquiring new affordable housing.

The Council's housing stock is comprised of 3114 tenanted and 308 leasehold properties as at 31 December 2019 and a rent roll of £14.5m for 2020/21.

1.2

1.3 The government's decision to reduce rents in social housing for 4 years from 2016/17 had a significant impact on the budgeted reserve levels previously anticipated in the HRA business plan.

1.4 The impact of the 1% rent reduction was a net loss of income of £6,068,000 between 2016/17 and 2019/20. The total rent loss over the 30 years of the model was calculated at £40,000,000. A new policy statement was issued in 2019 replacing the rent reduction one as detailed below.

The Government published a policy statement on rents for Social Housing in February 2019. The paper announced key changes to rent policy from April 2020 onwards. The new rent standard will apply to all registered providers including Local Authorities and there is specific provision included for local authority information requirement as follows.

"Local Authority registered providers shall communicate with the Regulator in an accurate and timely manner. This includes all data and information required by the Regulator in respect of compliance with this standard. Where material issues that relate to non-compliance or potential non-compliance with the rent standard are identified by local authorities, they are expected to communicate these to the Regulator promptly."

1.5 In advance of the rent standard coming into effect local authorities will be given the opportunity to submit data in a pilot year to ensure the transition to regulation of local authority rents goes as smoothly as possible and that any potential data issues can be identified and addressed in advance of the regulatory role starting.

1.6 For social rents, the principle of formula rents (to reflect size, value and location of property) continues to be applied. Affordable rents (upto 80% of market levels including service charges) for new property supported by grant or retained receipts.

1.7 Where a property is re-let during the final year –the average weekly rent in the final year since the property was last re-let is to be applied (referred to as the 2020 limit).

Gosport Borough Council has continued to use the formula rent guidance for social rents and has monitored this on a property, by property basis.

We have also applied the 80% market rental level for all of our affordable rented properties as detailed in the guidance.

2.0 Budget Commentary

- 2.1 An extract from the HRA Business Plan Financial Model detailing the predicted income and expenditure levels for the next 5 years has been included for reference at appendix A. Items that warrant specific mention are detailed in Paragraphs 2.2 and 2.3.
- 2.2 The Revised HRA budget for 2019/20 shows an overall decrease in expenditure of £200,000 and a decrease in budgeted income of £6,000 leading to an increase in the budgeted surplus of £194,000. The following adjustments have been made to the 2019/20 budget :
1. Garage income received shows an increase of £30,000
 2. Additional management costs increase of £333,000
 3. Increase in Repairs and maintenance of £191,000
 4. Reduction in capital funding of £698,000
- 2.3 The budget for 2020/21 shows an increase in rental income of £263,000 due to the 2.7% rent increase as detailed in the recommendations above. A reduction in management costs of £139,000. Capital funding is increased by £395,000 to £3,688m due to increased investment in our Housing stock.
Below is a summary of some of the major points extracted from the financial model.
- a) Investment in HRA stock in the revised 2019/20 budget is £7.5m and there is a predicted surplus at the end of the year of £261,000. For 2020/21 budgeted investment in the stock is increased to £7.9m and a predicted surplus at the end of the year of £224,000.
 - b) Commitments over the next two years for spending 1-4-1 RTB receipts total £3.45m of which £2.4m has to be funded from reserves and £1.05m from the receipts. It is hoped that this will be used to start a new build programme that is detailed in the Capital Programme. The investment in new build properties is budgeted at £7.6m over the next 3 years.
 - c) The HRA Business Plan has loans of approximately £11m which are due for repayment between March 2020 and March 2023. Decisions on whether to repay or refinance maturing loans are taken as they fall due. As at 31st March 2019 the HRA has borrowed £6.977m from the general fund (under borrowed) to fund its capital expenditure as opposed to borrowing from the PWLB or the markets. It is estimated that the HRA will remain approximately £7m under borrowed during this period. Being under borrowed gives the HRA the flexibility to fund capital expenditure without entering into long term commitments.

- d) The long term sustainability of the HRA Business Plan was helped by the commitment to return to the CPI +1% rent increase for 5 years from 2020 and a 5 year extract is included at appendix A.

2.4 8 properties have been purchased off the open market exercising delegated Authority under Paragraph 2.7 of Part 3, Schedule 10 of the Council's Constitution. The properties consisted of one 2 bedroom maisonette, four 2 bedroom houses, one 2 bedroom bungalow, one 3 bedroom house and one 4 bedroom house. The total cost of these properties was £1,512m and was funded 30% by 1-4-1 retained receipts and 70% from reserves. The properties were deemed as meeting our current Housing Needs.

2.5 It is proposed that the Council embark on a programme of building new affordable rented properties within the Borough. The draft capital programme reflects this from 2020/21. This will be funded initially 30% from 1-4-1 RTB receipts and 70% from the reserves currently held in our Major Repairs/New Build/Loan Repayment Reserve. It is anticipated that £1m will be spent in 20/2021 and a further £2.5m in 2021/22 with upto £4m in 2022/23.

3.0 Housing Revenue Account (HRA) (see Appendix B)

3.1 The revised Repairs and Maintenance budget for 2019/20 is £4,715,000 an increase of £191,000 on the original budget. The Repairs and Maintenance budget for 2020/21 is £4,754,000.

3.2 It is anticipated that the HRA balance will remain at its current level of £991,000 for 2019/20, with a surplus of £261,000 to be transferred to the Major Repairs Reserve/New Build/Loan Repayment Reserve.

3.3 It is anticipated that the HRA balance will continue to remain at £991,000 for 2020/21. A surplus of approximately £224,000 is budgeted to be transferred to the Major Repairs/New Build/Loan Repayment Reserve in 2020/21. The increased commitment to building new homes and requirement to utilise our additional 1-4-1 receipts necessitates the need for reserve levels to be maintained.

4.0 HRA Capital Programme

4.1 The original HRA Capital Programme for improvements to housing stock in 2019/20 was £4,000,000 and the revised budget for 2019/20 is £3,300,000 a reduction of £700,000. The budget for

2020/21 is £4,000,000 this is an increase on the original budget of 2018/19 of £700,000.

- 4.2 The revised HRA Capital programme has also set aside £1,458,000 in 2019/20 for the purchase of properties and a further £2,470,000 in 2020/21 for new build.

5.0 Rent Level Proposals

- 5.1 From April 2020 rents will start to increase again at the rate of CPI plus 1% (2.3d). The current CPI rate used will be 1.7%

- 5.2 The average social housing rent for secure tenants is currently £77.91 per week this excludes hostels and the affordable rented properties. This is set to increase to £80.02 for 2020/21. Hostels are due to increase from £160.06 to £164.38 and affordable rents from £143.71 to £147.60.

An analysis of the numbers of different stock types and corresponding new rental levels is detailed in Appendix C.

- 5.3 Rents will increase by £2.11 a week on average for the social housing tenants, £4.32 for Hostels and £3.88 for affordable properties. Over the last ten years rents have reduced four times and the average increase is £1.95 per week during this period. It is proposed that service charges for tenants will continue to be determined at a level that enables the Council to recover the cost of the services provided.

- 5.4 It is proposed to increase rent levels for older style garages in line with inflation as previously agreed in the Garage Renewal strategy and to increase the charge for non GBC tenants by a further £1 per week. New style garages will remain at their current rent level for GBC tenants.

6.0 Capital Improvements/Repairs and Maintenance

- 6.1 A breakdown of the expenditure on capital improvements and repairs and maintenance is included at appendix D to this report.

- 6.2 The table included at appendix D splits the expenditure into its capital and revenue headings and details the main areas of expenditure under each heading. The work priorities have been identified by the stock condition surveys undertaken.

7.0 Risk Assessment

- 7.1 Self-financing means that much of the risk involved with the upkeep, maintenance and management of council housing has moved from Central Government to Local Authorities. Therefore

the maintenance of the Major Repairs/New Build/Loan Repayment Reserve is considered essential.

This reserve provides for the future funding of HRA projects, including new build programmes, safeguarding non-insurable risks and allowing the Council to take the opportunity to carry out any special debt repayment (potentially leading to discounts) should the economic conditions favouring such measures arise; and is in addition to the HRA Working Balance.

- 7.2 The government's decision to allow rents to increase rents in social housing for 5 years at CPI plus 1% from April 2020 has improved the budgeted reserve levels previously anticipated in the HRA Business Plan. Revenue account balances will continue to be maintained at their current levels but funds that had been budgeted to be transferred to the Major Repairs/New Build/Loan Repayment Reserve will be amended by the amounts as detailed in Appendix A.

8.0 Other Properties

- 8.1 There is one other property (Park Lodge) where the rent level is assessed in line with HRA properties. The proposal is to increase the rent of this property in line with HRA properties.

9.0 Conclusion

- 9.1 This Report summarises the HRA budgets for 2019/20 and 2020/21 as well as the proposed rent increase.

Financial Services comments:	As set out in the report
Legal Services comments:	The Council is under a duty to set a budget which prevents a debit balance arising on the Housing Revenue Account
Crime and Disorder:	Not applicable
Equality and Diversity:	No direct implications
Service Improvement Plan implications:	The HRA Business Plan is a Service Improvement Plan item
Corporate Plan:	More effective performance management, which includes making the best use of our assets, is a strategic priority in the Corporate Plan.
Risk Assessment:	As detailed in paragraph 7.

Background papers:	Garage Strategy (June 2009) /HRA Business Plan 2012-2042(Jan 2012) Business Plan Update Council Dwelling Rents 2019/20.
Appendices/Enclosures:	
Appendix A	HRA 30 Year Business Plan extract
Appendix B	HRA Budget
Appendix C	Rent Analysis Extract
Appendix D	Repairs Budget
Report Author/ Lead Officer:	Tim Hoskins Group Accountant Housing

APPENDIX A

HRA 30 YEAR BUSINESS PLAN EXTRACT						
	2019/20	2020/21	2021/22	2022/23	2023/24	Totals
REV						
Rental income	13,568,000	13,780,000	14,152,000	14,450,000	14,430,000	70,380,000
Service chgs	693,600	745,000	750,000	750,000	750,000	3,688,600
Voids/Write Offs	-220,000	-220,000	-240,000	-240,000	-240,000	-1,160,000
Garages	295,000	295,000	295,000	295,000	295,000	1,475,000
Other Income	376,400	373,000	370,000	370,000	370,000	1,859,400
Total Income	14,713,000	14,973,000	15,327,000	15,625,000	15,605,000	76,243,000
Expenditure						
General	2,212,000	2,167,000	2,200,000	2,250,000	2,300,000	11,129,000
Special	2,034,000	2,011,000	2,040,000	2,070,000	2,100,000	10,255,000
Repairs	4,715,000	4,754,000	4,800,000	4,850,000	4,900,000	24,019,000
Other Expenditure	312,000	239,000	250,000	260,000	270,000	1,331,000
Total Expenditure	9,273,000	9,171,000	9,290,000	9,430,000	9,570,000	46,734,000
Interest Received	54,000	52,000	50,000	50,000	50,000	256,000
Capital Expenditure	-3,293,000	-3,688,000	-3,300,000	-3,500,000	-3,500,000	17,281,000
Net Operating Income	2,201,000	2,166,000	2,787,000	2,745,000	2,585,000	12,484,000
Prudential borrowing						
Prudential borrowing						0
Loan Interest	1,897,000	1,900,000	1,920,000	1,960,000	1,990,000	9,667,000
loan repayment						
Debt management	42,000	42,000	45,000	48,000	50,000	227,000
MRR/New Build	262,000	224,000	822,000	737,000	545,000	2,590,000
Total Appropriations	2,201,000	2,166,000	2,787,000	2,745,000	2,805,000	12,484,000
Annual Cashflow						
Opening Balance						
Closing Balance						

Extra rent week in 2019/20

Rent increases start 2020/21 at CPI +1% for 5 years.(CPI 1.7% in model)

APPENDIX B

	BUDGET 2019/20 £000	REVISED 2019/20 £000	BUDGET 2020/21 £000
HOUSING REVENUE ACCOUNT			
Expenditure			
Repairs & Maintenance	4,524	4,715	4,754
Supervision & Management	3,926	4,246	4,177
Rents ,Rates,Taxes and Other Charges	331	312	239
Depreciation,Impairment and Revaluation	3,992	3,293	3,688
Debt Management Costs	42	42	42
Total Expenditure	12,815	12,608	12,900
Income			
Dwelling Rents	(14,017)	(14,042)	(14,305)
Non Dwelling Rents	(265)	(295)	(295)
Charges For Services and Facilities	(437)	(376)	(373)
Total Income	(14,719)	(14,713)	(14,973)
Net Cost Of Services	(1,904)	(2,105)	(2,073)
Interest Payable & Similar Charges	1,900	1,897	1,900
Interest & Investment Income	(50)	(53)	(52)
NET HRA SURPLUS FOR YEAR	(54)	(261)	(225)
HRA Balance			
Balance B/fwd	991	991	991
Transfer to from HRA			
Balance C/F	991	991	991
NEW BUILD RESERVE			
Balance B/Fwd	(3,258)	(3,312)	(3,573)
Transfer (to)or from HRA	(54)	(261)	(225)
Balance C/Fwd	(3,312)	(3,573)	(3,798)

APPENDIX C

Stock Count as at 11th December 2019

Type /bedroom	1	2	3	4	5	Total
Bedsit	12					12
Bungalow	315	65	10			390
Flat	929	61	17			1007
House	10	302	826	79	1	1218
House with extra ground floor bedroom		2	19	2		23
House with garage attached on curtiledge			13			13
Maisonette	23	103	57	2		185
Sheltered Bedsit	13					13
Sheltered Bungalow	38					38
Sheltered Flat	125	6				131
Hostels	72	8	4			84
Total						3114

Average rent by bedroom size

Type /bedroom	1	2	3	4	5	Total
Bedsit	62.70					62.70
Bungalow	77.03	85.56	94.32			78.90
Flat	71.09	83.97	86.99			72.14
House	77.44	88.37	93.39	100.78	97.73	92.50
House with extra ground floor bedroom		87.82	100.96	107.17		100.36
House with garage attached on curtiledge			96.43			96.43
Maisonette	73.29	82.59	86.03	96.55		82.64
Sheltered Bedsit	59.62					59.62
Sheltered Bungalow	72.05					72.05
Sheltered Flat	64.18					64.18

APPENDIX D

Ref	Revenue	Budget 20/21
1	Responsive Repairs (Inc Hostels and Major Responses)	£2,020,000
2	Voids	£900,000
3	Bulk Waste	£120,000
4	Lifts Replacement and Repairs	£20,000
5	Estate Improvements (Inc Tennant Led Fencing & OAP Redecs)	£45,000
6	Cyclical (Inc Gas Servicing, External Painting, Compliance, PET, Equipment Testing & Keys	£1,112,000
	Total	£4,217,000
Ref	Capital	Budget 20/21
7	Asbestos (Survey & Removals)	£50,000
8	Fire Risk Assessment (Inc Associated Works & Testing	£50,000
9	Disabled Aid & Adaptions (Inc Major Repairs)	£400,000
10	Contingent Major Repairs (Inc Professional Fees)	£725,000
11	Energy Efficiency (Inc wall installation)	£5,000
12	Estate Capital (inc Additional Parking & Env Improvements)	£25,000
13	Roof Works (Inc Guttering)	£0
14	Window and Doors	£75,000
15	Kitchen & Bathrooms	£1,000,000
16	Electrical Upgrades (Including Smoke Alarms)	£400,000
17	Heating Upgrades	£500,000
18	Sheltered Scheme Improvements	£0
	Total	£3,230,000