

Board/Committee:	HOUSING BOARD
Date of Meeting:	20 JANUARY 2021
Title:	BUSINESS PLAN FINANCIAL MODEL UPDATE AND COUNCIL DWELLING RENTS 2021/2022
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 2020/21 budget and the 2021/22 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 2020/21 Revised Budget and 2021/22 Budget (Appendix B) is agreed.
- That Council Dwelling rents increase by CPI (0.5% @sept 2020) plus 1% .The Council is setting it's rents according to the five year policy programme as detailed in the new national rent policy introduced in February 2019.
- The rent for all garages is increased in line with inflation, as agreed in the Garage Renewal strategy.

1.0 Background

The Local Government and Housing Act 1989 requires the Housing Revenue Account (HRA) to be maintained as a ring-fenced account and prescribes the debits and credits to be applied to it. The principle items of expenditure within the HRA are management and maintenance costs, together with charges for capital expenditure (depreciation and interest). The majority of this is met from rent and service charge income for dwellings and garages.

- 1.1 Circular 8/95 provided the only previous formal guidance for local authorities on the operation of the HRA ring-fence. Additional draft

guidance was provided in 2010 as part of the “Prospectus” for self-financing but was never formally adopted.

On the 10 November 2020, the Government updated the guidance. The general principles of the previous formal and draft guidance are included in the new guidance and as stated although some circumstances may have changed with regard to housing estates, the guidance includes no new issues of principle and does not claim to be an authoritative statement of the law.

Having said that, the guidance does go further than circular 8/95 in confirming the draft core, core plus and non-core services with examples.

The guidance covers the statutory background and the general principles as applied to property, amenities and services. For completeness these are outlined in the following sections.

1.2 **Statutory Background**

The HRA is primarily a landlord account and includes property provided by authorities under Part II of the Housing Act 1985. Expenditure and income relating to property listed in s74 of the Local Government and Housing Act 1989 must be accounted for in the HRA. Items of expenditure (and income) are specified in Part II of Schedule 4, if an item is included it must be debited to the HRA; if it does not, it must not be debited. The purpose of this guidance is to support authorities in decisions over ‘grey areas’, where the authority may have some discretion subject to any direction from the Secretary of State.

General Principles

The guidance specifies that, in making decisions about where costs should be charged, the test is ‘Who benefits?’ i.e. who is the major contributor of the item of income, or the major beneficiary of the expenditure under consideration? Hence, should the HRA bear the full cost or only part, or should it benefit from the entirety of the income, or is some of it applicable to the General Fund?.

Property

Property must be provided in the HRA if it is ‘Part II Housing’ (provided under Part II of the Housing Act 1985 or any other powers specified in s74 of the Local Government and Housing Act 1989), subject to exceptions e.g. the exclusion of leases of up to 10 years for homeless purposes.

Property can be appropriated into and out of the HRA where justifiable but may require consent or a direction from the Secretary of State.

- 1.3 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 3106 tenanted and 308 leasehold properties as at 31 December 2020 and a rent roll of over £14.6 m for 2021/22.
- 1.4 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 national rent policy guidance issued in February 2019.

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 2020/21 shows an overall decrease in expenditure of £1.1M and an increase in budgeted income of £50,000 leading to a budgeted surplus of £1.4m. The following adjustments have been made to the 2020/21 budget :
1. Additional income received shows an increase of £116,000
 2. Additional management costs increase of £94,000
 3. Increase in Repairs and maintenance of £427,000
 4. Reduction in capital funding of £2,000,000 due to effects of lockdown and our contractors inability to enter properties.
- 2.3 The budget for 2021/22 shows an increase in rental income of £120,000 due to the 1.5% rent increase as detailed in the recommendations above and a small increase in management costs of £20,000. Capital funding is increased to reflect the return to normality and a full investment programme.
- a) Investment in HRA stock in the revised 2020/21 budget is £6.485m and there is a predicted surplus at the end of the year of £1.4m. For 2021/22 budgeted investment in the stock is increased to £8.5m and a predicted deficit at the end

of the year of £226,000. This small deficit will be met from the Major Repairs Reserve and is due entirely to the increased investment.

- b) Commitments over the next two years for spending 1-4-1 RTB receipts total £3.07m of which £2.15m has to be funded from reserves and £0.92m from the receipts. The new build programme is planned to start in 21/22 and is detailed in the Capital Programme. The investment in new build properties is budgeted at £7m over the next 3 years.
- c) The HRA Business Plan has loans of approximately £12m which are due for repayment between March 2021 and March 2024. Decisions on whether to repay or refinance maturing loans are taken as they fall due. As at 31st March 2020 the HRA has borrowed £8.9m 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 £8m 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 2 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 end of terrace 3 bedroom house and one 3 bedroom house. The total cost of these properties was £515,000 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 The proposed start of the new build programme was delayed due to the impact of covid 19. 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 2021/22. This will be funded initially with 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 £2.5m will be spent in 21/2022 and a further £1.85m in 2022/23 with upto £2.5m in 2023/24.

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

- 3.1 The revised Repairs and Maintenance budget for 2020/21 is £5,180,000 plus tech services costs an increase of £426,000 on the original budget. The Repairs and Maintenance budget for 2021/22 is £4,886,000.
- 3.2 It is anticipated that the HRA balance will remain at its current level of £991,000 for 2020/21 , with a surplus of £1.4m 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 2021/22. A deficit of approximately £226,000 is budgeted to be transferred from the Major Repairs/New Build/Loan Repayment Reserve in 2021/22. 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 2020/21 was £4,000,000 and the revised budget for 2019/20 is £2,000,000 a reduction of £2,000,000 as Covid has restricted the works our contractor can complete. The budget for 2021/22 is £4,100,000 this is an increase on the revised budget of 2020/21 of £2,100,000.
- 4.2 The revised HRA Capital programme has also set aside £2,540,000 in 2021/22 for our new build programme programme.

5.0 Rent Level Proposals

- 5.1 From April 2021 rents will increase at the rate of CPI plus 1% (2.3d). The current CPI rate used will be 0.5%
- 5.2 The average social housing rent for secure tenants is currently £80.02 per week this excludes hostels and the affordable rented properties. This is set to increase to £81.20 for 2021/22. Hostels are due to increase from £160.06 to £162.40 and affordable rents from £147.60 to £149.80.
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 £1.18 a week on average for the social housing tenants, £2.34 for Hostels and £2.20 for affordable properties. 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 the same . 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 2020/21 and 2021/22 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 financial model 2021-2051(Jan 2021) Business Plan Update Council Dwelling Rents 2020/21.
Appendices/Enclosures:	
Appendix A	HRA 30 Year Business Plan extract
Appendix B	HRA Budget
Appendix C	Rent Analysis Extract
Appendix D	Repairs Budget
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APPENDIX A

HRA 30 YEAR BUSINESS PLAN EXTRACT						
	2020/21	2021/22	2022/23	2023/24	2024/25	Totals
REV						
Rental income	13,831,000	13,867,000	14,152,000	14,250,000	14,330,000	70,430,000
Service chgs	705,000	710,000	720,000	730,000	735,000	3,600,000
Voids/Write Offs	-250,000	-220,000	-240,000	-240,000	-240,000	-1,190,000
Garages	312,000	313,000	315,000	315,000	315,000	1,570,000
Other Income	481,000	437,000	400,000	400,000	400,000	2,118,000
Total Income	15,030,000	15,107,000	15,347,000	15,455,000	15,540,000	76,528,000
General	2,155,000	2,210,000	2,220,000	2,250,000	2,300,000	11,135,000
Special	2,117,000	2,082,000	2,100,000	2,120,000	2,140,000	10,559,000
Repairs	5,180,000	4,886,000	4,800,000	4,850,000	4,900,000	24,616,000
Other Expenditure	252,000	201,000	250,000	260,000	270,000	1,233,000
Total Expenditure	9,704,000	9,377,000	9,370,000	9,480,000	9,610,000	47,543,000
Interest Received	6,000	6,000	5,000	5,000	5,000	27,000
Capital Expenditure	-2,000,000	-4,100,000	-3,300,000	-3,500,000	-3,500,000	16,400,000
Net Operating Income	3,331,000	1,636,000	2,682,000	2,480,000	2,435,000	12,564,000
Prudential borrowing						
Loan Interest	1,859,000	1,816,000	1,800,000	1,800,000	1,800,000	9,075,000
loan repayment						
Debt management	42,000	42,000	45,000	48,000	50,000	227,000
MRR/New Build	1,430,000	-222,000	837,000	632,000	585,000	3,262,000
Total Appropriations	3,331,000	1,636,000	2,682,000	2,480,000	2,805,000	12,934,000

Rent increases start 2020/21 at CPI +1% for 5 years.(CPI 0.5% in model)

	BUDGET 2020/21 £000	REVISED 2020/21 £000	BUDGET 2021/22 £000
HOUSING REVENUE ACCOUNT			
Expenditure			
Repairs & Maintenance	4,754	5,180	4,886
Supervision & Management	4,177	4,272	4,292
Rents ,Rates,Taxes and Other Charges	239	252	201
Depreciation,Impairment and Revaluation	3,688	2,000	4,100
Debt Management Costs	42	42	42
Total Expenditure	12,900	11,746	13,521
Income			
Dwelling Rents	(14,305)	(14,237)	(14,357)
Non Dwelling Rents	(295)	(312)	(313)
Charges For Services and Facilities	(373)	(481)	(437)
Total Income	(14,973)	(15,030)	(15,107)
Net Cost Of Services	(2,073)	(3,284)	(1,586)
Interest Payable & Similar Charges	1,900	1,858	1,817
Interest & Investment Income	(52)	(6)	(5)
NET HRA SURPLUS FOR YEAR	(225)	(1432)	226
HRA Balance			
Balance B/fwd	991	991	991
Transfer to from HRA			
Balance C/F	991	991	991
NEW BUILD RESERVE			
Balance B/Fwd	(3,573)	(3,498)	(4,265)
Transfer (to)or from HRA	(225)	(1,432)	226
Contribution to Capital	700	665	1778
Balance C/Fwd	(3,098)	(4,265)	(2,261)

APPENDIX C

Stock Count as at 31st December 2020

Type /bedroom	1	2	3	4	5	Total
Bedsit	12					12
Bungalow	315	65	9		1	390
Flat	927	59	16	1		1003
House	9	302	822	79	1	1213
House with extra ground floor bedroom		2	19	2		23
House with garage attached on curtiledge			13			13
Maisonette	23	104	57	2		186
Sheltered Bedsit	13					13
Sheltered Bungalow	38					38
Sheltered Flat	125	6				131
Hostels	72	8	4			84
Total						3106

Average rent by bedroom size

Type /bedroom	1	2	3	4	5	Total
Bedsit	63.44					63.44
Bungalow	82.83	86.84	95.73			80.09
Flat	72.16	85.23	88.29			73.22
House	78.60	89.70	94.79	102.29	99.20	93.89
House with extra ground floor bedroom		89.13	102.47	1087.78		101.87
House with garage attached on curtiledge			97.88			97.88
Maisonette	74.39	83.83	87.32	98.00		83.88
Sheltered Bedsit	60.51					60.51
Sheltered Bungalow	73.13					73.13
Sheltered Flat	65.14					65.14

APPENDIX D

Ref	Revenue	Budget 21/22
1	Responsive Repairs (Inc Hostels and Major Responses)	£2,040,000
2	Voids	£900,000
3	Bulk Waste	£120,000
4	Lifts Replacement and Repairs	£15,000
5	Estate Improvements (Inc Tennant Led Fencing & OAP Redecs)	£45,000
6	Cyclical (Inc Gas Servicing, External Painting, Compliance, PET, Equipment Testing & Keys	£1,121,000
	Total	£4,241,000
Ref	Capital	Budget 21/22
7	Asbestos (Survey & Removals)	£80,000
8	Fire Risk Assessment (Inc Associated Works & Testing	£100,000
9	Disabled Aid & Adaptions (Inc Major Repairs)	£400,000
10	Contingent Major Repairs (Inc Professional Fees)	£1,247,000
11	Energy Efficiency (Inc wall installation)	£5,000
12	Estate Capital (inc Additional Parking & Env Improvements)	£65,000
13	Roof Works (Inc Guttering)	£0
14	Window and Doors	£58,000
15	Kitchen & Bathrooms	£825,000
16	Electrical Upgrades (Including Smoke Alarms)	£925,000
17	Heating Upgrades	£530,000
18	Sheltered Scheme Improvements	£0
	Total	£4,260,000