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| Board/Committee: | HOUSING BOARD |
| Date of Meeting: | 19 JANUARY 2022 |
| Title: | BUSINESS PLAN FINANCIAL MODEL UPDATE AND COUNCIL DWELLING RENTS 2022/2023 |
| 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 2021/22 budget and the 2022/23 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 Housing Board recommend to Council that:

- The revised HRA Business Plan Financial Model extract (Appendix A) and associated 2021/22 Revised Budget and 2022/23 Budget (Appendix B) is agreed.
- That Council Dwelling rents increase by CPI (3.1% @sept 2021) 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 The general principles of the previous formal and draft guidance are included in the new guidance and as stated although some circumstances may have changed with regard to housing estates, the guidance includes no new issues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 3089 tenanted and 308 leasehold properties as at 31 December 2021 and a rent roll of over £15.1 m for 2022/23.
- 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 2021/22 shows an overall decrease in expenditure of £0.54M. The following adjustments have been made to the 2021/22 budget :
1. Additional property costs increase of £150,000
 2. Reduction in Repairs and maintenance of £140,000
 3. Reduction in capital funding of £600,000 due to effects of lockdown and a delay in starting some major repairs.
- 2.3 The budget for 2022/23 shows an increase in rental income of £540,000 due to the 4.1% rent increase as detailed in the recommendations above and an increase in property and management costs of £170,000. Capital funding is increased to reflect the a full investment programme.
- a) Investment in HRA stock in the revised 2021/22 budget is £7.35m and there is a predicted surplus at the end of the year of £550,000. For 2022/23 budgeted investment in the stock is increased to £8.4m to reflect the start and completion of the delayed projects. There is a predicted surplus at the end of the year of £35,000.
 - b) The rules regarding the spending of 1-4-1 RTB receipts have been amended and these can now be spent upto 5 years from when they are received. They can also be utilised to fund 40% of the costs of new builds. The new build

programme is planned to start in 22/23 after a delay last year. The investment in new build properties is budgeted at £7m over the next 3 years. (Detailed in Board report 19 March 2021).

- c) The HRA Business Plan has loans of approximately £12m which are due for repayment between March 2022 and March 2025. Decisions on whether to repay or refinance maturing loans are taken as they fall due. As at 31st March 2021 the HRA has borrowed £11.8m from the Council General Fund (under borrowed) to fund its capital expenditure as opposed to borrowing from the Public Works Loan Board (PWLB) or the markets. It is estimated that the HRA will remain approximately £11m 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.

The proposed start of the new build programme was delayed due to the impact of covid 19. During 2021 consultants ECD architects were appointed and it is now proposed that the Council embark on a programme of building new affordable rented properties within the Borough to start in the spring of 2022. The draft capital programme reflects this from 2021/22. This will be funded initially with upto 40% from 1-4-1 RTB receipts and 60% from the reserves currently held in our Major Repairs/New Build/Loan Repayment Reserve. It is anticipated that upto £7m will be spent in the following three years.

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

- 3.1 The revised Repairs and Maintenance budget for 2021/22 is £4,725,000 plus tech services costs. This represents a slight decrease of £156,000 on the original budget. The Repairs and Maintenance budget for 2022/23 is £4,765,000.
- 3.2 It is anticipated that the HRA balance will remain at its current level of £991,000 for 2021/22, with a surplus of £550,000 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 2022/23. A surplus of approximately £35,000 is budgeted to be transferred to the Major Repairs/New Build/Loan

Repayment Reserve in 2022/23. The increased commitment to building new homes and requirement to utilise our additional 1-4-1 RTB 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 2021/22 was £4,100,000 and the revised budget for 2021/22 is £3,100,000 (a reduction of £1,000,000) as Covid has restricted the start of some major refurbishments. The budget for 2022/23 is £4,185,000 this is an increase on the revised budget of 2021/22 of £1,085,000.
- 4.2 The revised HRA Capital programme has also set aside £1,800,000 in 2022/23 for our new build programme.

5.0 Rent Level Proposals

- 5.1 From April 2022 rents will increase at the rate of CPI plus 1% (2.3d). The current CPI rate used will be 3.1%
- 5.2 The average social housing rent for secure tenants is currently £81.20 per week this excludes hostels and the affordable rented properties. This is set to increase to £84.52 for 2022/23. Hostels are due to increase from £162.40 to £169.06 and affordable rents from £149.80 to £155.94.
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 £3.32 a week on average for the social housing tenants, £6.66 for Hostels and £6.14 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.

Capital Improvements/Repairs and Maintenance

6.0

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

The table included at appendix D splits the expenditure into its

6.2 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 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. These balances will be a major contribution to the new build programme 2.3(d) and will mean that the need to borrow will be reduced. 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 2021/22 and 2022/23 as well as the proposed rent increase.

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| 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 |

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| | 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 2021/22. Board Report 19 March 2021 Social and Affordable Housing Development Programme Update |
| 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 |

| HRA 30 YEAR BUSINESS PLAN EXTRACT | | | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Totals |
| REV | | | | | | |
| Rental income | 13,921,000 | 14,468,000 | 14,860,000 | 15,250,000 | 15,630,000 | 74,120,000 |
| Service chgs | 705,000 | 710,000 | 720,000 | 730,000 | 735,000 | 3,600,000 |
| Voids/Write Offs | -305,000 | -305,000 | -315,000 | -315,000 | -315,000 | -1,555,000 |
| Garages | 313,000 | 314,000 | 317,000 | 320,000 | 320,000 | 1,585,000 |
| Other Income | 424,000 | 452,000 | 420,000 | 425,000 | 430,000 | 2,151,000 |
| Total Income | 15,058,000 | 15,639,000 | 16,002,000 | 16,410,000 | 16,800,000 | 79,909,000 |
| General | | | | | | |
| General | 2,161,000 | 2,309,000 | 2,420,000 | 2,550,000 | 2,600,000 | 12,040,000 |
| Special | 2,282,000 | 2,305,000 | 2,400,000 | 2,520,000 | 2,580,000 | 12,087,000 |
| Repairs | 4,725,000 | 4,765,000 | 4,800,000 | 4,850,000 | 4,900,000 | 24,040,000 |
| Other Expenditure | 266,000 | 208,000 | 260,000 | 270,000 | 270,000 | 1,274,000 |
| Total Expenditure | 9,434,000 | 9,587,000 | 9,880,000 | 10,190,000 | 10,350,000 | 49,441,000 |
| Interest Received | 6 | 11 | 10 | 10 | 10 | 47 |
| Capital Expenditure | -3,198,000 | -4,185,000 | -3,500,000 | -3,500,000 | -3,500,000 | 17,883,000 |
| Net Operating Income | 2,432,000 | 1,878,000 | 2,632,000 | 2,730,000 | 2,960,000 | 12,632,000 |
| Prudential borrowing | | | | | | |
| Loan Interest | 1,834,000 | 1,791,000 | 1,800,000 | 1,800,000 | 1,800,000 | 9,025,000 |
| loan repayment | | | | | | |
| Debt management | 45,000 | 48,000 | 45,000 | 48,000 | 50,000 | 236,000 |
| MRR/New Build | 553,000 | 35,000 | 787,000 | 882,000 | 1,110,000 | 3,367,000 |
| Total Appropriations | 2,426,000 | 1,874,000 | 2,632,000 | 2,730,000 | 2,960,000 | 12,632,000 |

Rent increases start 2020/21 at CPI +1% for 5 years.(CPI 2.5% in model from 23/24).

APPENDIX B

| | BUDGET 2021/22 £000 | REVISED 2021/22 £000 | BUDGET 2022/23 £000 |
|--|---------------------------|----------------------------|---------------------------|
| HOUSING REVENUE ACCOUNT | | | |
| Expenditure | | | |
| Repairs & Maintenance | 4,886 | 4,750 | 4,765 |
| Supervision & Management | 4,292 | 4,442 | 4,613 |
| Rents ,Rates,Taxes and Other Charges | 201 | 265 | 208 |
| Depreciation,Impairment and Revaluation | 4,100 | 3,198 | 4,185 |
| Debt Management Costs | 42 | 45 | 48 |
| Total Expenditure | 13,521 | 12,675 | 13,819 |
| Income | | | |
| Dwelling Rents | (14,357) | (14,321) | (14,864) |
| Non Dwelling Rents | (313) | (313) | (314) |
| Charges For Services and Facilities | (437) | (452) | (452) |
| Total Income | (15,107) | (15,086) | (15,630) |
| Net Cost Of Services | (1,586) | (2,383) | (1,811) |
| Interest Payable & Similar Charges | 1,817 | 1,880 | 1,791 |
| Interest & Investment Income | (5) | (6) | (11) |
| NET HRA SURPLUS FOR YEAR | (226) | 555 | 35 |
| 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) | (3,573) | (4,128) |
| Transfer (to)or from HRA | (226) | (555) | (35) |
| Contribution to Capital | 1778 | 0 | 0 |
| Balance C/Fwd | (2,261) | (4,128) | (4,163) |

APPENDIX C

Stock Count as at 31st December 2021

| Type /bedroom | 1 | 2 | 3 | 4 | 5 | Total |
|--|-----|-----|-----|----|---|-------|
| Bedsit | 12 | | | | | 12 |
| Bungalow | 315 | 65 | 9 | | 1 | 390 |
| Flat | 922 | 59 | 16 | 1 | | 998 |
| House | 9 | 299 | 815 | 78 | 2 | 1203 |
| House with extra ground floor bedroom | | 2 | 18 | 2 | | 22 |
| 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 | | | | | | 3089 |

Average rent by bedroom size

| Type /bedroom | 1 | 2 | 3 | 4 | 5 | Total |
|--|-------|-------|--------|--------|--------|--------|
| Bedsit | 66.04 | | | | | 66.04 |
| Bungalow | 81.81 | 90.85 | 100.06 | | 100.02 | 93.19 |
| Flat | 75.36 | 88.37 | 92.59 | 92.18 | | 87.13 |
| House | 81.75 | 90.80 | 98.67 | 105.92 | 108.07 | 97.04 |
| House with extra ground floor bedroom | | 92.64 | 104.64 | 113.05 | | 103.44 |
| House with garage attached on curtiledge | | | 102.63 | | | 102.63 |
| Maisonette | 77.49 | 87.41 | 91.27 | 101.74 | | 89.50 |
| Sheltered Bedsit | 63.00 | | | | | 63.00 |
| Sheltered Bungalow | 76.13 | | | | | 76.13 |
| Sheltered Flat | 67.81 | | | | | 67.81 |

APPENDIX D

| Ref | Revenue | Budget 22/23 |
|-----|---|-------------------|
| 1 | Responsive Repairs (Inc Hostels and Major Responses) | £1,861,000 |
| 2 | Voids | £1,090,000 |
| 3 | Bulk Waste | £120,000 |
| 4 | Lifts Replacement and Repairs | £20,000 |
| 5 | Estate Improvements (Inc Tennant Led Fencing & OAP Redecs) | £55,000 |
| 6 | Cyclical (Inc Gas Servicing, External Painting, Compliance, PET, Equipment Testing & Keys | £1,024,000 |
| | Total | £4,170,000 |
| Ref | Capital | Budget 22/23 |
| 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) | £1,147,000 |
| 11 | Energy Efficiency (Inc wall installation) | £5,000 |
| 12 | Estate Capital (inc Additional Parking & Env Improvements) | £120,000 |
| 13 | Roof Works (Inc Guttering) | £0 |
| 14 | Window and Doors | £83,000 |
| 15 | Kitchen & Bathrooms | £825,000 |
| 16 | Electrical Upgrades (Including Smoke Alarms) | £925,000 |
| 17 | Heating Upgrades | £500,000 |
| 18 | Sheltered Scheme Improvements | £0 |
| | Total | £4,185,000 |