

<b>Board/Committee:</b>	HOUSING BOARD
<b>Date of Meeting:</b>	25 JANUARY 2023
<b>Title:</b>	BUSINESS PLAN FINANCIAL MODEL UPDATE AND COUNCIL DWELLING RENTS 2023/2024
<b>Author:</b>	BOROUGH TREASURER AND HOUSING SERVICES MANAGER
<b>Status:</b>	FOR RECOMMENDATION TO FULL COUNCIL

### **Purpose**

This report sets out the proposed Housing Revenue Account (HRA) budget, the proposed rent levels and other charges and the proposed maintenance programme for 2023/24.

### **Recommendation**

That the Housing Board recommend to Council that:

- The revised HRA Business Plan Financial Model extract (Appendix A) and associated 2022/23 Revised Budget and 2023/24 Budget (Appendix B) is agreed.
- That Council Dwelling rents increase by 7% in line with the outcome of the government consultation results published in December.
- Service charges increase on average by 4%. Council provided heating services will increase in line with costs.
- The rent for all garages is increased by 10.1 % (CPI rate) in line with inflation, as agreed in the Garage Renewal strategy.

### **1.0 Introduction**

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- 1.1 The Government proposal for a ceiling of 5% has been replaced by a ceiling of 7%. In addition the ceiling does not apply to “supported housing” as defined in the Policy Statement. Otherwise

confirmation of its proposals was given as follows:

- Maximum increase of 7% for both social rent and affordable rent, applicable to existing tenants only (not re-lets) with exception for “supported housing”.
- This ceiling and the exception apply to the financial year 2023/24 only.
- Where this would cause unavoidable and serious financial difficulty, the authority can seek exemption in line with the current arrangements but would need to demonstrate that all possible options had been considered
- Although not relevant to 2023/24 clarification is given that the policy applies only to rent increases. There would be no reduction to rents where CPI was less than 1%.

The Government have published a new Direction on the Rent Standard (being the statutory instrument requiring the regulator of social housing to set a Rent Standard that complies with the policy) and a revised policy statement.

There will be a reversion to the previous arrangements from 2024/25. Previously the Government stated that it planned to consult on social rent policy from 2025/26 later this year. However the Policy Statement (para 2.6) indicates that CPI + 1% maximum increases will continue (unless amended) from 2025/26.

- 1.2 Gosport Borough Council faces on-going challenges to maintain the continuation of high-quality services to its tenants, ensuring that buildings are safe and free from hazards and gearing up to deliver greater energy efficiency measures in the retrofitting of our stock, as well as delivering more affordable homes. Tenants, too, are facing challenges over rises in the cost of living and increases in energy bills. The proposal set out below to increase rents in line with the Government’s current recommendation is considered to strike the right balance to ensure that the Council continues to provide high quality services to tenants and that the necessary programmes of maintenance and repairs to council housing stock are undertaken, as well as delivering new affordable council homes for the Borough.

- 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 3069 tenanted and 308 leasehold properties as at 30 November 2022 and a rent roll of over £16.1 m for 2023/24.

The report identifies a proposed social rent increase of 7%, in line

- 1.4 with the Government's current recommendation. It is the fourth annual increase, following a four-year social rent reduction programme. Following the rent increase, average weekly rents will be £89.52 for 2023/24. The actual increase will vary by property but will amount to an average increase of £5.00 per week.

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 2022/23 shows an overall increase in expenditure of £ 540,000. There have been significant cost pressures on the HRA this year with material costs for the repairs and maintenance programme increasing by up to 40%. Insurance costs have increased and the much discussed increases in gas and electricity have added to increases in expenditure as well. The following adjustments have been made to the 2022/23 revised budget :

1. Additional management costs increase of £96,000 ,including an increase in insurance costs of £37,000.
2. Increase in Repairs and maintenance of £846,000.
3. Reduction in capital funding of £403,000 due to postponement in starting some capital schemes.
4. Increase in borrowing costs due to interest rate rises £100,000.

- 2.3 The budget for 2023/24 shows an increase in rental income of £945,000 due to the 7% rent increase as detailed in the recommendations above. It is considered essential that this level of increase is applied due to the ongoing financial pressures that the HRA is experiencing. There is an increase in management costs of £ 670,000 due to increasing energy costs ,insurance premiums and the pay award. Repairs and maintenance costs have also increased to reflect the rising costs of materials and build cost inflation.

- a) Investment in HRA stock in the revised 2022/23 budget is £8.7m and there is a predicted deficit on the HRA at the end

of the year of £470,000. For 2023/24 budgeted investment in the stock is reduced slightly to £8.4m and there is a budgeted surplus at the end of the year of £227,000.

- b) The rules regarding the spending of 1-4-1 receipts were amended in 2021 and these can now be spent up to 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 the summer of 2023. The investment in new build properties is budgeted at up to £7.5m 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 2023 and March 2026. Decisions on whether to repay or refinance maturing loans are taken as they fall due. As at 31<sup>st</sup> March 2022 the HRA has borrowed £14.6m 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 £10m 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 requires rents to increase alongside inflation to ensure that improvements to our housing stock can be maintained and that there is sufficient money to complete our new build programme.

The proposed start of the new build programme was initially 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 summer of 2023. The draft capital programme reflects this from 2022/23. This will be funded initially with up to 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 up to £7.5m 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 2022/23 is £5,611,000 plus tech services costs. This represents an increase of £846,000 on the original budget. The Repairs and Maintenance budget for 2023/24 is £5,065,000.

3.2 It is anticipated that the HRA balance will remain at its current level of £991,000 for 2021/22, with a deficit of £470,000 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 £227,000 is budgeted to be transferred to the Major Repairs/New Build/Loan Repayment Reserve in 2023/24. 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 2022/23 was £4,185,000 and the revised budget for 2022/23 is £3,663,000 a reduction of £522,000 as non capital works costs have increased significantly. The budget for 2023/24 is £3,990,000 this is an increase on the revised budget of 2022/23 of £327,000.

4.2 The revised HRA Capital programme has also set aside £2,500,000 in 2023/24 for our new build programme.

#### **5.0 Rent Level Proposals**

5.1 From April 2022 rents will increase at the rate of 7%. This can be put into context when looked at alongside the cost of living increases agreed in the Autumn statement, which are detailed below for reference:

- Benefit Cap increased by 10.1%.
- National Living Wage Increase from £9.50 to £10.42 (9.7%).

Household Support fund payments :

- Households on means tested benefits £900
- Pensioner Households £300
- Individuals on disability benefits £150
- Energy Price Guarantee (EPG) £3,000 per annum for a typical household council tax.

5.2 The average social housing rent for secure tenants is currently £84.52 per week this excludes hostels and the affordable rented

properties. This is set to increase to £89.52 for 2023/24. Hostels are due to increase from £169.06 to £180.89 and affordable rents from £155.94 to £166.85.

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 £5.00 a week on average for the social housing tenants, £11.83 for Hostels and £10.91 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 and will increase on average by 4%, an increase of £0.20 per week.

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 increase in line with inflation as well 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 in social housing for 5 years at CPI plus 1% from April 2020 has slightly improved the budgeted reserve levels previously anticipated in the HRA Business Plan, although some of these have been offset by the increase in costs primarily due to rises in inflation. 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 2022/23 and 2023/24 as well as the proposed rent increase.

<b>Financial Services comments:</b>	As set out in the report
<b>Legal Services comments:</b>	The Council is under a duty to set a budget which prevents a debit balance arising on the Housing Revenue Account.
<b>Crime and Disorder:</b>	Not applicable
<b>Equality and Diversity:</b>	No direct implications
<b>Service Improvement Plan implications:</b>	The HRA Business Plan is a Service Improvement Plan item
<b>Corporate Plan:</b>	More effective performance management, which includes making the best use of our assets, is a strategic priority in the Corporate Plan.
<b>Risk Assessment:</b>	As detailed in paragraph 7.
<b>Background papers:</b>	Garage Strategy (June 2009) /HRA Business Plan financial model 2021-2051(Jan 2021) Business Plan Update Council Dwelling Rents 2022/23.
<b>Appendices/Enclosures:</b>	
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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HRA 30 YEAR BUSINESS PLAN EXTRACT					
	2022/23	2023/24	2024/25	2025/26	2026/27
<b>REV</b>					
Rental income	14,411,000	15,356,000	15,970,000	16,450,000	16,940,000
Service chgs	721,000	765,000	765,000	780,000	800,000
Voids/Write Offs	-240,000	-260,000	-275,000	-280,000	-290,000
Garages	326,000	353,000	365,000	370,000	375,000
Other Income	560,000	497,000	500,000	500,000	500,000
<b>Total Income</b>	<b>15,778,000</b>	<b>16,711,000</b>	<b>17,325,000</b>	<b>17,820,000</b>	<b>18,325,000</b>
<b>General management</b>					
General management	2,341,000	2,608,000	2,738,000	2,820,000	2,905,000
Special management	2,369,000	2,683,000	2,817,000	2,901,000	2,988,000
Repairs	5,611,000	5,065,000	5,318,000	5,530,000	5,698,000
Other Expenditure	207,000	218,000	220,000	225,000	230,000
<b>Total Expenditure</b>	<b>10,528,000</b>	<b>10,574,000</b>	<b>11,093,000</b>	<b>11,476,000</b>	<b>11,821,000</b>
Interest Received	-119,000	-199,000	-133,000	-97,000	-104,000
Capital Expenditure	3,782,000	4,025,000	3,700,000	3,700,000	3,700,000
<b>Net Operating Income</b>	<b>1,587,000</b>	<b>2,311,000</b>	<b>2,665,000</b>	<b>2,741,000</b>	<b>2,908,000</b>
<b>Prudential borrowing</b>					
Loan Interest	2,008,000	2,012,000	2,027,000	1,970,000	1,991,000
loan repayment					
Debt management	48,000	48,000	48,000	48,000	48,000
MRR/New Build	-469,000	251,000	592,000	723,000	869,000
<b>Total Appropriations</b>	<b>1,587,000</b>	<b>2,311,000</b>	<b>2,665,000</b>	<b>2,741,000</b>	<b>2,908,000</b>



	BUDGET 2022/23 £000	REVISED 2022/23 £000	BUDGET 2023/24 £000
<b>HOUSING REVENUE ACCOUNT</b>			
<b>Expenditure</b>			
Repairs & Maintenance	4,765	5,611	5,065
Supervision & Management	4,613	4,710	5,291
Rents ,Rates,Taxes and Other Charges	208	208	219
Depreciation,Impairment and Revaluation	4,185	3,782	4,025
Debt Management Costs	48	48	48
<b>Total Expenditure</b>	<b>13,819</b>	<b>14,359</b>	<b>14,648</b>
<b>Income</b>			
Dwelling Rents	(14,864)	(14,892)	(15,861)
Non Dwelling Rents	(314)	(326)	(353)
Charges For Services and Facilities	(462)	(560)	(497)
<b>Total Income</b>	<b>(15,630)</b>	<b>(15,778)</b>	<b>(16,711)</b>
<b>Net Cost Of Services</b>	<b>(1,811)</b>	<b>(1,419)</b>	<b>(2,063)</b>
Interest Payable & Similar Charges	1,791	2,008	2,012
Interest & Investment Income	(11)	(119)	(199)
<b>NET HRA SURPLUS FOR YEAR</b>	<b>(35)</b>	<b>470</b>	<b>(250)</b>
<b>HRA Balance</b>			
Balance B/fwd	991	991	991
Transfer to from HRA			
<b>Balance C/F</b>	<b>991</b>	<b>991</b>	<b>991</b>
<b>NEW BUILD RESERVE</b>			
Balance B/Fwd	(4,128)	(3,488)	(3,018)
Transfer (to)or from HRA	(35)	470	(250)
Contribution to Capital	0	0	0
<b>Balance C/Fwd</b>	<b>(4,163)</b>	<b>(3,018)</b>	<b>(3,268)</b>

## APPENDIX C

Stock Count as at 30<sup>th</sup> November 2022

Type /bedroom	1	2	3	4	5	Total
Bedsit	12					12
Bungalow	315	65	9		1	390
Flat	920	59	16	1		996
House	9	295	803	77	1	1185
House with extra ground floor bedroom		2	18	2	1	22
House with garage attached on curtiledge			13			13
Maisonette	23	102	57	2		185
Sheltered Bedsit	13					13
Sheltered Bungalow	38					38
Sheltered Flat	125	6				131
Hostels	72	8	4			84
Total						3069

Average rent by bedroom size

Type /bedroom	1	2	3	4	5	
Bedsit	70.66					
Bungalow	87.53	97.20	107.06		107.02	
Flat	80.63	94.55	99.07	98.63		
House	87.47	97.15	105.58	113.33	115.63	
House with extra ground floor bedroom		99.12	111.96	120.96		
House with garage attached on curtiledge			109.81			
Maisonette	82.91	93.52	97.65	108.86		
Sheltered Bedsit	67.41					
Sheltered Bungalow	81.45					
Sheltered Flat	72.55					

## APPENDIX D

Ref	Revenue	Budget 23/24
1	Responsive Repairs (Inc Hostels )	£1,985,000
2	Voids	£1,100,000
3	Bulk Waste	£140,000
4	Lifts Replacement and Repairs	£27,000
5	Estate Improvements (Inc Tennant Led Fencing & OAP Redecs)	£55,000
6	Cyclical (Inc Gas Servicing, External Painting, Compliance, PET, Equipment Testing,efficiency )	£1,140,000
	<b>Total</b>	<b>£4,447,000</b>
Ref	Capital	Budget 23/24
7	Asbestos (Survey & Removals)	£80,000
8	Fire Risk Assessment (Inc Associated Works & Testing	£75,000
9	Disabled Aid & Adaptions (Inc Major Repairs)	£400,000
10	Contingent Major Repairs (Inc Professional Fees)	£1,025,000
11	Estate Capital (inc Additional Parking & Env Improvements )	£25,000
12	Window and Doors	£105,000
13	Kitchen & Bathrooms	£750,000
14	Electrical Upgrades (Including Smoke Alarms)	£1,000,000
15	Heating Upgrades	£530,000
	<b>Total</b>	<b>£3,990,000</b>