

10 February 2021		ITEM: 13 Decision: 110553
Cabinet		
Housing Revenue Account - Business Plan and Budgets 2021/22		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Barry Johnson – Portfolio Holder for Housing		
Accountable Assistant Directors: Carol Hinvest – Assistant Director for Housing, Jonathan Wilson – Assistant Director for Finance		
Accountable Directors: Roger Harris – Corporate Director of Adults, Housing and Health, Sean Clark – Corporate Director of Finance, Governance and Property		
This report is public		

Executive Summary

This report sets out the high level base budget position for 2021/22 following the review and update of the 30 year Housing Revenue Account (HRA) Business Plan. The Business Plan is a statutory requirement used to assess the ongoing financial viability of the HRA and its ability to deliver the Council's Housing priorities.

The Business Plan considers whether the revenue streams from all sources (principally rents and service charges) are sufficient to finance anticipated expenditure on housing stock (both revenue and capital), service delivery, debt management cost and recharges.

Local authorities and registered providers have the ability to increase social and affordable rents in line with the Governments policy statement on Rents for Social Housing 2018. This report sets out the proposed rent increases for 2021/22 and the impact on the HRA. In brief, this uses the formula of the September 2020 CPI rate of inflation (0.5 per cent) plus 1 per cent. This equates to a maximum level of increase applicable to a dwelling of 1.5 per cent. This provides the resources to meet the projected increase in cost demands in order maintain the current level of service. For the 2021/22 rent setting process, there has been no changes to the government rent policy issued in 2020.

The transforming homes programme, which is intrinsically linked to the stock condition survey has identified that significant investment is required annually across the life of the 30 year Business Plan. Delivery of these works will ensure properties reach and maintain a decent homes standard. Specific capital investment in certain

types of dwellings is also needed, namely non-traditional properties. This encompasses internal and external features of residential units (general needs and sheltered) as well as other assets such as communal hallways, parking areas, and garages (**Table 6**).

The Housing service is focussed on ensuring that the HRA remains financially viable, and that the right priorities are set for capital expenditure to ensure residents have safe and secure accommodation maintained to a good standard of repair.

The proposed changes to rents and service charges are essential to ensure the level of investment identified in the business plan can be fulfilled and the HRA property is provided to a standard that primarily meets the needs of residents, whilst also delivering the statutory responsibilities of the Council.

1. Recommendation(s)

1.1 That the changes in the base budget for 2021/22 be agreed

1.2 That an increase in domestic rent of 1.50%, in line with the 30-year HRA business plan be agreed from 5 April 2021

1.3 That the increase in service charges to reflect the costs of running each service in line with the 30-year HRA business plan from 5 April 2021 (detailed in Table 5) be agreed

1.4 That the charges for garage rents (para 3.10) be agreed

1.5 That Cabinet consider the recommendation made by the Housing Overview and Scrutiny Committee set out Section 7.

2. Introduction and Background

2.1 The proposed Housing Revenue Account budget for 2021/22 is summarised below, and has been set in accordance with the revised 30 Year HRA Business Plan. This takes into account the long term strategy and financial viability of the service. The Business Plan, in its full detail sets out how the Council will finance the delivery of services within HRA over the next 30 years.

Table 1: Provisional 2021/22 budget summary

	2020/21 Revised Budget - Starting Point	Budget Realignment	Inflationary Cost Pressures	Rent and Service Charge Income	Bad Debt Provision	2021/22 Base Budget	Budget Movement
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Development	219.53	0.00	17.19	0.00	0.00	236.72	17.19
Financing and Recharges	24,405.39	(307.98)	0.00	0.00	0.00	24,097.40	(307.98)
Rent and Income	(49,978.31)	0.00	0.00	(461.81)	167.80	(50,272.33)	(294.02)
Repairs and Maintenance	12,021.19	0.00	89.68	0.00	0.00	12,110.86	89.68
Operational Activities	13,332.21	0.00	495.14	0.00	0.00	13,827.34	495.14
Grand Total	0.00	(307.98)	602.00	(461.81)	167.80	-	-

2.2 Income raised through tenant's rents and service charges is ring-fenced, and cannot be used to fund expenditure outside of the HRA.

2.3 By applying a 1.5% rent increase, the HRA will generate additional revenue of £0.462m. These additional resources are used to cover increases in costs in the existing level of services, and to provide further mitigation against bad debt and tenants rent arrears in light of the Covid pandemic. This will also allow the service to maintain its investment commitments into the Capital programme and comply with all of its statutory duties.

3. Issues, Options and Analysis of Options

Rent and Service Charges

3.1 As detailed in the Housing O&S report on 17 November 2020, the Council has the ability to increase rent charges in 2021/22 by up to 1.5%.

3.2 The rent increase has been carefully considered as the business plans seeks to recover its level of resources following the rent reductions between 2016/17 and 2019/20. In order to be financially viable, the maximum level of rent increase will need to be applied. After the application of an increase in 2021/22, tenants, on average, will be paying £10.69 per week less than those levels which would have been placed by following the current rent legislation.

3.3 The majority of properties within the HRA are charged at a social rent. However, there are also a small proportion of newly developed units which are based on an affordable rent level (meaning it cannot exceed 80% of the equivalent market rent). This ensures these properties generate sufficient revenue to offset their ongoing associated costs without a wider impact on the HRA.

3.4 Based on the overall average of the stock, the impact on properties based on the average rent per number of bedrooms this is shown in **Table 2** below:

Table 2: Social Rent properties

Number of Dwellings by Bedroom	Number of Properties	Average 2020/21 Actual Rent	Average CPI +1% uplift 2021/22	Average 2021/22 Actual Rent	2021/22 Annual Rent Yield
0	245	£ 62.20	£ 0.93	£ 63.13	£ 773,369
1	2,788	£ 75.65	£ 1.13	£ 76.78	£ 10,703,446
2	2,208	£ 82.50	£ 1.24	£ 83.74	£ 9,244,643
3	4,184	£ 103.08	£ 1.55	£104.62	£ 21,886,899
4	222	£ 115.82	£ 1.74	£117.56	£ 1,304,921
5	8	£ 116.86	£ 1.75	£118.62	£ 47,447
6	2	£ 126.16	£ 1.89	£128.05	£ 12,805
Total / Average	9,657	£ 89.72	£ 1.35	£ 91.07	£ 43,973,530

Affordable Rents

- 3.5 The rent setting process for the existing affordable rent properties will follow the same guidance as applied to the properties within the HRA that are charged a social rent. In addition, the Council will ensure that no rent exceeds the Local Housing Allowance level. The impact of a CPI + 1% rent increase is shown in **Table 3** below:

Table 3: Affordable Rent properties

Number of Dwellings by Bedroom	Number of Properties	Average 2020/21 Actual Rent	Average CPI +1% uplift 2021/22	Average 2021/22 Actual Rent	2021/22 Annual Rent Yield
1	49	£ 137.88	£ 2.07	£139.95	£ 342,877
2	182	£ 163.22	£ 2.45	£165.67	£ 753,808
3	93	£ 199.01	£ 2.99	£201.99	£ 313,088
Total / Average	324	£ 162.45	£ 2.44	£164.89	£ 1,409,772

- 3.6 The rent for affordable rent housing (inclusive of service charges) must not exceed 80% of gross market rent. Gross market rent means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.

Service Charges

- 3.7 In order to ensure that the HRA recovers the cost of providing services to tenants which are specific to their tenancies, an increase to the current charge will need to be applied in accordance with **Table 4** below.

Table 4: Increase to service charges in line with increased costs

	2021/22 Proposed Budget	2020/21 Revised Budget	Increase in Cost	%'age increase	Revised Income	Under Recovery
	£000's	£000's	£000's		£000's	£000's
Sheltered Housing	1,359.77	1,313.42	46.35	3.53%	(653.35)	706.42
CCTV/Concierge	1,000.62	966.99	33.63	3.48%	(879.66)	120.96
Estate Services	2,362.96	2,274.16	88.80	3.90%	(1,842.49)	520.47
	4,723.35	4,554.56	168.79		(3,375.51)	1,347.84

- 3.8 Service charges are not subject to the rental increase of 1.5%, but are based on cost recovery. For 2021/22, service charge costs will increase in line with cost inflation, namely in pay, supplies and to meet the cost of inflation applied to external contracts which incorporate increases to the national living wage. The estimates are based on the projected budgeted costs for 2021/22. Furthermore, following a review of the charges, there is a disparity between the level of the current charge and the cost of the service provision. This will need to be taken into account in future service charge setting considerations in order to ensure that the cost are fully recovered. The charge for 2021/22 will ensure that the increase in costs for the next financial year are addressed, but does not apply the action required in order to make the services cost neutral. The full list and levels of proposed weekly service charges are detailed in **Table 5** below:

Table 5 – List of service charges

Service	2020/21 Weekly Charge	% Increase	2021/22 Weekly Charge
	£		£
Lift Maintenance	3.25	1.70%	3.31
Door Entry	3.43	1.70%	3.49
Communal Electricity	1.52	1.70%	1.55
Bruyns Court Electricity	3.43	1.70%	3.49
Caretaking	0.60	3.90%	0.62
Caretaking	7.81	3.90%	8.11
Caretaking	9.15	3.90%	9.51
Caretaking	13.00	3.90%	13.51
Caretaking	14.17	3.90%	14.72
Caretaking	14.36	3.90%	14.92
Concierge	33.10	3.48%	34.25
Concierge - Piggs Corner	35.69	3.48%	36.93
Sheltered Housing Service	10.00	3.50%	10.35
Heating - Sheltered Complex	5.94	1.70%	6.04
Heating - Helford Court	9.47	1.70%	9.63

Tenants Engagement

- 3.9 An online engagement platform was provided for tenants to illustrate what any rent increase may mean for each tenant, and the impact for the Housing service overall. The platform also provided an opportunity for tenants to highlight their priorities for service delivery for the 2021-22 financial year.

A total of 457 visits were made to the online portal. Of those which completed the survey, 68% agreed with the Council increasing rent levels in 2021-22, and within this group 58% most agreed with an increase of 1% or more.

When asked to prioritise the areas which tenants feel the Housing department should focus on providing in the 2021/22 financial year, the highest priority areas were delivering planned maintenance and responsive repairs to properties, followed by delivering major works to homes through new kitchens, bathrooms and windows. These priorities were also addressed in the additional comments which were left by respondents. This will be address through the additional resources generated by a rent increase which will allow the service to continue with investment in both the revenue repairs and maintenance contracts, as well as the delivery of the 5 year capital programme set out in **Table 6**.

Garage Rents

- 3.10 The current weekly charges for garage rents are £10.27 per week for council tenants and £12.32 per week for non-Council tenants. It is recommended that these charges are increased in 2021/22 to £10.70 for a Council tenant, and £15.00 per week for a non-Council tenant. This will ensure that there is a sufficient level of income to support the provision of garages within the HRA, and address historic cost issues.

Capital programme and priorities

- 3.11 The medium term (next 5 years) findings of the HRA business plan has highlighted a need for significant capital investment in existing the stock. These were also documented in the 2020/21 HRA rent setting report, and the key areas of focus remain as:
- Continuation of the transforming homes programme
 - Fire safety works
 - Tower block refurbishment
 - Non-traditional property refurbishment
 - Large scale replacements of maintained items i.e. boilers, door entry and water mains
 - Refurbishment of lifts
 - Additional resources to manage the maintenance and safety of the stock
 - Decarbonisation agenda to meet the net zero target

- 3.12 With a view to works required towards the latter part of the medium term, a project is being undertaken to look at the long term sustainable heating source solutions. Presently, the preferred option would be ground source heat pumps. This would address the Carbon neutrality requirements, as well as over the long term providing a much more efficient and cost effective heating source. This would be financed through a combination of government grant funding and prudential borrowing. For the purposes of the business plan, an indicative net cost of £10m has been included in 2025/26.
- 3.13 The medium term financial implication of these works are set out in **Table 6** below:

Table 6: HRA Capital Programme

Capital Programme	2021/22	2022/23	2023/24	2024/25	2025/26
	£m's	£m's	£m's	£m's	£m's
Transforming Homes	10.30	10.30	10.30	10.30	10.30
Major Adaptations	0.15	0.15	0.15	0.15	
Fire Safety Works	1.00	1.00	1.00	1.00	
Tower Block Refurbishment	14.42	2.58			
Non-Traditional Refurb	1.72	2.34	3.03		
Garage Works	0.50	0.50	0.50	0.50	
Boilers	0.60	0.60	0.60	0.60	
Lifts	0.14	0.14	0.14	0.14	
Door Entry Installations	0.35	0.35	0.35	0.35	
Water Mains	0.16	0.16	0.16	0.16	
Staffing Costs Capital Programme	0.16	0.16	0.16	0.16	
Capital financing requirement	29.50	18.28	16.39	13.36	10.30
Carbon Reduction Requirements					10.00
Financing of Capital Programme					
Revenue Contribution to Capital	(10.54)	(10.54)	(10.54)	(10.54)	(10.54)
Borrowing requirement	(18.96)	(7.74)	(5.85)	(2.82)	(9.76)
Revenue Capital financing cost	0.57	0.23	0.18	0.08	0.29
Cumulative budget requirement	0.90	1.13	1.31	1.39	1.68

- 3.14 Through the use of prudential borrowing and revenue contributions, the HRA is able to finance the cost of the proposed five year capital programme. This will ensure that the Council is able meet the cost of existing statutory compliance works, continue with the transforming homes programme as well as implementing the regulations set out in the Building Safety bill. .

- 3.15 It is essential that these works are completed within the medium term, and the funding identified within the existing budget to finance the prudential borrowing costs remains and is not used to mitigate cost pressures or bad debt provision. The maximum number of tenants receive a tangible benefit from investment to the existing HRA dwellings, as well there being a financial benefit to the business plan by reducing the level of voids, re-let times, and increased long term sustainability.

4 HRA New Build – Continuing to Build

- 4.1 The housing developments at Tops Club and Claudian Way have now been completed. This has provided essential additional dwelling capacity to the HRA. In 2021/22, the Calcutta Road development will be fully constructed, and the first phase of the HRA new build programme will be completed.
- 4.2 In addition, the HRA will have acquired 70 additional properties through the utilisation of its retained right to buy receipts. This allows the Council to avoid having to return these funds to central government and incur associated interest premiums. This was a targeted project, working to extremely tight deadlines in order to maximise the resources available to the HRA and the Council.
- 4.3 The Council also has up to 17 further properties currently under review or in the process of purchasing. The will further utilise the RTB receipts, and add additional dwellings to the HRA stock.
- 4.4 The Council has a clear ambition to deliver new, quality social housing. Through a combination of prudential borrowing and the application of Right to buy one for one capital receipts, construction of new housing is financially viable and achievable while also capping rents at an upper limit equal to the Local Housing allowance. Further development sites continue to be identified, and will come forward to Housing Overview and Scrutiny Committee through the Housing Development Update reports in due course.

One for One Right to Buy Receipts (RTB)

- 4.5 At the start of the financial year, the Council has RTB unallocated receipts in the region of £8m. Under current legislation, these receipts remain time limited and must be returned, with a compound interest of 4% per annum within three years. The utilisation of the receipts which were approaching their expiration period in March 2021 was through a programme of strategic property acquisition comprising of the following:
- Purchase of 5 and 6 bedroom properties to combat the overcrowding problems some families are experiencing with their current housing allocation;
 - Purchase of open market properties;

- 4.6 This programme is fully funded through a combination of prudential borrowing, finance leasing and the utilisation of right to buy receipts where 30% of the cost can be offset by utilising one for one right to buy receipts.
- 4.7 The Government has allowed some increased flexibilities in the use of right to buy receipts by extending first, second and third quarters until the end of the financial year without incurring penalties, which was in response to the impact of the COVID pandemic, and the subsequent delay on development schemes.

5 Reserves

- 5.1 The estimated level of useable reserve for 2021/22 are detailed in the table below. Funding within the development reserve is earmarked against the cost of the HRA new building programme, and the housing zones funding supports the development of identified sites.
- 5.2 The HRA is required to maintain a level of general balances, which currently amounts to £2.175m. This balance will be maintained in the current financial year, and will be assessed on an annual basis to ensure that it remains sufficient.

Table 7: Reserves

Reserve	Estimated Balance
	£'000
HRA General Balances	2,175
Development Reserve	1,659
Regeneration Reserve	1,000
Capital Reserve - Existing Stock	744
RTB Attributable Debt	-
RTB Buy Backs	102
Grand Total	5,679

6. Reasons for Recommendation

- 6.1 The report sets out the 2021/22 HRA budget implications following the update of the HRA business plan. The proposals put forward have been calculated and assessed in terms of affordability. It is a legal and operational requirement that a balanced budget is set for the HRA.

7. Consultation

The report was presented to the Housing Overview and Scrutiny Committee on 19 January 2021. The Committee commented on the budget assumptions made within the report, the impact of the rent increase on the business plan and the ability to deliver the services and level of Capital investment required. The Committee concluded that they could endorse the recommendation of a

1.5% domestic rent increase to support the financial viability of the HRA business plan. The committee were not in unanimous agreement about the recommended increase in the service charges (required for the reasons set out in para 3.8).

8. Impact on corporate policies, priorities, performance and community impact

8.1 The management and operation of the HRA strives to support vulnerable residents. The 30 year business plan sets out to ensure there is value for money within the Housing Service. The service is committed to the delivery of decent homes for its tenants, and compliance with legislation.

9. Implications

9.1 Financial

Implications verified by: **Jonathan Wilson**
Assistant Director - Corporate Finance

Financial implications are set out in the body of the report.

9.2 Legal

Implications verified by: **Martin Hall**
Housing Solicitor / Team Leader

Section 76 of the Local Government and Housing Act 1989 imposes a duty on local housing authorities to prevent debit balances arising in their Housing Revenue Account ("the HRA"). The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock.

The principal statutory provision governing the fixing of rent for Council property is contained in section 24 of the Housing Act 1985, which provides that authorities may "make such reasonable charges...as they may determine." Further, it requires the local authority, from time to time, to review rents and other charges and make such changes, as circumstances may require.

9.3 Diversity and Equality

Implications verified by: **Roxanne Scanlon**
Community Engagement and Project Monitoring Officer

The Council's Housing Revenue Account works to reflect the Council's policy in relation to the provision of social housing with particular regard to the use of its own stock. In addition to the provision of general housing, it incorporates a number of budgetary provisions aimed at providing assistance to disadvantaged groups. This included adaptations to the stock for residents with disabilities.

- 10. Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

None

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