

14 January 2020		ITEM: 5
Housing Overview and Scrutiny Committee		
Housing Revenue Account - Business Plan and Budgets 2020/21		
Wards and communities affected: All	Key Decision: Key	
Report of: Roger Harris, Corporate Director of Adults, Housing and Health/Interim Director Children's Services Sean Clark, Director of Finance, Governance and Property		
Accountable Assistant Directors: Carol Hinvest, Assistant Director of Housing Jonathan Wilson, Assistant Director of Finance		
Accountable Directors: Roger Harris, Corporate Director of Adults, Housing and Health/Interim Director Children's Services Sean Clark, Director of Finance, Governance and Property		
This report is public		

Executive Summary

This report sets out the base budget position for 2020/21 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 and recharges.

From 2020/21 local authorities and registered providers have the ability to increase social and affordable rents in line with the new rent standard. In brief, this uses the formula of the September 2019 CPI rate of inflation (1.7 per cent) plus 1 per cent. This equates to a maximum level of increase applicable to a dwelling of 2.7 per cent. This gives providers the resources to meet the projected inflationary demands in

order maintain the current level of service, whilst allowing some additional funding for service improvement.

Officers from the Corporate Finance department and the Housing service undertook a series of consultations with tenants in October 2019 to explain the rent setting process, changes in legislation and what a rent increase would mean financially for the HRA. These sessions were attended by 113 people in total, and allowed tenants to ask questions and voice any concerns that they had. Whilst the sessions were primarily aimed at explaining rent and service charges, it also allowed tenants to raise specific issues around repairs and maintenance and service delivery

A review of the housing services funded by the HRA has been undertaken. This has included identification of essential works required to the existing HRA stock and a detailed assessment of the demographic and inflationary costs in future years. This assessment has been factored into the budget requirement set out in this report

The stock condition survey has informed a number of the budget requirements for both the medium and long term. In addition, changes in legislation require the Council to finance compliance works, most notably in relation to high rise tower blocks. This is also included in the budget provision.

The transforming homes programme, which is intrinsically linked to the stock condition survey, has identified 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.

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, while also delivering on the statutory responsibilities of the Council.

The Business Plan, proposed rent increase and the 2020/21 budget will be recommended to Cabinet in February as part of the budget-setting process

1. Recommendation(s)

1.1 That the Committee comments on the assumptions included in the HRA Base Budget assumptions as summarised in the report.

1.2 That the Committee comments on the proposed budget for 2020/21.

1.3 That the Committee comments on the proposals for increases to rents and service charges in 2020/21.

2. Introduction and Background

- 2.1 The proposed Housing Revenue Account budget for 2020/21 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.
- 2.2 Following the tenants consultation, and taking on board the feedback from residents, funding has been identified and allocated for the priority areas discussed which include additional works on door entry systems, a brand new external and communal areas decorating programme, external refurbishment of tower blocks and the continuation of the transforming homes programme. This forms the basis of the proposed 2020/21 budget which can only be made possible with an increase to rent at the prescribed level of 2.7%.

Table 1: Provisional 2020/21 budget summary

Service	2019/20 Revised Budget	2020/21					2020/21 Base Budget
		Additional Income	Inflationary Pressures	External decorating	Additional Repairs and Maintenance	New Build Properties	
£000's							
Financing and Recharges	23,681					509	24,190
Housing Operations	10,886		325				11,211
Repairs and Maintenance	13,597		160	600	559	203	15,118
Development and Regeneration	178		12				190
Rent and Income	(48,342)	(1,656)				(712)	(50,709)
Net Budget	0	(1,656)	497	600	559	0	0

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

3. Issues, Options and Analysis of Options

Rent and Service Charges

- 3.1 As detailed in the Housing O&S report on 1 October 2019, Central Government has given Councils the ability to increase rents from 2020/21. This follows the previous requirement for the Council to implement rent reductions in each of the previous 4 years.

3.2 For 2019/20, and the preceding three years, housing rents were subject to a 1% annual reduction. The financial impact of this on the previous HRA business plan, after being adjusted for inflation, equated to a cumulative reduction of 11% in the weekly rent charge. As a result of the rent reductions, and taking into account inflation, tenants, on average have been paying £10.74 per week less. This is illustrated in the table below:

Table 2: Inflationary impact of rent reductions:

Financial Year	September CPI for prevailing	Rent Reduction applied	CPI + 1%	Reduction including inflation	Average Rent applying new standard	Actual Average	Inflated Reduction	Inflated rent reduction
		%	%	%	£	£	£	
2019/20	Sep-18 2.40%	-1%	3.40%	4.40%	97.77	87.03	10.74	11.0%
2018/19	Sep-17 3.00%	-1%	4.00%	5.00%	96.73			
2017/18	Sep-16 1.00%	-1%	2.00%	3.00%	93.01			
2016/17	Sep-15 -0.10%	-1%	0.90%	1.90%	91.19			
	Average Rent 2015/16 (prior to rent reductions)				90.18			

3.3 Since the previous report to the Committee in October 2019, the following updates are applicable:

- The proposed average increases in rent and service charges has reduced from 3.2% to 2.7% following confirmation of the September 2019 CPI (1.7%)
- An extensive face to face and online consultation exercise has been undertaken to engage with residents.
- The findings of the Phase 1 Grenfell Tower inquiry have been published

3.4 In order to finance the required level of investment, and taking on board feedback from residents on the proposal and their views on service delivery and priorities, it is recommended that the Council apply the full 2.7% rent increase in 2020/21. Based on the overall average of the stock, this is shown in the Table below:

Table 3: Proposed 2020/21 weekly rents

		2019.20	2019.20	2020.21	2020.21	2020.21
Number of properties	Bedrooms	Actual Rent	Service Charge	Proposed Rent	Proposed Service Charge	Actual Rent Increase %
244	Studio	60.47	21.00	62.09	21.57	2.69%
2791	1	73.69	9.76	75.68	10.03	2.70%
2205	2	80.47	17.00	82.62	17.45	2.68%
4211	3	100.54	2.39	103.25	2.45	2.70%
223	4	113.00	0.26	116.04	0.27	2.69%
7	5	113.22	0.00	116.28	0.00	2.70%
3	>5	124.20	0.00	127.43	0.00	2.60%
9,684	OVERALL	87.52	8.26	89.88	8.48	2.69%

Tenants Consultation

- 3.5 The overarching response from tenants, as detailed in the executive summary, was that they appreciate the need to continue with, and improve service delivery, and that the HRA needs to increase rents in order to generate the resources required to finance the plans of the service. One key area of clarification required at the meetings was an explanation of how Local Authority funding works, and in particular, the distinction between the HRA and the General Fund. Tenants were assured that any increase in rent charges would result in additional resources that are ring-fenced to the HRA which cannot be spent on wider Council activities and must provide a direct benefit to housing tenants.
- 3.6 No significant concerns were raised towards an increase to the rent, and the underlying message that the Council can only deliver improved services with additional resources resonated well with the participants in these discussions.
- 3.7 Clarification was also provided to explain a 2.7% rent increase would still result in rent being significantly lower than the Local Housing Allowance (or upper limit for housing benefit and universal credit).
- 3.8 Officers from the Council articulated where the additional funding would be spent with the key focus being the medium term continuation of the transforming homes programme and further improvements to housing stock through additional funding of repairs and maintenance
- 3.9 The weekly rent charge, including service charges applied to new build properties has been capped at the Local Housing Allowance level for the area. This will apply to the new properties at the Tops Club site in Grays, and

Claudian Way in Chadwell that will form part of the housing stock in the near future.

Adjustments to reflect spending in current financial year

- 3.10 The HRA has seen an increase in demand for repairs and maintenance during the current financial year. Specifically these additional works pertain to electrical maintenance testing, as well as minor repairs. The 2020/21 budget will be increased to reflect the additional cost pressures to address the demand, and allow the continuation of these works.

Capital programme and priorities

- 3.11 The medium term (next 5 years) findings of the HRA business plan have highlighted an urgent need to significantly increase the capital investment in existing the stock. The key areas of focus are:

- 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

3.12 The medium term financial implication of these works are set out in the table below:

Table 4: HRA Business Plan Capital Investment Requirements

Programme	Year/£m				
	2020/21	2021/22	2022/23	2023/24	2024/25
Transforming Homes	11.84	10.30	10.30	10.30	10.30
Major Adaptations	0.15	0.15	0.15	0.15	0.15
Sheltered Improvement Project	0.50	0.00	0.00	0.00	0.00
Fire Safety Works	1.00	1.00	1.00	1.00	1.00
Tower Block Refurbishment	6.18	14.42	2.58	0.00	0.00
Non-Traditional Refurb	0.20	1.72	2.34	3.03	0.00
Garages	0.20	0.50	0.50	0.50	0.50
Gas Boiler Installs	0.60	0.60	0.60	0.60	0.60
Lifts	0.14	0.14	0.14	0.14	0.14
Door Entry Installations	0.35	0.35	0.35	0.35	0.35
Water Mains	0.16	0.16	0.16	0.16	0.16
Staffing Costs Capital Programme	0.16	0.16	0.16	0.16	0.16
Capital financing requirement	21.48	29.50	18.28	16.39	13.36
Financing of Capital Programme					
Revenue Contribution to Capital	(10.54)	(10.54)	(10.54)	(10.54)	(10.54)
Borrowing requirement	(10.94)	(18.96)	(7.74)	(5.85)	(2.82)
Revenue Capital financing cost	0.33	0.57	0.23	0.18	0.08
Cumulative budget requirement	0.33	0.90	1.13	1.31	1.39

3.13 Through the use of prudential borrowing and revenue contributions to Capital, 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 additional recommendations that have been made following the Grenfell tragedy.

3.14 It is essential that these works are completed within the medium term, and the prudential borrowing costs will be funded from additional income generated though the rent increase. This will also ensure that the maximum number of tenants receive a tangible benefit from the rent increase proposed. Furthermore, additional investment into the stock will have a financial benefit by reducing the level of voids, and re-let times and increase long term sustainability.

4 HRA New Build – Continuing to Build

- 4.1 The housing developments at Tops Club and Claudian Way are now nearing completion, and will add additional capacity to the housing stock in the form of new, quality dwellings. In 2021/22, Calcutta Road will continue to be built out, thus completing the first phase of the HRA new build programme.
- 4.2 The HRA 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, delivery 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 Cabinet in due course.

One for One Right to Buy Receipts

- 4.3 The Council currently has unallocated receipts in the region of £10m. Under current Central Government legislation, these receipts remain time limited and must be return, with a compound interest of 4% per annum. The proposal to utilise the receipts which are approaching their expiration period in March 2020, was through a programme of strategic property acquisition comprising of the following:
- Purchase of properties for the Head Start Housing Programme in conjunction with Children's services and endorsed in the recent OFSTED inspection
 - Purchase of 5 and 6 bedroom properties to combat the overcrowding problems some families are experiencing with their current housing allocation
- 4.4 This programme is fully funded through a combination of prudential borrowing, the capital allocation within the General Fund (£1m agreed within the 2019/20 Capital programme for Head start Housing) and the use of one for one receipts, which will fund 30% of all expenditure
- 4.5 In light of the decision taken by General Service Committee and full Council to change the constitution with regards to property acquisitions and disposals over £0.200m, Cabinet will be asked in February to agree a process for specific acquisitions that affect the HRA. This will include the acquisition of properties where the HRA is buying back properties that were previously sold under right to buy, and open market properties where 30% of the cost can be offset by utilising one for one right to buy receipts. This recommendation will also include properties to be used as part of the Head start housing programme where a quick decision is required in order to complete the purchase within a short time frame. Cabinet will be asked to delegate these decision to the Corporate Director in consultation with the Portfolio holder. This will ensure that the properties can be acquired speedily (subject to appropriate due diligence), and avoid the need to return the right to buy capital receipts, whilst at the same time ensuring there is appropriate member oversight.

5 HRA Medium Term Financial Strategy

5.1 The table below sets out the main HRA budget medium term financial strategy from the HRA Business Plan, 2020/21 to 2024/15. This shows the forecast incremental changes to the budget for the duration of the next five years

Narrative	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
1. Local Funding					
Rents and Service Charges for existing stock	(1,427)	(1,358)	(1,399)	(1,440)	(1,481)
New Build rents and service charges	(712)	(250)	0	0	0
Other Income	(15)	(15)	(15)	(15)	(15)
	<u>(2,154)</u>	<u>(1,623)</u>	<u>(1,414)</u>	<u>(1,455)</u>	<u>(1,496)</u>
Net Additional (Reduction) in resources	(2,154)	(1,623)	(1,414)	(1,455)	(1,496)
2. Inflation and other increases					
Housing Operations	341	351	360	370	380
Repairs and Maintenance Contractors	156	160	164	169	173
	<u>497</u>	<u>510</u>	<u>524</u>	<u>538</u>	<u>553</u>
3. Treasury					
Interest Costs	1,584	0	0	0	0
Treasury and Capital Financing	<u>1,584</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
4. Growth					
Exterior Decorating	600	200	200	200	200
Repairs and Maintenance	559	250	250	250	250
New Build contingency	203	0	0	0	0
	<u>1,361</u>	<u>450</u>	<u>450</u>	<u>450</u>	<u>450</u>
5. Capital Financing Adjustment	(1,288)	0	0	0	0
6. Future Service Investment	0	663	440	467	493
(Surplus) / Deficit	0	0	0	0	0

Leaseholder charges – Homeownership Services

5.2 The Council has almost 1,000 leaseholders, of these 337 do not reside at their property. Additionally, 185 do not reside within the Borough.

5.3 In addition to the day to day services provided to manage and administer these properties, the Homeownership team are asked to provide a number of services to the Council's leaseholders and their legal representatives. This arises when the leaseholders wish to sell on their properties, make changes to their lease arrangements or require additional copies of previously provided information.

5.4 Housing are seeing increased requests for these services. In addition to this all local authority leases are now falling below 80 year life spans and are therefore requiring extensions in order for the properties to remain mortgage able. The Homeownership service have processed the first of these this year and we are likely to see many more requests for these at the point of sale in future.

5.5 It is normal practice for local authorities to make charges for these additional services and to recover the costs of any professional fees required.

5.6 It is proposed that the following charges are applied. The charges proposed are comparable to other boroughs and housing organisations.

- Housing Management Pack £ 210
- Housing - Management Pack follow up questions £ 45
- Lease Extension - valuation and administration £1,200
- Retrospective landlord consent - Homeownership fee £ 120
- Retrospective landlord consent - Surveyors fee £ 120
- Notice of Assignment - Homeownership fee £ 17

6. Reasons for Recommendation

6.1 The report sets out the 2020/21 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

7.1 This report will be considered by the Overview and Scrutiny Committee in advance of the February Cabinet Meeting and the recommendations from this Committee will be reported to Cabinet.

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: **Mike Jones**
Strategic Lead 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: **Natalie Smith**
**Community Development and Equalities
Manager**

The Councils 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

11. Appendices to the report

- None

Report Author:

Mike Jones

Strategic Lead, Corporate Finance