

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 04 February 2019

Portfolio:	Policy and Resources
Subject:	Housing Revenue Account Budget and Capital Plans 2019/20
Report of:	Director of Finance and Resources
Corporate Priorities:	Providing Housing Choices

Purpose:

This report seeks Executive approval for the revised budget for the Housing Revenue Account for 2018/19, the base budgets and rent increases for 2019/20 and the capital programme with its financing for the years 2018/19 to 2022/23.

Executive summary:

The Executive recommended, and the Council approved, in February 2018, the base budget and rent increase for 2018/19, for Housing Revenue Account (HRA) services.

This report sets out the Housing Revenue Account revised budget for 2018/19 and base budget for 2019/20 along with the capital programme and financing for the years 2018/19 to 2022/23. The report examines the issues affecting the Housing Revenue Account including rent changes with effect from 1 April 2019.

A new Affordable Housing Strategy is currently being developed and is expected to be consulted on in early 2019. This, together with any findings and outcomes arising from the 2019 Stock Condition Survey, will inform future revisions to the 2019/20 revenue and capital budgets for future financial years.

Council budgets are susceptible to change in the level of expenditure and income caused by factors inside and outside the Council's control. A risk assessment has been carried out to indicate the effect on housing balances of changes in the level of expenditure and income. This can be used to estimate the account balances needed to provide a prudent level of reserves and a working balance.

Recommendation/Recommended Option:

It is recommended that the Executive approves and recommends to the meeting of the Council to be held on 22 February 2019 that:

- (a) rents be approved for Council Dwellings as set out in paragraph 17 with effect from 1 April 2019;
- (b) rents for Council garages be increased by 4.2% with effect from 1 April 2019;
- (c) the revised budget for 2018/19 be approved;
- (d) the base budget for 2019/20 be approved; and
- (e) the capital programme and financing for 2018/19 to 2022/23 be approved;

Reason:

To allow the Council to approve the Housing Revenue Account budgets for 2019/20.

Cost of proposals:

As detailed in the report.

Appendices:

- A: Capital Programme and Financing**
- B: Examples of Rent**
- C: Fees and Charges**
- D: Detailed Revenue Budgets**

Background papers: None

Reference papers:

- (a) Executive 5 February 2018 – Housing Revenue Account Spending Plans including Capital Programme 2018/19
- (b) Executive 9 July 2018 – General Fund and Housing Revenue Account Outturn 2017/18
- (c) Executive 7 January 2019 – Finance Strategy, Capital Programme, Revenue Budget and Council Tax – Appendix A Medium Term Finance Strategy
- (d) Executive 3 December 2018 – Fareham Housing Development Sites
- (e) [DCLG - Guidance on Rents for Social Housing](#) May 2014

FAREHAM

BOROUGH COUNCIL

Executive Briefing Paper

Date:	04 February 2019
Subject:	Housing Revenue Account Budget and Capital Plan 2019/20
Briefing by:	Director of Finance and Resources
Portfolio:	Policy and Resources

INTRODUCTION

1. This report brings together the revenue and capital spending plans for the Housing Revenue Account for 2018/19 and 2019/20 for the Executive to consider. On 7 January 2019, the Executive approved the Council's Finance Strategy for 2018/19 and later years. The budget guidelines contained within the Strategy have been used as a basis for the Housing Revenue Account (HRA) spending plans.
2. It is noted that a new Affordable Housing Strategy is currently being developed and is expected to be consulted on in early 2019. This, together with any findings and outcomes arising from the 2019 Stock Condition Survey, will inform future revisions to the 2019/20 revenue and capital budgets for future financial years.

CAPITAL PROGRAMME

3. The five-year capital programme has been updated and is summarised in the following table. More details of the capital schemes and its financing can be found in Appendix A.

Year	£'000
2018/19	4,441
2019/20	8,575
2020/21	5,552
2021/22	4,079
2022/23	3,429
Total	26,076

4. The capital budget for 2018/19 has been reduced by £1,057,000 to reflect a small reduction in planned capital works and the correct phasing of construction works at Bridge Road and Highlands Road. The following schemes planned for 2018/19 have been moved to 2019/20:
 - Heating at Garden Court
 - Fire door replacements

5. The major schemes in 2018/19 and 2019/20 are 5 new houses at 123 Bridge Road, 18 new flats at Highlands Road along with acquisitions of existing houses and improvements to existing stock.
6. The financing of the capital programme is from the Major Repairs Reserve, Revenue Contributions to Capital Outlay, the Capital Housing Development Fund and 1:4:1 Capital Receipts from Right to Buy sales.
7. In addition to these internal resources a grant bid of £1,278,000 has been approved by Homes England in respect of the Highlands Road development (£71k per property).
8. There are currently six further potential development sites as set out in the table below. these were the subject of a report to the Executive on 3rd December which set out site ownership and scheme progress.

Site
Hampshire Rose/96 Highlands Road (Fareham North West)
123 Bridge Road (Park Gate)
Station Road/Merjen engineering, Portchester (Portchester East)
Stubbington Lane (Hill Head)
Sea Lane, Stubbington (Hill Head)
Coldeast Scout Hut Site (Park Gate)
Wynton Way (Fareham North West)
335-337 Gosport Road (Fareham East)

9. New build Fareham Housing homes could be funded from a combination of the following: -
 - (a) Capital Development Fund;
 - (b) Section 106 monies for the purpose of affordable housing provision;
 - (c) Right to Buy receipts;
 - (d) Homes England grant funding (not combined with Right to Buy receipts); and/or
 - (e) Additional borrowing on the Housing Revenue Account.
10. In October 2018 the Government abolished the cap on Housing Revenue Account (HRA) borrowing. This followed a £1billion programme for local authorities in high affordability pressure areas (such as Fareham Borough) to bid for additional borrowing. FBC submitted several bids covering all the sites outlined in this report. The extent of bids made from different Local Authorities demonstrated the scale of ambition ahead of the complete abolition of the cap by the Government. The removal of the cap is welcome as the previous borrowing headroom together with the other forms of funding referred to above would have been insufficient to deliver the potential housing sites referred to in this report and any rolling programme of further sites thereafter.
11. Although welcome news there needs to be caution highlighted. The additional available funds are borrowing, and any additional debt will need to be serviced without undermining the financial stability of the Council's HRA. Careful consideration of the borrowing implications along with flexibility in how the various funding sources are used will be required.

REVENUE BUDGETS

12. The following table summarises the base and revised budgets for 2018/19, and the base budget for 2019/20, of the Housing Revenue Account. A more detailed breakdown is provided in Appendix D.

	Base Budget 2018/19	Revised Budget 2018/19	Base Budget 2019/20
	£'000	£'000	£'000
HOUSING REVENUE ACCOUNT			
Income	-12,497	-12,238	-12,321
Tenancy Management & Running Costs	2,760	2,830	2,892
Net Interest	1,729	1,669	1,669
Transfer to Debt Repayment Fund	1,140	1,140	1,140
	-6,868	-6,599	-6,620
Revenue Repairs Expenditure	3,709	2,670	2,705
Depreciation set aside into the Major Repairs Reserve	1,569	2,538	2,538
Revenue Contribution to Capital Programme	1,455	1,374	1,377
Transfer to(-)/from HRA Reserve	-135	-17	0

13. The revised budget for 2018/19 for revenue repairs has been reduced to reflect the projected decrease in repairs costs for this year which is expected to be sustained in 2019/20, whilst allowing for inflationary increases. There are a number of factors which have been affecting the decrease in costs such that the number of appointments for the responsive repairs service have decreased from an average of 60 to 49 appointments a day over the past two years. For example, improvements continue to be made when properties become void which are resulting in fewer demands for work earlier in the tenancy and costs are being closely monitored and managed.
14. The proposed budgets also include a clear set aside of reserves to repay the £49 million housing debt taken on in 2012 when the government changed the national subsidy scheme to a self-financing scheme. This debt becomes repayable in 40 to 50 years.
15. A summary of all the reserves projected to be at the end 2018/19 is set out below:

Reserve	Purpose of Reserve	2017/18 Closing Balance	2018/19 Transfers In	2018/19 Transfers Out	2018/19 Closing Balance
		£'000	£'000	£'000	£'000
HRA Revenue Reserve	To fund unexpected operating costs	1,824	17	0	1,841
Exceptional Expenditure Reserve	To fund any exceptional demands upon expenditure	1,500	0	0	1,500
Major Repairs Reserve	To fund capital expenditure on HRA assets	984	2,538	-2,551	971
Capital Housing Development Fund	To fund new developments	3,520	0	-200	3,320
Debt Repayment Fund	To repay debt	1,140	1,140	0	2,280
Leaseholder Reserve	To fund major repairs on blocks containing	263	0	0	263

Reserve	Purpose of Reserve	2017/18 Closing Balance £'000	2018/19 Transfers In £'000	2018/19 Transfers Out £'000	2018/19 Closing Balance £'000
	leasehold properties				
1:4:1 Receipts	To fund 30% of costs of new acquisitions	1,345	464	-315	1,494
Total Reserves		10,576	4,159	-3,066	11,669

RENTS

16. In the Summer Budget of July 2015, the Government announced that Social Housing Rents will fall by 1% a year for four years from April 2016. This is provided for in legislation within the Welfare Reform and Work Bill.
17. For 2016/17, rents for low cost home ownership accommodation (shared-owner) and sheltered housing were excluded from this direction. However, for 2017/18, 2018/19 and 2019/20, it is only shared owner properties that are excluded from this direction.
18. It is therefore proposed that the following rent changes are applied:
 - (a) Rents for shared-ownership properties increase by CPI (2.4%) plus 1%.
 - (b) General needs and sheltered housing dwellings decrease by 1%.
19. Rents for Council garages are not covered by the Government's direction applying to dwellings. It is therefore proposed that garage rents for 2019/20 increase by 50p per week (4.2%).
20. Examples of proposed rents can be seen in Appendix B and the effect on the total rents collected can be seen in Appendix D.

FEES AND CHARGES

21. The current fees and charges for the HRA and the charges for 2019/20, approved at the 7 January 2019 Executive, are set out in Appendix C.
22. The statutory charge is subject to the control and advice of Government. The current level of charge has been set at the maximum allowed.

RISK ASSESSMENT

23. The following list of potential risks indicates that it is essential to preserve the account balance held for the Housing Revenue Account. Reserves are held so the Council can:
 - Continue to manage and maintain homes
 - Improve and redevelop estates
 - Cover any unexpected expenditure
 - Take advantage of new opportunities to meet housing needs
 - Repay the debt
 - Meet the challenges of any change in Government policy
24. Key risks include changes to the rent policy, an increase in void properties and an increase in the cost of repairs. In particular, if the Government further amend their current rent policy so that rents will continue to reduce post 2020, this will put further

pressure on the HRA finances.

25. However, in October 2017 the government announced that their social housing rent policy is likely to be that increases will be permitted but should be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020.

Examples of Potential and Actual Changes	Effect on Expenditure in Year £'000	Effect on Income in Year £'000
Change in rent policy to decrease rents by 1% beyond 2020		-109
Loss of income if void rate rises to 2.5% from 1.26%		-177
Increase of 10% on supplies and service costs	46	
Increase of 10% in the number of void properties	120	
Increase of 10% in the depreciation charge	254	
Increase on rent arrears by 10%	35	
Increase of 10% in cost of responsive repairs	270	

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589)

CAPITAL PROGRAMME AND FINANCING

Housing Capital Programme	2018/19	2019/20	2020/21	2021/22	2022/23
Improvements to Existing Stock	£	£	£	£	£
Improvements	2,019,000	1,900,000	2,165,000	2,241,000	2,326,200
Voids	700,000	700,000	723,800	751,300	779,800
Modifications	275,000	275,000	281,000	286,600	297,500
Heating - Garden Court		50,000			
Frosthole Fire Alarms	100,000				
Fire Door Replacement		100,000			
Stock Condition Survey	40,000				
Asset Management System	40,000				
Vehicles		90,000			
Off Road / Vehicle Parking	15,000	15,000	25,000	25,000	25,000
Acquisitions and New Builds					
Acquisitions	1,052,000	1,073,000	2,357,000	775,000	
New Build – Bridge Road	100,000	1,281,600			
New Build – Highlands Road	100,000	3,090,000			
TOTAL CAPITAL EXPENDITURE	4,441,000	8,574,600	5,551,800	4,078,900	3,428,500
Funded by:					
Improvements to Existing Stock					
RCCO	-637,800	-626,000	-639,000	-660,800	-685,700
Major Repairs Reserve	-2,551,200	-2,504,000	-2,555,800	-2,643,100	-2,742,800
Acquisitions and New Builds					
RCCO	-736,400	-751,100	-1,649,900	-542,500	
1:4:1 Capital Receipts	-315,600	-321,900	-707,100	-232,500	
Capital Development Fund	-200,000	-2,847,000			
Grants		-1,278,000			
S106		-246,600			
Total Funding	-4,441,000	-8,574,600	-5,551,800	-4,078,900	-3,428,500

APPENDIX B

HRA EXAMPLES OF RENT

	Property Type	2018/19 Actual Rent £	2019/20 Proposed Rent £	Change per week £	Change per week %
Foster Close	1 Bed Flat	80.24	79.44	-0.80	-1.00
Grebe Close	2 Bed Bungalow	106.8	105.73	-1.07	-1.00
Collingwood Court	1 Bed Flat	100.36	99.36	-1.00	-1.00
Foxbury Grove	2 Bed Flat	89.57	88.67	-0.90	-1.00
Garden Court	1 Bed Maisonette	80.24	79.44	-0.80	-1.00
Sicity House	2 Bed Maisonette	86.89	86.02	-0.87	-1.00
Fairfield Avenue	3 Bed House	104.08	103.04	-1.04	-1.00
Churchill Close	3 Bed House (shared owner)	86.88	89.83	2.95	3.4
Jubilee Court	4 Bed House	118.94	117.75	-1.19	-1.00
Average for total stock		90.44	89.53	-0.91	-1.00
Garages		12.00	12.50	0.50	4.2

FEES AND CHARGES

	Notes	Fee 2018/19 £	Fee 2019/20 £	% Increase
Sales of Council Houses				
Maximum legal and administration fees in connection with granting a service charge loan	Statutory Charge	100.00	100.00	NIL
Recharge of Officer time in agreeing any consent to freeholders	Fee per occurrence	100.00	100.00	NIL
Repairs to Council Houses				
Abortive visit by Officer, Surveyor or Tradesman	Charge per visit	50.00	50.00	NIL
Rechargeable works	These will be assessed individually at the time the work is carried out.			
Sheltered Accommodation for the Elderly – Guest Room Charges				
Single occupancy per night	Inclusive of VAT	9.00	9.25	2.7
Per couple per night	Inclusive of VAT	13.00	13.25	1.9
Collingwood Court per room	Inclusive of VAT	23.00	23.50	2.2
Sylvan Court per room	Inclusive of VAT	23.00	23.50	1.8

DETAILED REVENUE BUDGET

	Base 2018/19 £'000	Revised 2018/19 £'000	Base 2019/20 £'000
Income			
Rents - Dwellings	-11,140	-10,882	-10,928
Rents – Garages	-330	-315	-321
Rents – Other	-18	-18	-18
Service Charges (Wardens, Extra Assistance, Heating)	-647	-640	-656
Cleaning	-179	-189	-197
Grounds Maintenance	-88	-98	-104
Other Fees and Charges	-48	-45	-43
Leaseholder Service Charges and Insurance	-47	-51	-54
	-12,497	-12,238	-12,321
Expenditure			
Tenancy Management & Running Costs			
General Administrative Expenses	1,470	1,511	1,526
Corporate and Democratic Core	43	43	44
Corporate Management	73	73	74
Communal Heating Services	76	86	86
Communal Lighting	25	25	25
Rents, Rates and Other Taxes	-7	69	73
Communal Cleaning	186	217	224
Grounds Maintenance	220	204	204
Sheltered Housing Service	576	504	538
Bad Debts Provision	13	13	13
Bad Debts Written off	50	50	50
Debt Management Expenses	35	35	35
	2,760	2,830	2,892
Long Term Debt Management			
Interest Payable	1,795	1,795	1,795
Interest Earned on Internal Balances	-66	-126	-126
Transfer to Debt Repayment Fund	1,140	1,140	1,140
Property Repairs and Maintenance			
Revenue Repairs Expenditure	3,709	2,670	2,705
Depreciation	1,569	2,538	2,538
Revenue Contribution to Capital Programme	1,455	1,374	1,377
Surplus(-)/Deficit for Year	-135	-17	0