

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 03 February 2020

Portfolio:	Policy and Resources
Subject:	Housing Revenue Account Budget and Capital Plans 2020/21
Report of:	Deputy Chief Executive Officer and Section 151 Officer
Corporate Priorities:	Providing Housing Choices

Purpose:

This report seeks Executive approval for the revised budget for the Housing Revenue Account for 2019/20, the base budgets and rent increases for 2020/21.

Executive summary:

The Executive recommended, and the Council approved, in February 2019, the base budget and rent increase for 2019/20, for Housing Revenue Account (HRA) services.

This report sets out the Housing Revenue Account revised budget for 2019/20 and base budget for 2020/21 along with the capital programme and financing for the years 2019/20 to 2023/24. The report examines the issues affecting the Housing Revenue Account including rent changes with effect from 1 April 2020.

The Council has adopted a new Affordable Housing Strategy during 2019 and the stock condition survey has been completed. Together, these have informed revisions to the 2020/21 revenue and capital budgets and those for future financial years as part of business planning for the Housing Revenue Account.

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 21 February 2020 that:

- (a) rents be approved for Council Dwellings as set out in paragraph 18 with effect from 1 April 2020;
- (b) rents for Council garages be increased by 4.0% with effect from 1 April 2020;
- (c) the revised budget for 2019/20 be approved; and
- (d) the base budget for 2020/21 be approved.

Reason:

To allow the Council to approve the Housing Revenue Account budgets for 2020/21.

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 4 February 2019 – Housing Revenue Account Spending Plans including Capital Programme 2018/19
- (b) Executive 10 July 2019 – General Fund and Housing Revenue Account Outturn 2017/18
- (c) Executive 6 January 2020 – 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) Executive 7 October 2019 – Fareham’s Affordable Housing Strategy
- (f) MHCLG - Guidance on Rents for Social Housing February 2019

FAREHAM

BOROUGH COUNCIL

Executive Briefing Paper

Date:	03 February 2020
Subject:	Housing Revenue Account Budget and Capital Plans 2020/21
Briefing by:	Deputy Chief Executive Officer and Section 151 Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. This report brings together the revenue and capital spending plans for the Housing Revenue Account for 2019/20 and 2020/21 for the Executive to consider. On 6 January 2020, the Executive approved the Council's Finance Strategy for 2020/21 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. In October 2019 the Council adopted a new Affordable Housing Strategy. The purpose of the strategy is 'to provide more affordable homes, ensuring they are the right homes in the right places for those in need of affordable housing.' The strategy includes three key objectives :
 - To deliver more affordable homes through the planning system
 - To ensure those homes are the right homes in the right places and that they are truly affordable for those that need them
 - To directly deliver more affordable homes by Registered Providers and Fareham Housing, especially targeting those in greater need
3. A stock condition survey has been completed in 2019 and a new asset management system has been commissioned to enable an informed programme of works to be formulated and implemented over the coming years.
4. Together these have informed revisions to the 2020/21 revenue and capital budgets and those for future financial years as part of Business Planning for the HRA.

CAPITAL PROGRAMME

5. 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
2019/20	7,386
2020/21	6,822
2021/22	5,450
2022/23	4,239
2023/24	5,252
Total	29,149

6. The capital programme was included in the Capital Strategy that was approved at the 6th January Executive.
7. The capital budget for 2019/20 has been reduced by £1,213,000 to reflect a reduction in planned capital works and the correct phasing of construction works at Bridge Road and Highlands Road.
8. The major schemes in 2019/20 and 2020/21 are 5 new houses at Bridge Road, 18 new flats at Highlands Road, 16 new sheltered housing flats at Station Road along with acquisitions of existing homes and improvements to existing stock.
9. 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.
10. 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 (£71,000 per social rented property) and £270,000 in respect of the Bridge Road development (£41,000 per affordable rented property and £75,000 per social rented property).
11. There are currently four further potential development sites as set out in the table below. These have been reported to the Executive and approved in principle for further feasibility and preliminary actions to be undertaken before final schemes are presented for approval.

Site
Assheton Court redevelopment (Portchester) Sheltered housing scheme to provide 60 – 70 sheltered flats
Stubbington Lane (Hill Head) 11 No. one, two and three bed houses for Shared Ownership and Affordable Rent
Coldeast Scout Hut Site (Park Gate) 7 No. one and two bed apartments for Shared Ownership/Starter Homes.
Wynton Way (Fareham North West)

12. Future developed design reports will detail estimated cost and funding arrangements

along with the process toward to appointment of an appropriate contractor. New build Fareham Housing homes could be funded from a combination of the following: -

- a) Capital Development Fund
- b) Right to Buy initial receipts and Right to Buy 1-4-1 receipts;
- c) Section 106 monies for the purpose of affordable housing provision; (not combined with Right to Buy 1-4-1 receipts
- d) Homes England grant funding (not combined with Right to Buy 1-4-1 receipts); and/or
- e) Additional borrowing on the Housing Revenue Account.

13. Although the increased opportunity for borrowing to enable future development is positive 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

14. The following table summarises the Housing Revenue Account base and revised budgets for 2019/20, and the base budget for 2020/21. A more detailed breakdown is provided in Appendix D.

	Base Budget 2019/20	Revised Budget 2019/20	Base Budget 2020/21
	£'000	£'000	£'000
HOUSING REVENUE ACCOUNT			
Income	-12,321	-12,388	-12,668
Tenancy Management & Running Costs	2,892	3,155	3,352
Net Interest	1,669	1,681	1,681
Transfer to Debt Repayment Fund	1,140	1,140	1,140
	-6,620	-6,412	-6,495
Revenue Repairs Expenditure	2,705	2,736	2,764
Depreciation set aside into the Major Repairs Reserve	2,538	2,626	2,626
Revenue Contribution to Capital Programme	1,377	1,050	939
Transfer to(-)/from HRA Reserve	0	0	-166

15. The income budget has been revised to include the leaseholder revenue repair service charge payments that are collected. The rent income budget has also been reduced to reflect a growing trend in tenant rent arrears. This will impact on the level of provision made at the end of the year for bad debts.
16. Within Tenancy Management and Running Costs, along with employment cost increases, budget increases have been made for the increasing cost of utilities and the property insurance premium, as well as higher software costs for the new housing ICT systems.
17. 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. These loans become repayable in 35 to 45 years.

18. A summary of all the reserves projected to the end of 2019/20 is set out below:

Reserve	Purpose of Reserve	2018/19 Closing Balance £'000	2019/20 Transfers In £'000	2019/20 Transfers Out £'000	2019/20 Closing Balance £'000
HRA Revenue Reserve	To fund unexpected operating costs	1,302	0	0	1,302
Exceptional Expenditure Reserve	To fund any exceptional demands upon expenditure	1,500	0	0	1,500
Debt Repayment Fund	To repay debt	2,280	1,140	0	3,420
Leaseholder Reserve	To fund major repairs on blocks containing leasehold properties	280	0	0	280
Total Revenue Reserves		5,362	1,140	0	6,502
Major Repairs Reserve	To fund capital expenditure on HRA assets	1,838	2,626	2,626	1,838
Housing Capital Development Fund	To fund new developments	3,391	0	2,225	1,166
1:4:1 Receipts	To fund 30% of costs of new acquisitions	1,613	737	450	1,900
Total Reserves		12,204	4,503	5,301	11,406

RENTS

19. In February 2019, after a consultation exercise, the Government issued a Direction to the Rent Standard 2019 along with a Policy Statement on Rents for Social Housing from 1 April 2020 onwards. This permits annual rent increases on both general needs and sheltered housing properties at social and affordable rent of up to CPI (at September of the previous year) + 1 percentage point from April 2020 for a period of at least five years. This rent charge increase will also continue to apply to shared-ownership properties.
20. Following the annual reductions of 1% that have been applied since April 2016 the Council is now able to increase rents, with CPI being at 1.7% in September 2019 and an increase of 2.7% to be achieved from April 2020.
21. Rents for Council garages are not covered by the Government's direction applying to dwellings. It is therefore proposed that garage rents for 2020/21 increase by 50p per week (4.0%).
22. 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

23. The current fees and charges for the HRA and the charges for 2020/21, approved at the 7 January 2019 Executive, are set out in Appendix C.
24. 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

25. 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
26. Key risks include changes to the rent policy, an increase in arrears, and other increases in void properties and in the cost of repairs. In particular, if the Government amend their current rent policy so that rents will continue to reduce post 2020, this will put further pressure on the HRA finances.

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		120
Loss of income if void rate rises to 2.5% from 1.26%		140
Increase of 10% on supplies and service costs	41	
Increase of 10% in the depreciation charge	262	
Increase on rent arrears by 10%	60	
Increase of 10% in cost of responsive repairs	276	

Enquiries:

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

CAPITAL PROGRAMME AND FINANCING

Housing Capital Programme Improvements to Existing Stock	2019/20	2020/21	2021/22	2022/23	2023/24
	£	£	£	£	£
Improvements	1,404,400	1,546,000	2,035,000	2,103,400	2,182,400
Voids	600,000	600,000	724,000	748,600	777,000
Modifications	500,000	275,000	281,000	286,600	292,300
Housing Management System	69,000	110,000			
Stock Condition Survey	17,000				
Asset Management System	10,000	30,000			
Vehicles	50,000	40,000			
Acquisitions and New Builds					
Acquisitions	1,500,000	1,200,000	1,100,000	1,100,000	2,000,000
New Build – Bridge Road	1,043,100	115,900			
New Build – Highlands Road	2,092,200	1,394,800			
New Build – Station Road	100,000	1,410,000	1,310,000		
New Build – Assheton Court		100,000			
TOTAL CAPITAL EXPENDITURE	7,385,700	6,821,700	5,450,000	4,238,600	5,251,700
Funded by:					
Improvements to Existing Stock					
RCCO					
Major Repairs Reserve	-2,650,400	-2,601,000	-3,040,000	-3,138,600	-3,251,700
Acquisitions and New Builds					
RCCO	-1,050,300	-938,700	-800,000	-770,000	-1,400,000
1-4-1 Capital Receipts	-450,000	-783,000	-723,000	-330,000	-600,000
Capital Receipts		-600,000	-600,000		
Capital Development Fund	-2,225,000	-1,160,000	-87,000		
Homes England Grants	-1,010,000	-539,000			
Other Grants and Contributions		-200,000	-200,000		
TOTAL FUNDING	-7,385,700	-6,821,700	-5,450,000	-4,238,600	-5,251,700

APPENDIX B

HRA EXAMPLES OF RENT

	Property Type	2019/20 Actual Rent £	2020/21 Proposed Rent £	Change per week £	Change per week %
Foster Close	1 Bed Flat	79.44	81.58	2.14	2.70
Grebe Close	2 Bed Bungalow	105.73	108.58	2.85	2.70
Collingwood Court	1 Bed Flat	99.36	102.04	2.68	2.70
Foxbury Grove	2 Bed Flat	88.67	91.06	2.39	2.70
Garden Court	1 Bed Maisonette	79.44	81.58	2.14	2.70
Sicity House	2 Bed Maisonette	86.02	88.34	2.32	2.70
Fairfield Avenue	3 Bed House	103.04	105.82	2.78	2.70
Churchill Close	3 Bed House (shared owner)	89.83	92.25	2.42	2.70
Jubilee Court	4 Bed House	117.75	120.93	3.18	2.70
Average for total stock		89.53	91.95	2.42	2.70
Garages		12.50	13.00	0.50	4.0

FEES AND CHARGES

	Notes	Fee 2019/20 £	Fee 2020/21 £	% 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	9.25	10.00	8.1
Per couple per night	Inclusive of VAT	13.25	15.00	13.2
Collingwood Court per room	Inclusive of VAT	23.50	25.00	6.4
Sylvan Court per room	Inclusive of VAT	23.50	25.00	6.4
Baths	Inclusive of VAT	2.00	2.00	NIL
Sheltered Accommodation for the Elderly – Other Charges				
Keys – Key	Inclusive of VAT	5.00	5.00	NIL
Keys – Fob		8.00	8.20	2.5
Wash Cards (where applicable)	Inclusive of VAT			
Wash		0.60	0.60	NIL
Dry		0.50	0.50	NIL

DETAILED REVENUE BUDGET

	Base	Revised	Base
	2019/20	2019/20	2020/21
	£'000	£'000	£'000
Income			
Rents - Dwellings	-10,928	-10,820	-11,067
Rents – Garages	-321	-331	-340
Rents – Other	-18	-20	-20
Service Charges (Wardens, Extra Assistance, Heating)	-637	-660	-675
Cleaning	-197	-192	-190
Grounds Maintenance	-104	-109	-109
Other Fees and Charges	-62	-52	-57
Leaseholder Service Charges and Insurance	-54	-204	-210
	-12,321	-12,388	-12,668
Expenditure			
Tenancy Management & Running Costs			
General Administrative Expenses	1,526	1,611	1,814
Corporate and Democratic Core	44	66	68
Corporate Management	74	104	102
Corporate Management	0	20	20
Communal Heating Services	86	120	120
Communal Lighting	25	30	30
Rents, Rates and Other Taxes	73	100	101
Communal Cleaning	224	224	209
Grounds Maintenance	204	243	235
Sheltered Housing Service	538	539	555
Bad Debts Provision	13	13	13
Bad Debts Written off	50	50	50
Debt Management Expenses	35	35	35
	2,892	3,155	3,352
Long Term Debt Management			
Interest Payable	1,795	1,795	1,795
Interest Earned on Internal Balances	-126	-114	-114
Transfer to Debt Repayment Fund	1,140	1,140	1,140
Property Repairs and Maintenance			
Revenue Repairs Expenditure	2,705	2,736	2,764
Depreciation	2,538	2,626	2,626
Revenue Contribution to Capital Programme	1,377	1,050	939
Surplus(-)/Deficit for Year	0	0	-166