

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 01 February 2021

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Housing Revenue Account 2021/22</b>
<b>Report of:</b>	Deputy Chief Executive and Section 151 Officer
<b>Corporate Priorities:</b>	Providing Housing Choices

**Purpose:**

This report seeks Executive approval for the revised budget for the Housing Revenue Account for 2020/21, the base budgets and rent increases for 2021/22.

**Executive summary:**

The Executive recommended, and the Council approved, in February 2020, the base budget and rent increase for 2020/21, for Housing Revenue Account (HRA) services.

An Emergency Budget for 2020/21 was prepared in response to the impact of the COVID-19 pandemic, approved by the Executive in September 2020.

This report sets out some further revisions to the Housing Revenue Account revised budget for 2020/21 and base budget for 2021/22 along with the capital programme and financing for the years 2020/21 to 2024/25. The report examines the issues affecting the Housing Revenue Account including rent changes with effect from 1 April 2021.

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 26 February 2021 that:

- (a) rents be approved for Council Dwellings as set out in paragraph 21 with effect from 1 April 2021;
- (b) rents for Council garages be increased by 1.5% with effect from 1 April 2021;
- (c) the revised budget for 2020/21 be approved; and
- (d) the base budget for 2021/22 be approved.

**Reason:**

To allow the Council to approve the Housing Revenue Account budgets for 2021/22.

**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 3 February 2020 – Housing Revenue Account Spending Plans including Capital Programme 2019/20
- (b) Executive 6 July 2020 – General Fund and Housing Revenue Account Outturn 2019/20
- (c) Executive 7 September 2020 - Covid-19 Emergency Revised 2020/21 Budget and Financial Recovery Plan
- (d) Executive 4 January 2021 – Finance Strategy, Capital Programme, Revenue Budget and Council Tax – Appendix A Medium Term Finance Strategy
- (e) MHCLG - Guidance on Rents for Social Housing February 2019

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## BOROUGH COUNCIL

### Executive Briefing Paper

<b>Date:</b>	01 February 2021
<b>Subject:</b>	Housing Revenue Account 2021/22
<b>Briefing by:</b>	The Deputy Chief Executive and Section 151 Officer
<b>Portfolio:</b>	Policy and Resources

#### INTRODUCTION

1. This report brings together the revenue and capital spending plans for the Housing Revenue Account for 2020/21 and 2021/22 for the Executive to consider. On 4 January 2021, the Executive approved the Council's Finance Strategy for 2021/22 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 September 2020 the Council approved an Emergency Housing Revenue Account Revised budget for 2020/21, recognising the significant impact experienced as a result of Covid-19. Further considered revisions are proposed, taking account of our experience over the past 9 months, and for the coming financial year.
3. Work to configure the Keystone asset management system and Civica housing systems are well underway with testing currently being undertaken for system rollout over the coming financial year.
4. Together these have informed revisions to the 2021/22 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.

<b>Year</b>	<b>£'000</b>
2020/21	6,972
2021/22	9,735
2022/23	6,531
2023/24	4,257
2024/25	4,807
<b>Total</b>	<b>32,302</b>

6. The capital programme was included in the Capital Strategy that was approved at the 4 January Executive.
7. The major schemes in 2020/21 and 2021/22 are 18 new flats at Highlands Road, where work is well underway. A tender process has been completed for 16 new sheltered housing flats at Station Road; it is hoped that work on this site will be commenced by the end of March 2021. A tender process along with preliminary work is being undertaken at Stubbington Lane where 11 houses for Shared Ownership are proposed. Feasibility work is being undertaken for two new houses at Queens Road and a new house at Crossfell Walk.
8. There are currently two further 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 and the appropriate funding sources are presented for approval.

Site
Assheton Court redevelopment (Portchester)
Sheltered housing scheme to provide 60 – 70 sheltered flats
Wynton Way (Fareham North West)

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 and borrowing. The most appropriate form of borrowing will be established by the Council's Finance Team in consultation with the Deputy Chief Executive Officer in order to fund the Stubbington Lane and the former Scout Hut site, Montefiore Drive, Park Gate schemes.
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 £484,000 (£44,000 per shared ownership property) in respect of the Stubbington Lane development.
11. Future developed design reports will detail estimated cost and funding arrangements along with the process toward the 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.
12. Although the opportunity for borrowing to enable future development is positive there needs to be caution highlighted. 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

13. The following table summarises the Housing Revenue Account base and revised budgets for 2020/21, and the base budget for 2021/22. A more detailed breakdown is provided in Appendix D.

	Base Budget 2020/21	Emergency Budget 2020/21	Revised Budget 2020/21	Base Budget 2021/22
<b>HOUSING REVENUE ACCOUNT</b>	<b>£'000</b>			
Income	-12,668	-12,142	-12,263	-12,353
Tenancy Management & Running Costs	3,352	3,517	3,587	3,515
Net Interest	1,681	1,697	1,697	1,697
Transfer to Debt Repayment Fund	1,140	1,140	1,140	1,140
	<b>-6,495</b>	<b>-5,788</b>	<b>-5,839</b>	<b>-6,001</b>
Revenue Repairs Expenditure	2,764	2,264	2,096	2,600
Depreciation set aside into the Major Repairs Reserve	2,626	2,685	2,693	2,706
Revenue Contribution to Capital Programme	939	839	1,050	695
<b>Transfer to(-)/from HRA Reserve</b>	<b>-166</b>	<b>0</b>	<b>0</b>	<b>0</b>

14. The income budget has been reduced to reflect the continuing trend in rising tenant rent arrears. Changes in circumstances and financial stability for some of our tenants is impacting on rent being paid. In the current year a higher level of rent income has been foregone for properties that are void for longer periods than we would usually have expected. Service Charge actuals have been completed for 2019/20 and were slightly higher than budgeted, this additional income has been included in the revised budget for 2020/21 as these are realised.
15. Within Tenancy Management and Running Costs increases have been made for increased employee costs, an enhanced cleaning regime and for increased Council Tax charges made in respect of void properties. A budget provision has also been made in the current financial year to reflect the overlap of housing systems as we move to full reliance on a new system. A higher provision for bad debt is also maintained for 2021/22 for arrears that we are not able to recover.
16. The property repairs and maintenance area has seen a significant drop in expenditure incurred with external contractors in the early part of the 2020/21 and a fall in demand for responsive repairs when only emergency works were being completed as a result of lockdown restrictions and working arrangements. As services returned to a higher volume of call outs and contractor engagements for jobs, expenditure had risen again. The second lockdown will also have had an impact on works we are able to complete, but it is hoped for a shorter term, and the budget for 2021/22 is set for operations at a full capacity level.
17. We have been able to continue with stock repurchases and in the financial year to date have bought back 8 properties to replenish our housing stock. This has taken us slightly ahead of the budget, and this budget area has been further revised to support the Capital Programme.

18. 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 31 to 40 years.
19. A summary of all the reserves projected to the end of 2020/21 is set out below:

Reserve	Purpose of Reserve	2019/20 Closing Balance £'000	2020/21 Transfers In £'000	2020/21 Transfers Out £'000	2020/21 Closing Balance £'000
HRA Revenue Reserve	To fund unexpected operating costs	798	0	0	798
Exceptional Expenditure Reserve	To fund any exceptional demands upon expenditure	1,500	0	0	1,500
Debt Repayment Fund	To repay debt	3,420	1,140	0	4,560
Leaseholder Reserve	To fund major repairs on blocks containing leasehold properties	287	0	0	287
<b>Total Revenue Reserves</b>		<b>6,005</b>	<b>1,140</b>	<b>0</b>	<b>7,145</b>
Major Repairs Reserve	To fund capital expenditure on HRA assets	2,317	2,693	2,693	2,317
Housing Capital Development Fund	To fund new developments	2,677	0	2,094	583
1:4:1 Receipts	To fund 30% of costs of new acquisitions and Station Road development	1,890	200	503	1,587
<b>Total Reserves</b>		<b>12,889</b>	<b>4,033</b>	<b>5,290</b>	<b>11,632</b>

## RENTS

20. 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.
21. 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 a low level of 0.5% in September 2020 and an increase of 1.5% to be achieved from April 2021.
22. Rents for Council garages are not covered by the Government's Direction applying to dwellings and in recent years have been increased by 50p per annum. In light of the exceptional circumstances experienced by our tenants this year and the low level of CPI it is proposed that garage rents for 2020/21 increase by 20p per week (1.5%) in line with rent increases.
23. 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

24. The current fees and charges for the HRA and the charges for 2021/22, approved at the 4 January 2021 Executive, are set out in Appendix C.
25. 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

26. 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
27. 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 reduce post 2021, 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 2021		115
Loss of income if void rate rises to 5% from 4%		109
Increase of 10% on supplies and service costs	48	
Increase of 10% in the depreciation charge	270	
Increase on rent arrears by 10%		70
Increase of 10% in cost of responsive repairs	260	

### Enquiries:

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

## CAPITAL PROGRAMME AND FINANCING

<b>Housing Capital Programme Improvements to Existing Stock</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
£	£	£	£	£	£
Improvements	1,457,300	2,000,000	2,010,000	2,110,500	2,216,000
Voids	800,000	700,000	724,000	760,200	798,200
Modifications	275,000	275,000	281,000	286,620	292,400
Housing Management System	110,000				
Asset Management System	50,000				
Vehicles		40,000			
<b>Acquisitions and New Builds</b>					
Acquisitions	1,500,000	1,200,000	1,200,000	1,100,000	1,500,000
New Build – Bridge Road	120,000				
New Build – Highlands Road	2,295,000	358,000			
New Build – Station Road	175,000	2,296,000	282,000		
New Build – Assheton Court	100,000				
New Build – Stubbington Lane	50,000	2,165,900	252,100		
New Build – Queens Road	20,000	450,000			
New Build – Crossfell Walk	20,000	250,000			
New Build – Coldeast Scout Hut			1,782,000		
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>6,972,300</b>	<b>9,734,900</b>	<b>6,531,100</b>	<b>4,257,320</b>	<b>4,806,600</b>
<b>Funded by: Improvements to Existing Stock</b>					
Major Repairs Reserve	-2,692,300	-3,015,000	-3,015,000	-3,157,320	-3,306,600
<b>Acquisitions and New Builds</b>					
RCCO	-1,050,000	-694,700	-950,400	-770,000	-1,050,000
1-4-1 Capital Receipts	-502,500	-1,048,800	-444,600	-330,000	-450,000
Capital Receipts	-122,500	-1,377,500			
Capital Development Fund	-2,094,000	-583,000	-87,000		
Homes England Grants	-511,000		-315,000		
Other Grants and Contributions		-850,000			
Borrowing		-2,165,900	-1,719,100		
<b>TOTAL FUNDING</b>	<b>-6,972,300</b>	<b>-9,734,900</b>	<b>-6,531,100</b>	<b>-4,257,320</b>	<b>-4,806,600</b>



## APPENDIX B

### HRA EXAMPLES OF RENT

	Property Type	2020/21 Actual Rent £	2021/22 Proposed Rent £	Change per week £	Change per week %
Foster Close	1 Bed Flat	81.58	82.80	1.22	1.50
Grebe Close	2 Bed Bungalow	108.58	110.21	1.63	1.50
Collingwood Court	1 Bed Flat	102.04	103.57	1.53	1.50
Foxbury Grove	2 Bed Flat	91.06	92.43	1.37	1.50
Garden Court	1 Bed Maisonette	81.58	82.80	1.22	1.50
Sicily House	2 Bed Maisonette	88.34	89.67	1.33	1.50
Fairfield Avenue	3 Bed House	105.82	107.41	1.59	1.50
Churchill Close	3 Bed House (shared owner)	92.25	93.63	1.38	1.50
Jubilee Court	4 Bed House	120.93	122.74	1.81	1.50
Average for total stock		91.99	93.37	1.38	1.50
Garages		13.00	13.20	0.20	1.5

## FEES AND CHARGES

	Notes	Fee 2020/21 £	Fee 2021/22 £	% 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	10.00	10.00	NIL
Per couple per night	Inclusive of VAT	15.00	15.00	NIL
Collingwood Court per room	Inclusive of VAT	25.00	25.00	NIL
Sylvan Court per room	Inclusive of VAT	25.00	25.00	NIL
Baths	Inclusive of VAT	2.00	2.00	NIL
Sheltered Accommodation for the Elderly – Other Charges				
Keys – Key	Inclusive of VAT	5.00	5.20	2.0
Keys – Fob		8.20	8.35	1.8
Wash Cards (where applicable)	Inclusive of VAT			
Wash		0.60	0.62	8.3
Dry		0.50	0.55	10.0

## DETAILED REVENUE BUDGET

	Base 2020/21 £'000	Revised 2020/21 £'000	Base 2021/22 £'000
<b>Income</b>			
Rents - Dwellings	-11,100	-10,662	-10,766
Rents – Garages	-321	-330	-331
Rents – Other	-18	-20	-20
Service Charges (Wardens, Extra Assistance, Heating)	-637	-634	-643
Cleaning	-197	-177	-185
Grounds Maintenance	-104	-112	-114
Other Fees and Charges	-61	-61	-61
Leaseholder Service Charges and Insurance	-229	-267	-233
	<b>-12,668</b>	<b>-12,263</b>	<b>-12,353</b>
<b>Expenditure</b>			
<b>Tenancy Management &amp; Running Costs</b>			
General Administrative Expenses	1,814	1,920	1,853
Corporate and Democratic Core	68	68	69
Corporate Management	102	89	83
Corporate Management	20	20	20
Communal Heating Services	120	105	115
Communal Lighting	30	35	35
Rents, Rates and Other Taxes	101	183	186
Communal Cleaning	209	230	240
Grounds Maintenance	235	235	235
Sheltered Housing Service	555	542	544
Bad Debts Provision	13	65	50
Bad Debts Written off	50	60	50
Debt Management Expenses	35	35	35
	<b>3,352</b>	<b>3,587</b>	<b>3,515</b>
<b>Long Term Debt Management</b>			
Interest Payable	1,795	1,795	1,795
Interest Earned on Internal Balances	-114	-98	-98
Transfer to Debt Repayment Fund	1,140	1,140	1,140
<b>Property Repairs and Maintenance</b>			
Revenue Repairs Expenditure	2,764	2,096	2,600
Depreciation	2,626	2,693	2,706
Revenue Contribution to Capital Programme	939	3,144	1,278
Contribution from Capital Development Fund		-2,094	-583
<b>Surplus(-)/Deficit for Year</b>	<b>-166</b>	<b>0</b>	<b>0</b>

**Enquiries:**

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