

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE

**AGENDA
ITEM NO**

30 JANUARY 2020

9biv

Report Title	HOUSING REVENUE ACCOUNT (HRA) – REVISED 2019/20 AND ORIGINAL 2020/21 AND MEDIUM TERM FINANCIAL PLAN 2019/20 – 2023/24
Purpose of Report	To present to the committee the revised estimates for 2019/20 and the original estimates for 2020/21
Decision(s)	<p>The Committee RECOMMENDS to Council that:</p> <ul style="list-style-type: none">(1) The revised HRA revenue budget for 2019/20 and original budget 2020/21 are approved(2) The movement to and from HRA balances and capital reserves as detailed in Appendix B and section 9 are approved(3) That from 1 April 2020:<ul style="list-style-type: none">i) Social rents and affordable rents are increased by 2.7%, in line with national rent guidanceii) Garage rents are increased by 2.7%iii) Landlord service charges are increased by 2.7%, except district heating charges which are decreased by an average of 21%As detailed in Appendix A(4) That the HRA Capital Programme for 2019/20 to 2023/24, as detailed in Appendix C, be included in the Council's Capital Programme.

Consultation and Feedback	Budget holders and senior managers
Financial Implications and Risk Assessment	<p>The whole report is of a financial nature as it sets out the Housing Revenue Account budgets for the period 2020/21 to 2023/24.</p> <p>Andrew Cummings Strategic Director of Resources Email: andrew.cummings@stroud.gov.uk</p> <p>There are a number of risks to the Council's future financial position and the material risks are outlined in the body of this report. The budget monitoring process will report material changes in the Council's financial position to members.</p>
Legal Implications	<p>There are no specific legal implications arising from the recommendations made in this report.</p> <p>Patrick Arran, Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: patrick.arran@stroud.gov.uk</p>
Report Author	<p>Lucy Clothier, Interim Accountancy Manager Tel: 01453 754343 Email: lucy.clothier@stroud.gov.uk</p>
Options	<p>a) Reduce or increase capital and revenue expenditure b) Reduce or increase dwelling rents c) Reduce or increase landlord service charges</p>
Performance Management Follow Up	<p>Outturn report to Strategy and Resources and Housing Committee in June 2020</p>
Background Papers/ Appendices	<p>A – Rents and Service Charges B – MTFP and reserves position C – Capital Programme and funding</p>

1. Background

- 1.1 The Budget Strategy report to Strategy and Resources Committee in October 2019 set out the way in which the Council would approach setting budgets for the forthcoming financial year.
- 1.2 It would be helpful where members have questions on matters of detail if they could be referred to the report author or the appropriate service manager before the meeting.**

2. Summary

- 2.1 A transfer to HRA general reserves of £181k is included in the draft budget for 2020/21. This is an increase from the £50k transfer to reserves in the revised budget for 2019/20.

- 2.2 This is a change of £42k from the position reported to Housing Committee. This relates to a change in pension contributions which was not known at that time. Further detail can be found in section 6.
- 2.3 It is proposed that weekly rents and most service charges increase by 2.7%.
- 2.4 The HRA capital programme has been updated, with the cost of new build expected to be higher than previously expected. There are also new budgets included for a new build scheme at the Cambridge House site, and also a proposed budget to replace any HRA housing used for temporary accommodation.
- 2.5 The cost of completing the sheltered modernisation works on the green and amber schemes has also now been included in the MTFP.

3. Housing Revenue Account (HRA)

- 3.1 The base budget in 2019/20 includes a transfer to general reserves of £103k, which has been revised to £50k following the approval of the in house repairs and maintenance service.
- 3.2 The proposed budget for 2020/21 includes expenditure of £22,331k, funded by £22,943k, with a net transfer to reserves of £612k, including a transfer to general reserves of £181k.
- 3.3 A summary of the changes from the 2019/20 budget can be found in Table 1 below.

Table 1: HRA Summary

Housing Committee	para	2019/20 Revised Estimate £k	2020/21 Original Estimate £k
Base Budget		(103)	(50)
Virements/adjustments		53	(53)
Pay and contract increases	5		210
Pension contribution changes	6		(42)
Rent and service charges	4		(545)
Proposed budget adjustments	7,8		299
Net Service Budget		(50)	(181)

- 3.4 The budget proposal includes a number of changes from the 2019/20 base budget. A summary of the significant changes can be found in Table 2 below.

Table 2: Summary of proposed budget changes

Area	Para	Change £k
Pressures		
Tenancy management - staffing	7.1	112
HRA play areas	7.2	20
HRA rubbish clearance	7.2	34
Additional cost of support services from GF	7.3	354
Savings		
Contribution from GF for grounds maintenance and play areas	7.4	(30)
Sheltered housing savings	7.5	(261)
Central changes		
Bad debt provision (as per MTFP)	8.3	30
Increase contribution to Sheltered Modernisation programme (as per MTFP)	9.2	380
Contribution to capital programme	8.2	(330)
Provision to repay debt (as per MTFP)	8.3	18
Increased investment income	8.4	(50)
Other changes (net)		22
Total proposed changes		299

4. Rent and Service Charges 2020/21 – (£545k) additional income

4.1 Appendix A sets out the proposed increases in fees and charges.

4.2 Dwelling Rents

2020/21 is the first year following the four year rent reduction, with rents now regulated by the Regulator of Social Housing. The Regulator is permitting registered providers to increase rents by Consumer Price Index (CPI) +1%.

4.3 It is therefore proposed that all social and affordable rents are increased by 2.7% - CPI of 1.7% plus 1%. This increases the average rent from £81.20 per week to £83.40 per week, an increase of £2.20p per week.

4.4 Members could choose to increase rents by more or less than 2.7%. Each 0.5% change would increase/reduce the average weekly rent for tenants by £0.41 per week, or £21.32 per year, and decrease dwelling rent income to the HRA by approximately £104k per year. If Members chose to implement a lower rent increase, the corresponding amount would need to be funded from reductions in existing services.

4.5 On becoming vacant, dwellings at social rent are being relet at the Target Rent, a national rent calculation for social housing which is designed to

give fair and consistent rents across all local authority and housing association stock. Currently 78% of tenants have rents below the Target Rent (a decrease from 83% last year). This figure will reduce as dwellings become void and are relet, but as existing tenancies will be unaffected it will be a very gradual change. Members could choose to implement Social Rents at above Target Rent on relet (up to 5% on General Needs and 10% on Sheltered properties), but this is not being proposed at this time.

4.6 Shared ownership rents are to increase by the inflationary uplifts set out in each lease.

4.7 Garage rents and service charges

Garage rents and service charges are recommended to increase by 2.7% (CPI+1%, in line with rents), with the exception of district heating charges. This is for the five sheltered schemes with a communal boiler that serves all of the dwellings in the scheme. In line with last year it is proposed to change the service charges in line with the cost of gas supply. After an increase of 14% last year, a procurement exercise has led to a decrease in cost. It is proposed that this is passed on in full, with an average reduction of 21%.

4.8 Void assumptions

Void levels are assumed to remain at 1% for General Needs properties and 5% for Sheltered for a second year.

4.9 Provision for bad debt

Assumptions around non payment of rents and charges have been set at 0.5% of income. A higher level has been assumed for three years over the course of the MTFP to make an allowance for the anticipated impact of Universal Credit.

5. Pay and Price Inflation - £210k pressure

5.1 In line with the Budget Strategy, future years pay inflation has been provided for in the MTFP at a rate of 2.5%.

5.2 Provision has been made for non pay inflation for major contracts at a rate of 3%.

5.3 Utility budgets have been increased or decreased in line with contractual increases.

6. Pension Contribution Changes – (£42k) saving

6.1 The triennial review of pension contributions has led to a decrease in the lump sum payment and an increase in the salary linked pension contributions.

6.2 Although the overall impact is a saving of £42k in 2020/21, it is not expected to significantly change the 30 year position because of the increase in salary linked pension contributions which are expected to rise with inflation each year.

7. Service Changes

7.1 Tenancy management (staffing) – £112k pressure

It is proposed that the Tenancy Management team is increased by three officers. This includes two Neighbourhood Management Officers (one of which is extending an existing fixed term post to carry out tenancy audits), and an additional Business Support Assistant. The diverse nature of the role requires officers with a specialist skill set who are effective communicators and deliverers of services and are able to manage conflicting priorities. The structure will be reviewed after 12 months to ensure its ongoing effectiveness.

7.2 HRA grounds maintenance - £54k pressure

An ongoing pressure has been identified on the cost of refuse clearance, and it is proposed to increase the budget by £34k in 2020/21. It is also proposed to increase the budget for play area maintenance by £20k.

7.3 Support charges - £354k pressure

The cost of support services provided by the general fund have increased by £354k in 2020/21. This is in part due to inflation (£39k), but also reflects services undercharging in 2019/20 (£120k). There are increased charges relating to the new Senior Leadership Team structure (£65k), an increased charge from Property Service (£65k) to reflect work undertaken for the HRA, particularly the new build and small sites programme, and an additional £65k due to the new in house repairs service (as was built into the business case).

7.4 Contribution from General Fund - £30k saving

It is proposed that the contribution from the General Fund towards the maintenance of HRA areas, including HRA play areas, is increased from £170k to £200k. This reflects that the areas being maintained are used by many residents, and not just council tenants.

7.5 Sheltered housing – £261k saving

Savings of £261k have been identified across the sheltered housing service, in part due the continued progress of the Sheltered Modernisation programme, and the closing of 'red' schemes, along with changes in line with the Older Persons Strategy. Savings include staffing savings and changes to the call monitoring service as approved by Housing Committee in September 2019. This has greatly reduced the level of subsidy required from the wider HRA, helping with the overall position.

7.6 Repairs and maintenance – £nil

Budgets have been realigned in line with the in house repairs service, however at this time the overall budget remains the same.

8. Central Changes

8.1 A number of changes are proposed to central budgets:

8.2 Contribution to capital programme – depreciation is expected to decrease by £330k. Although this is an in year saving, it will not affect the long term position of the HRA as it will mean additional contributions will need to be made in future years.

8.3 Provision to repay debt – in line with the MTFP the provision for repaying debt has been increased by 2%, £18k

8.4 Investment income – investment income is expected to increase against the base budget, based on an estimated level of balances held by the HRA.

9. Earmarked Reserves

9.1 The below table shows a summary of the earmarked reserves held in the HRA.

Table 3: HRA Earmarked Reserves

Earmarked Reserve	2019/20				2020/21			
	Opening balance £k	Transfers out £k	Transfers in £k	Closing balance £k	Opening balance £k	Transfers out £k	Transfers in £k	Closing balance £k
Sheltered Modernisation	2,514	(1,226)	1,000	2,288	2,288	(949)	1,380	2,719
Estate Redevelopment	1,170	0	0	1,170	1,170	0	0	1,170
Staffing	250	0	0	250	250	0	0	250
HRA General Contingency	100	0	0	100	100	0	0	100
Carry Forwards	60	(60)	0	0	0	0	0	0
	4,070	(1,286)	1,000	3,808	3,808	(949)	1,380	4,239

9.2 Transfers to the Sheltered Housing EMR is in line with previous assumptions.

9.3 The transfers from the Sheltered Modernisation are in line with current forecasts of spend.

10. HRA Medium Term Financial Plan (MTFP) and 30 Year Position

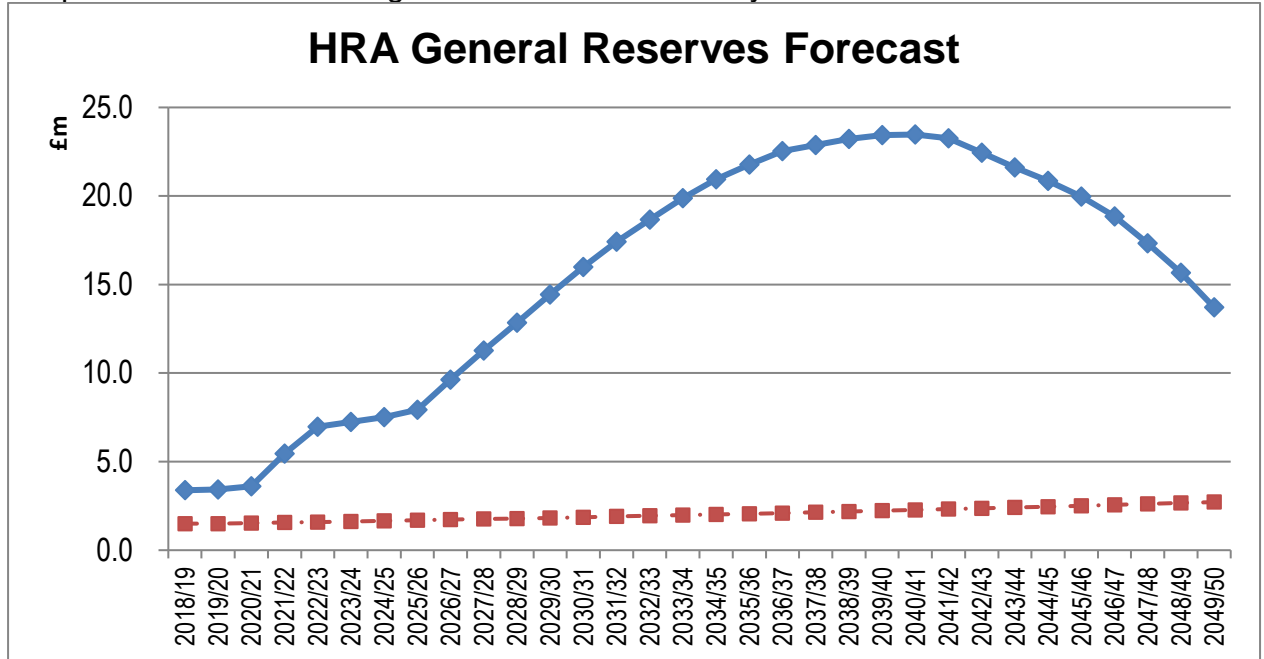
10.1 The MTFP based on the proposed budget position is shown in Table 4, along with forecasted HRA General Reserves balances.

Table 4: HRA MTFP

	2019/20 Base	2019/20 Revised	2020/21 Base	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
Income	(22,325)	(22,325)	(22,943)	(23,271)	(23,983)	(24,566)
Expenditure	9,948	10,061	9,890	10,101	10,460	10,756
Other income and expenditure	12,501	12,501	12,440	12,965	12,947	13,676
Total Housing Revenue Account	123	236	(612)	(205)	(576)	(134)
Transfers to/(from) earmarked reserves	(226)	(286)	431	(1,635)	(934)	(150)
Transfers (to)/from general reserves	(103)	(50)	(181)	(1,840)	(1,510)	(285)
HRA General Reserves Balance						
Opening balance	3,386	3,386	3,435	3,616	5,456	6,965
Transfers	103	50	181	1,840	1,510	285
Closing balance	3,488	3,435	3,616	5,456	6,965	7,250

10.2 With the changes proposed in this report the HRA is forecast to have a balanced position across the full 30 year period.

Graph 1: Forecast of HRA general reserves over 30 years



11. Material Assumptions Made in the HRA MTFP

11.1 The MTFP forecast is made under a number of assumption. The main ones of note are summarised below:

- Rents will rise by CPI+1% for five years, then CPI only.
- Void levels of 2% in general needs (after a two year period of 1% as detailed in paragraph 4.8), and 5% in sheltered housing properties are assumed (in schemes not affected by the Sheltered Housing Modernisation Programme).
- Inflation of 2% has been assumed across rents and contract inflation.
- 30 Right to Buy sales a year have been assumed in terms of rent loss.
- HRA balances will be maintained at a minimum of £1.5m (rising with inflation) over the MTFP period in order to provide resilience against the negative financial impact of future legislative changes.
- Major works are included on a standard replacement basis. Additional works identified in the Energy Strategy are not yet included.
- The new build programme is included at the estimate cost of building to a minimum SAP rating of 86. Any additional cost over this level would need to be funded by additional borrowing which would increase interest costs and the repayment of the borrowing.

12. Sheltered Modernisation

- 12.1 The full cost of sheltered modernisation has not, to date, been included in full within the MTFP or 30 year position. Following the approval of the Older Persons Strategy, it is recommended that this cost is now recognised.
- 12.2 The estimated cost of works on 17 Green and Amber schemes is £7.3m over 7 years. This is an increase of £4.8m over the existing provision.
- 12.3 The below table shows an indicative profile of the spend. It should be noted that it is likely that this will change as schemes are reviewed to determine works required.

Table 5: Proposed Spend on Green/Amber schemes in £k

2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
877	655	659	929	1,400	1,533	1,237	7,290

- 12.4 The MTFP position reported in Section 10 includes this additional cost.

13. Risks and Uncertainties

The HRA still faces a number of risks and uncertainties over the medium to long term. These include:

- 13.1 Right to Buy Receipts – the ability to borrow has greatly changed the forecasted position on the use of Right to Buy (RTB) receipts. However, although the new programme as indicatively shown in Appendix C is in part funded from RTB receipts, there is still a risk that the programme could slip, or some schemes may not be possible to deliver. Therefore, because of changes to timing, receipts would need to be repaid.
- There is also a potential risk that the receipts may not be sufficient to fund the capital programme. If this were to happen, alternative funding would need to be found.
- 13.2 Interest Rates - the HRA is largely sheltered from interest rate changes in the medium term as all of the current borrowing is at fixed interest rates. As loans become repayable, advice will be sought from our treasury advisors on the most advantageous approach to refinancing.
- 13.3 Stock Condition – the information held on the condition of the stock continues to grow, with data being collected regularly. As more data is collected, the longer term forecasts are revised and could mean that more, or less, spend is required compared to the current forecast.
- 13.4 Staffing – the ability to attract and retain staff, especially in specialist areas such as development, repairs and maintenance and tenancy management, is extremely important. Any significant gaps could result in a reduced service to tenants, and/or a financial pressure in recruiting agency staff.
- 13.5 Internal Council Changes – any major changes to the Council could impact on the HRA medium/long term position.

14. Capital Programme

- 14.1 A revised programme of £10,447k in 2019/20 is proposed, followed by an increased budget of £18,250k
- 14.2 in 2020/21. The total indicative spend over the five year capital programme is £58,157k, however this is subject to change as schemes are worked up.
- 14.3 A full breakdown of the capital programme and funding can be found in Appendix C.

15. Major Works

- 15.1 It is proposed that the budget for 2019/20 is revised to £7,581k, with the base budget for 2020/21 at £6,068k.
- 15.2 The programming of works for 2020/21 is already well underway which allows greater certainty over the deliverability of the work streams. However, even with a fully planned programme there will always be some element of variation due to unknown void costs, tenant refusals, adverse weather and further stock condition data being known.
- 15.3 As the works are not yet programmed after 2020/21, the Capital Programme is condensed to show all capital major works on one line. This will be expanded on each year to show the full programme when it is in place, with future years also being reprofiled.

16. New Homes and Regeneration Programme

- 16.1 The development programme has been reprofiled with updated assumptions on timing.
- 16.2 Following an external review of the cost of building new houses, the budget has been increased to reflect build cost inflation and the cost of building to a minimum SAP rating of 86, as reported to Housing Review Panel and as detailed in the new homes section of the Energy Strategy update report to this Committee to address the Council's commitment to Carbon Neutral 2030.
- 16.3 The total additional cost is currently expected to be £4.1m, with the additional funding coming from capital receipts and borrowing. The additional cost of borrowing has been included in the MTFP.
- 16.4 These costs are still estimates at this point, and are subject to change when the schemes are tendered.
- 16.5 The first phase of three schemes will be tendered at the SAP 86 level, and will include options to replace the gas boilers with air source heat pumps, and a cost benefit analysis will be performed.
- 16.6 Following the freeing up of HRA borrowing, it is now possible to include the Cambridge House site into the capital programme, which, as a 'red' sheltered housing site, was due to be sold.. It is proposed that it is funded from RTB receipts and borrowing and a recommendation to include this scheme within the new homes programme is included in the Sheltered Modernisation Programme update report to this Committee.

17. Purchase of replacement housing

- 17.1 With the intention of using some HRA properties to temporarily house homeless families, as this would allow the households to stay in district, as well as provide savings to the General Fund, it is proposed to have a pot to purchase replacement properties in the HRA. This will help prevent the number of long term houses available in the stock decreasing.
- 17.2 A budget of £1,320k has been included in the proposed budget. This is an indicative budget only, and its use will be dependent on the number of properties used as temporary accommodation and the availability of suitable replacement properties. Any purchases would be subject to a survey and business case to ensure that they are suitable to manage and maintain, as well as financially viable.

18. Sheltered Housing Modernisation

- 18.1 The Sheltered Modernisation Programme continues on the green/amber schemes, with works to the common areas of Concord completed and George Pearce House due to be complete in Spring 2020. Tanners Piece, the Council's first Independent Living scheme, which replaced properties that formed part of the 'red' scheme at Ringfield Close, was completed in summer 2019.
- 18.2 The planned programme will continue in 2020/21 with works proposed at Willow Road, Stonehouse and Springfield Court, Cam. The nature of the works will be determined after consultation with tenants and officers. The recommendation for the inclusion of these two schemes into the programme is included within the Sheltered Modernisation Programme update report to this Committee.
- 18.3 As reported in section 12 it is proposed that the full programme of green and amber schemes is now included in the MTFP and 30 year position.

APPENDIX A

Proposed Level of HRA Rents and Service Charges 2020/21

DRAFT Proposed level of rents and service charges (on a weekly basis over 52 weeks)	Current 2019/20 £	Proposed 2020/21 £	Increase/ Decrease £	Increase/ Decrease %
Rents				
Dwelling rents (average)	81.20	83.40	2.20	2.7%
Garage rents (excl VAT which is chargeable to non tenants only)	12.75	13.09	0.34	2.7%
Landlord Service Charges (charged where applicable)				
TV relay (communal aerials – basic IRS)	0.36	0.37	0.01	2.7%
TV relay (communal aerials – comprehensive IRS)	0.91	0.93	0.02	2.7%
Cleaning charges (average)	2.51	2.58	0.07	2.7%
District heating (average)	8.82	6.98	-1.84	-21% (-22% less any increases not passed on last year)
Water charges (average)	2.65	2.72	0.07	2.7%
Sheltered Housing	25.29	25.97	0.68	2.7%
Sheltered Housing - Tanners Piece (average)	16.04	16.48	0.44	2.7%

APPENDIX B

HRA Medium Term Financial Plan 2019/20 to 2023/24

	2019/20 Base	2019/20 Revised	2020/21 Base	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
Income						
Dwelling rents and service charges	(21,875)	(21,875)	(22,444)	(22,924)	(23,638)	(24,223)
Other charges and income	(531)	(531)	(609)	(551)	(553)	(555)
Provision for bad debt	80	80	110	204	208	212
Total Income	(22,325)	(22,325)	(22,943)	(23,271)	(23,983)	(24,566)
Expenditure						
Supervision and management	4,039	4,092	3,579	3,659	3,840	3,738
Repairs and maintenance	3,806	3,866	4,543	4,654	4,768	4,885
Sheltered housing service	1,174	1,174	953	972	992	1,013
Other expenditure	460	460	542	553	564	575
Sheltered housing modernisation programme	470	470	329	318	350	597
Total Expenditure	9,948	10,061	9,946	10,155	10,513	10,808
Other income and expenditure						
Support service charges from GF Revenue Funding of Capital Programme (Depreciation and RCCO)	1,560	1,560	1,982	2,030	2,083	2,134
Provision for repayment of debt	900	900	918	1,138	1,361	1,538
Interest payable/receivable	3,354	3,354	3,309	3,782	4,063	4,242
Total other income and expenditure	12,501	12,501	12,427	12,954	12,936	13,664
Total Housing Revenue Account	123	236	(570)	(162)	(533)	(94)
Transfers to/(from) earmarked reserves	(226)	(286)	431	(1,635)	(934)	(150)
Transfers (to)/from general reserves	(103)	(50)	(139)	(1,797)	(1,467)	(245)

APPENDIX C

HRA Capital Programme 2019/20 to 2023/24

HRA Capital Programme	2019/20 Base £k	2019/20 Revised £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
Major Works						
Central Heating	1,021	849	745			
Disabled Adaptations	200	200	150			
Kitchens and Bathrooms	1,389	1,400	589			
Major Voids	464	464	450			
Asbestos/Radon	422	422	271			
Doors and Windows	1,022	702	884			
Electrical Works	218	218	200			
Environmental Works		150	150			
Door Entry	218	313	242			
Suited Locks	76	150	0			
External Works	3,519	2,713	2,387			
Septic Tanks			21			
IT Systems		175				
Major Works				5,004	4,332	4,068
Total Major Works	8,549	7,756	6089	5,004	4,332	4,068
New Homes						
Southbank, Woodchester	902	707	495			
Purchase of Properties/Miscellaneous	0	0	1,320			
New Homes Contingency	50	50	50	50	50	
Former Ship Inn Site, Stonehouse	1,000		50	950	485	
Tanners Piece, Nailsworth	449	705				
Glebelands, Cam	0		50	2,765	2,766	
Broadfield Road, Eastington	31	31	1,126	282		
Orchard Road, Ebley	20	20	686	142		
Queens Drive, Cashes Green	27	16	876	354		
Ringfield Close, Nailsworth	55	55	2,897	1,168		
Summersfield Road, Minchinhampton	28	28	1,086			
Gloucester St and Bradley St, WuE	28	28	20	805	985	
Cambridge House, Dursley			30	1,900	709	
Opportunity Land Acquisition Pot	3,000	0	3,000			
Total New Homes	5,590	1,640	11,686	8,416	4,995	
Sheltered Modernisation	614	614	475	438	584	843
Total HRA Capital Programme	14,753	10,010	18,250	14,008	10,164	5,288

APPENDIX C

HRA Capital Financing	2019/20 Base £k	2019/20 Revised £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
Revenue Funding (including depreciation and Sheltered Modernisation reserve)	9,179	9,075	6,564	6,323	5,169	5,288
Capital Receipts (including RTB receipts)	1,491	875	5,566	1,380	144	
Homes England Grant Funding	158	60	75	173	98	
Borrowing	3,925	0	6,045	6,132	4,753	
Total Funding	14,753	10,010	18,250	14,008	10,164	5,288