STROUD DISTRICT COUNCIL

AGENDA ITEM NO

STRATEGY AND RESOURCES COMMITTEE

11 FEBRUARY 2021

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Report Title	**HOUSING REVENUE ACCOUNT (HRA) ESTIMATES – REVISED 2020/21 AND ORIGINAL 2021/22 AND HOUSING REVENUE ACCOUNT (HRA) MEDIUM TERM FINANCIAL PLAN 2020/21 – 2024/25**
Purpose of Report	To present to the committee the revised estimates for 2020/21 and the original estimates for 2021/22
Decision(s)	**The Committee RECOMMENDS to COUNCIL:** **a. The revised HRA revenue budget for 2020/21 and original budget 2021/22 are approved** **b. The movement to and from HRA balances and earmarked reserves as detailed in Appendix B and section 9 are approved** **c. That from 1 April 2021:** **i. Social rents and affordable rents are increased by 1.5%, in line with national rent guidance** **ii. Garage rents are increased by 1.5%** **iii. Landlord service charges are increased by 1.5%, except sheltered housing charges which are individually set** **As detailed in Appendix A** **d. That the HRA Capital Programme for 2020/21 to 2024/25, as detailed in Appendix C, be included in the Council's Capital Programme.**
Consultation and Feedback	Budget holders and senior managers
Report Author	Lucy Clothier, Accountancy Manager Email: lucy.clothier@stroud.gov.uk
Options	a) Reduce or increase capital and revenue expenditure b) Reduce or increase dwelling rents c) Reduce or increase landlord service charges
Background Papers	None

Appendices	A – HRA rents and service charges B – HRA MTFP and reserves position C – HRA Capital Programme and funding			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	No	No	No

1. Background

1.1 The Budget Strategy reported to Strategy and Resources Committee in October 2020 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 £281k is included in the draft budget for 2021/22. This is an increase of £19k from the position reported to Housing Committee.

2.2 It is proposed that weekly rents and most service charges increase by 1.5%, with sheltered housing charges to be set individually for each scheme, based on the cost of providing the service to that scheme. Further detail can be found in Section 4 (from 4.11), and Appendix A.

2.3 The HRA capital programme has been significantly affected by Covid-19, and the programme has been amended to reflect this. The revised budget for 2020/21 is £12.1m, rising to £23.4m in 2021/22.

3. Housing Revenue Account (HRA)

3.1 The base budget in 2020/21 includes a transfer to general reserves of £180k.

3.2 The proposed budget for 2021/22 includes expenditure of £23,447k, funded by £23,208k income, with a net transfer from reserves of £801k, including a transfer to general reserves of £281k.

3.3 A summary of the changes from the 2020/21 budget can be found in Table 1 below.

Table 1: HRA Summary

Housing Committee	**para**	**2020/21 Revised Estimate £k**	**2021/22 Original Estimate £k**
Base Budget		(180)	(180)
Pay and contract increases	5		128
Rent and service charges	4		(265)
Proposed budget adjustments	7,8		(56)
Growth	6		92
Net Service Budget		**(180)**	**(281)**

4. Proposed Rent and Service Charges 2021/22

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

4.2 Dwelling Rents

2021/22 is the second year of rents being regulated by the Regulator of Social Housing, following the four year rent reductions. 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 1.5% - CPI of 0.5% plus 1%. This increases the average rent from £83.57 per week to £84.83 per week, an increase of £1.26p per week.

4.4 This is much lower than had been assumed in the HRA MTFP due to the low inflation levels. As reported in the Budget Strategy Paper reported to Strategy and Resources and Council in October 2020 a low inflation rate has a significant impact on the long term financial position of the HRA. Compared to the previous assumption of 2% CPI, the current CPI of 0.5% reduces the annual income by £317k. Over a 30 year period this compounds to a reduction in income of £13.1m. With an additional assumption that inflation rates will still be lower than 2% for 2022/23 (1.6% as set out in the assumptions), the total loss of income compared to the previous assumptions totals £16.6m over 30 years.

4.5 This has been in part offset by an increase in property numbers due to lower than anticipated Right to Buy sales in 2019/20 and the first half of 2020/21, as well as the purchase of properties as included in the capital programme.

4.6 Members could choose to increase rents by less than 1.5% within the regulations. Each 0.5% change would reduce the average weekly rent for tenants by £0.42 per week, or £21.84 per year, and decrease dwelling rent income to the HRA by approximately

£107k per year. If Members chose to implement a lower rent increase, the corresponding amount would need to be funded from reductions in existing services.

4.7 There are also options to increase rents, such as for higher earning tenants. It is not being recommended that this is put in place. It is possible to apply to deviate from the regulated rents of CPI+1% if this causes serious financial difficulty. This does not yet apply to the SDC HRA.

4.8 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 74% of tenants have rents below the Target Rent (a decrease from 78% 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.

4.9 Shared Ownership rents

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

4.10 Garage rents and service charges

Garage rents and service charges are recommended to increase by 1.5% (CPI+1%, in line with rents), with the exception of sheltered housing service charges, which are set out below.

4.11 Sheltered housing service charges

From April 2021 it is proposed that the sheltered housing service charges are reset, in line with the Older Persons Housing Strategy and based on the expected cost of running each scheme. This means that some schemes will receive a higher service charge and some lower than current charges. A complete list of the proposed service charges, is included in Appendix A.

4.12 Savings have been made in sheltered housing through reducing expenditure whilst bringing the service in line with the Older Persons Strategy. These revised charges would allow those savings to be passed on to tenants where possible.

4.13 In summary 15 schemes (444 tenancies) would have reduced charges and 10 schemes (267 tenancies) would have higher charges.

4.14 These charges are eligible for housing benefit and universal credit and so tenants in receipt of benefits (even partial benefits) would not be affected by these new charges.

4.15 With some schemes increasing in cost and some decreasing, the overall benefits claim will not change significantly, however many tenants (currently 32%) pay their rents and service charges in full, and so would be directly affected by this change.

4.16 In recognition of this, the proposal includes applying a discretionary discount to the charge for any increase for a tenant not eligible for benefits to bring it back down to the charge that would have been in place had these changes not happened. For 2021/22 this will be £26.36 (2020/21 charge of £25.97 plus 1.5% (CPI +1%)). For example, a tenant not eligible for housing benefit or universal credit and in a scheme with a new charge of £30 per week would have a credit added to their account to bring the weekly cost back down to £26.36. This credit will continue for the life of the tenancy. A tenant in the same scheme but receipt of housing benefit or universal credit would not have the credit applied and the full service charge will be reclaimed through benefits.

4.17 This will ensure that no existing tenant will themselves pay more than they do now, whilst reclaiming as much of the cost of running the service as possible. Many tenants will benefit from reduced charges, and where those tenants are in receipt of benefits this reduction will also be passed on.

4.18 From April 2021 these charges will be in place for all new tenants, since the properties will be advertised with the full charges, and so any prospective tenant will know the full cost in advance. This will be monitored to see if/how the service charges affect the popularity of schemes.

4.19 Worked example

Example Sheltered Service Charges per week	**Example scheme 1** (lower than current charge) charge per week (£)	**Example scheme 2** (higher than current charge) charge per week (£)
Current Charge 2021/22 (2020/21 of £25.97 + 1.5%)	26.36	26.36
New charge for scheme	**22.00**	**30.00**
Existing tenant in receipt of benefits (any increase would be payable by benefits, not the tenant)	22.00	30.00
Existing tenant not in receipt of benefits	22.00	30.00 less credit of -£3.64 = £26.36
New tenant from April 2021	22.00	30.00

4.20 These charges will be reviewed at least every three years. Where facilities change, for example if a scheme converts to Independent Living and loses the communal room, the service charges will be reviewed earlier.

4.21 Sheltered Modernisation works should not affect future service charges for any scheme, except where additional services, such as a lift, are added. General improvements to schemes will not be charged to tenants through service charges, but will remain subsidised from the wider HRA.

4.22 The purpose of these changes is not financial, but to ensure fair charges to tenants in line with the new service as set out in the Older Persons Strategy. The changes outlined in this paper would not increase the income to the HRA, but in the short term would reduce it as subsidy would be given to existing tenants with higher charges to pay. This subsidy would reduce as new tenancies start.

4.23 The proposed service charges have been reduced from those presented to Housing Committee in line with the amended salary uplift assumptions.

4.24 General Needs Cleaning Service Charges

In recognition that during the Covid-19 lockdown there was an 8 week period where the general needs blocks were unable to be cleaned, it is proposed that those tenants affected by the reduction in service will receive a credit against their charges in 2021/22.

4.25 Void assumptions

Void levels are assumed to remain at 1% for General Needs properties for an additional year, increasing the income assumption by £191k. Void rates in sheltered housing remain at 5%.

4.26 Provision for bad debt

In line with current plans, provision for non payment of rents and charges have been increased to £200k (from £110k) to make an allowance for the anticipated impact of Universal Credit. Any ongoing impact of Covid-19 will be monitored.

5. Pay and Price Inflation

5.1 Pay inflation has been changed to 1% for 2021/22. In line with the Budget Strategy, future years pay inflation has been provided for in the MTFP at a rate of 2.75%.

5.2 Provision has also been made for non pay inflation on major contracts.

6. Growth Items

6.1 A number of priority growth areas have been identified across the Council. This includes some areas relating to the housing landlord function and so must be funded within the HRA. Further details on the Growth and Recovery programme can be found in Appendix C of the General Fund report.

6.2 Regeneration - additional budget of £42k

To provide additional officer capacity required to drive delivery of priority regeneration projects and opportunities across the district.

Two additional posts have been added to the structure for two years, one Surveyor and one Project Manager, and will be half funded by the HRA.

6.3 Climate Change – additional budget of £50k

To provide additional officer capacity to drive implementation of the 2030 strategy and associated actions, focused on the Council's own activities and operations as well as community and partnership orientated work.

One additional Carbon Neutral Officer has been included in the structure for 18 months and will be half funded by the HRA as part of the role will be working directly with tenants.

A new Retrofit Officer post will be added to the HRA staffing structure and will focus on the physical aspects of the housing stock. This post has been included for a period of three years from midway through 2021/22.

7. Service Delivery

7.1 Tenancy management (staffing)

The Tenancy Management structure was increased by three posts in 2020/21 for a period of 12 months. Due to the exceptional circumstances in 2020/21 it has not been possible to measure the effectiveness of this arrangement and so the additional posts are set to continue for another 12 month period.

7.2 Sheltered housing

Further savings have been found across sheltered housing whilst bringing the service in line with the older persons strategy. As outlined in paragraph 4.11, these savings will be passed on to the tenants through service charges

7.3 Repairs and maintenance

Budgets have been realigned in line with the in house repairs service, however at this time the overall budget remains the same. The performance of the service will continue to be monitored against both the budget and the business case. It is still expected that savings will be made in the future.

The electrical servicing and repairs service contract is due to end in April 2021. In line with the Repairs and Maintenance Service report consideration is being given to bringing the service in house. No change in budget is proposed for 2021/22, and any additional savings identified by increasing the in house provision will be reported to Housing Committee as part of the budget monitoring process.

The planned cyclical works on dwellings, which includes external painting and rendering has increased by £239k. This is not an increase in average cost, but represents an increase in work in the programme for 2021/22. The cost of cyclical works vary year to year based on the programme being delivered.

8. Central Changes

8.1 A number of changes are proposed to central budgets:

8.2 Contribution to capital programme – this is made up of the depreciation charge which is put aside in the Major Repairs Reserve to fund major works, plus a Revenue Contribution to Capital Outlay (RCCO) for the Sheltered Modernisation capital programme.

8.3 Provision to repay debt – in line with the MTFP the provision for repaying debt has been increased by 2%, £18k, plus an allowance to repay the additional borrowing on the current new build programme. The total provision included in the base budget for 2021/22 is £967k.

8.4 Currently the debt is being directly allocated to offset previous borrowing. This is in line with Minimum Revenue Provision (MRP) in the General Fund. In the General Fund this direct allocation has to happen, however the HRA does not have to put aside money to repay debt. It could, as has been previously reported, keep the borrowing on a long term basis and continue to pay ongoing interest payments.

8.5 Although the intention is to continue to put aside money to repay the borrowing, it is proposed that this funding be kept in an earmarked reserve instead of being locked away with the MRP of the General Fund. It could still be available to repay loans when they are due, but would give the possibility of reversing this decision if it became necessary in the future.

8.6 This proposal has been included in this budget to start from 2020/21, and is reflected in Section 9, Earmarked Reserves.

8.7 Investment income – investment income is expected to decrease against the base budget, due to lower interest rates that have arisen in the Covid-19 pandemic.

8.8 Pension lump sum – in line with the triennial pension review the annual lump sum has reduced. The HRA share of this reduction is £73k.

9. Earmarked Reserves

9.1 The below table shows a summary of the earmarked reserves held in the HRA. Where there are changes to the reserves held, these are detailed following the table.

Table 2: HRA Earmarked Reserves

	2020/21				2021/22			
Earmarked Reserve	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	2,345	(949)	1,380	**2,776**	**2,776**	(1,524)	1,000	**2,252**
Estate Redevelopment	1,170	0	0	**1,170**	**1,170**	0	0	**1,170**
Transformation	250	0	0	**250**	**250**	0	0	**250**
HRA General Contingency	100	0	0	**100**	**100**	0	0	**100**
Provision for repayment of debt	0	0	918	**918**	**918**	0	967	**1,885**
Total Earmarked reserves	**3,865**	**(949)**	**2,298**	**5,214**	**5,214**	**(1,524)**	**1,967**	**5,657**

9.2 Sheltered Modernisation

Transfers to the Sheltered Housing EMR have remained in line with previous assumptions in total, although have been reprofiled.

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

9.3 Transformation

The HRA has an existing EMR for staffing changes under the Work Force Plan. It is proposed that this reserve is redesignated to general transformation. This would support the HRA share of the cost of council-wide transformation. The transformation programme should lead to savings in the future which would also be shared with the HRA.

9.4 Provision for repayment of debt

As detailed in paragraph 8.3 it is proposed that the amounts put aside for the repayment of debt are held in an earmarked reserve in order to allow flexibility in the future.

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 3.

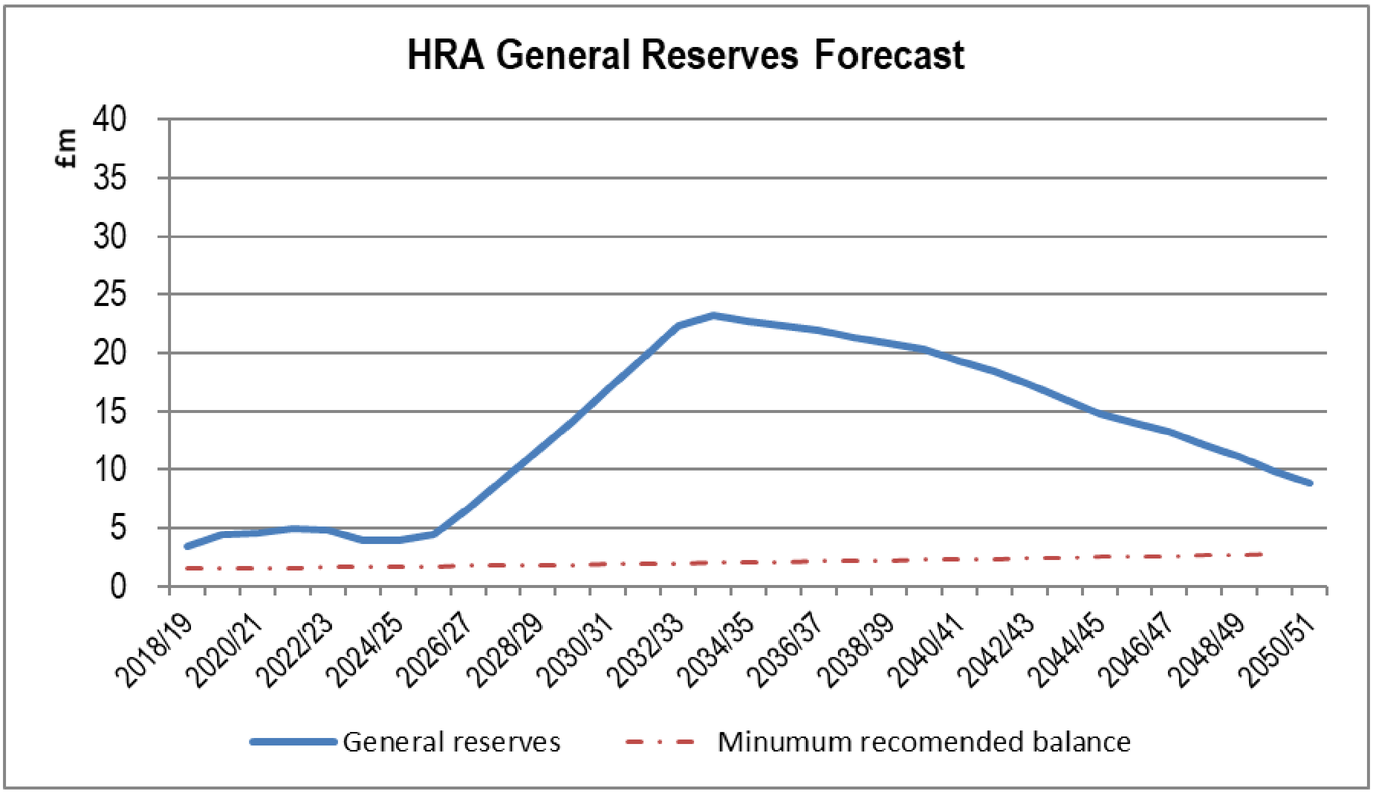
Table 3: HRA MTFP

	2020/21 Base	2020/21 Revised	2021/22 Base	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
Income	(22,943)	(22,943)	(23,208)	(23,758)	(24,457)	(25,118)
Expenditure	9,890	9,890	10,142	10,122	10,411	10,663
Other income and expenditure	12,440	12,440	13,306	13,612	15,397	14,956
Total Housing Revenue Account	**(612)**	**(612)**	**240**	**(25)**	**1,351**	**501**
Transfers to/(from) earmarked reserves	431	431	(521)	66	(440)	(473)
Transfers to/(from) general reserves	181	181	281	(41)	(911)	(27)
Total	**0**	**0**	**0**	**0**	**0**	**0**
General Reserves Balance	4,430	4,430	4,610	4,891	4,850	3,939
Opening balance	181	181	281	(41)	(911)	(27)
Transfers to/(from)	4,610	4,610	4,891	4,850	3,939	3,912
Closing Balance	(22,943)	(22,943)	(23,208)	(23,758)	(24,457)	(25,118)

10.2 With the changes proposed in this report the HRA is forecast to have a balanced position across the full 30 year period, which is very positive given the reduced rental income.

10.3 The long term position has improved from the position presented to Housing Committee due to the reduced pay inflation assumption for 2021/22. Although there are growth items included in the budget, these are only fixed term for up to three years and so do not have a significant impact on the long term position.

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 assumptions. 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 period of 1% as detailed in paragraph 4.25), and 5% in sheltered housing properties are assumed (in schemes not affected by the Sheltered Housing Modernisation Programme).
- Inflation of 1.6% has been assumed across rents in 2022/23, rising to 2% in 2023/24.
- 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 unexpected costs and 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 other than those in the current programme.
- 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. Risks and Uncertainties

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

12.1 Inflation – if inflation rates remain lower than expected, the rental income will be lower than currently assumed. This could significantly affect the funding available to run the service and deliver works on the properties.

12.2 Right to Buy Receipts – there is still a risk that the development programme could slip, or some schemes may not be possible to deliver. Therefore, because of changes to timing, receipts would need to be repaid.

The Ministry of Housing, Communities and Local Government has given an extension to the three year deadline to use receipts to March 2021, however due to the impact of Covid-19 on the programme it may be necessary to repay RTB receipts in 2020/21 and/or 2021/22.

There is also a potential risk that the receipts may not be sufficient to fund the capital programme over the longer term. If this were to happen, alternative funding would need to be found. This could include Homes England grant funding.

12.3 Interest Rates - the HRA is largely sheltered from increases in interest rates 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.

Investment income is directly linked to interest rates, and lower interest rates would reduce the investment income the HRA receives on reserve balances.

12.4 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.

12.5 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.

12.6 Internal Council Changes – any major changes to the Council could impact on the HRA medium/long term position.

13. Capital Programme

13.1 A revised programme of £12,115k in 2020/21 is proposed, followed by an increased budget of £23,359m in 2021/22. The total indicative spend over the five year capital programme is £63,081k, however this is subject to change as schemes are worked up.

13.2 A full breakdown of the capital programme and funding can be found in Appendix D.

14. Major Works

14.1 It is proposed that the budget for 2020/21 is revised to £4,969k, with the base budget for 2021/22 at £9,752k.

14.2 The delivery of the 2020/21 programme has been significantly affected by Covid-19 and has been reprogrammed accordingly.

14.3 The 2021/22 programme has also been revised to include additional works based on the capacity of the Contracts Team and the contractors. It includes £2.263m works which will improve the energy efficiency of the dwellings to help reduce the carbon footprint of the properties and reduce the fuel bills of tenants. The works contributing to this include loft and cavity wall insulation, external wall insulation, windows and heating systems.

14.4 As members will be aware, a bid has been submitted for Social Housing Demonstrator grant funding. If successful, the capital programme will be realigned with this bid.

14.5 As the works are not yet programmed after 2021/22, 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.

14.6 Although the capital programme includes a number of the works identified in the Sustainable Energy Strategy, further work will need to be undertaken to establish the level of ambition, and how best to deliver this. Any additional works will need to be fully costed and decisions will need to be made about how to fund the works.

15. New Homes and Regeneration Programme

15.1 The development programme has been reprofiled with updated assumptions on timing and cost as reported in the New Homes and Regeneration Programme and Sheltered Modernisation Update Information Sheet.

16. Purchase of replacement housing

16.1 A budget of £1,320k was included in the base budget in order to replace HRA properties used as temporary accommodation for homeless families. This should allow households to stay in the district, as well as provide savings to the General Fund, with no net cost to the HRA since future rent income would offset the cost of borrowing.

16.2 Due to the successful programme of purchasing properties in 2020/21, it is proposed to increase this programme to £2m per year. This would allow properties to be purchased on an ongoing basis, and would be used flexibly between buying properties to replace dwellings converted to temporary accommodation, buying properties to add to the general HRA stock which would provide long term accommodation to local households, and also to allow any purchases of land or dwellings which can be added to the development programme, as set out in the Strategy for New Council Homes.

16.3 Any purchases would need to follow the regulations set out in the Capital Strategy and be subject to a survey and business case to ensure that they are suitable to manage and maintain, as well as financially viable. Consultation would continue, including with ward councillors, as normal.

16.4 This would be an opportunity led budget, being dependant on the right properties becoming available and having the necessary staffing resource available at that time. There are no targets in place for acquisitions and it would not necessarily be used in full each year. It is not envisaged that any unused funds would carry forward to the following year.

16.5 Due to the ongoing rental income these purchases would not adversely affect the HRA position over 30 years, but once the initial borrowing was repaid, the rental income would benefit the HRA. It would also assist with the use of RTB receipts, helping to allocate receipts within the three year deadline.

16.6 The revised budget for 2020/21 also includes a budget of £600k for the Next Steps Accommodation Programme following a successful bid for grant funding for four flats to be purchased and used to house ex rough sleepers. The grant funding of £200k will be combined with existing capital receipts to purchase the properties. The HRA funding will be repaid through ongoing rental payments from the new tenants.

17. Sheltered Housing Modernisation

17.1 As reported in the New Homes and Regeneration Programme and Sheltered Modernisation Update Information Sheet, reported to Housing Committee in December 2020, works are underway at Willow Road, Stonehouse with works due to start at Springfields Court, Cam in January 2021.

17.2 A budget is included for works on two additional schemes in 2021/22 as planned, with the schemes to be approved by Housing Committee later in the financial year.

18. IMPLICATIONS

18.1 Financial Implications

This report is financial in nature.

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18.2 Legal Implications

None directly arising from this report other than to note that this report forms part of the budget setting process for 2021/22 which involves the Council calculating capital and revenue estimates for its General Fund and HRA.

One Legal

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18.3 Equality Implications

There are not any specific changes to service delivery proposed within this decision.

18.4 Environmental Implications

There are no significant implications arising directly from this report. The ongoing environmental implications would need to be considered for each service area when looking at delivery.