Executive Report

Ward(s) affected: n/a

Report of Director of Service Delivery

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Housing Revenue Account
Budget 2021-22

Executive Summary

The report outlines the proposed Housing Revenue Account (HRA) budget for 2021-22.

These estimates are predicated on the assumptions, ambitions and priorities contained in the current HRA business plan (see **Appendix 1**) to be reviewed in the light of the current pandemic and Brexit as it affects our operating environment.

On 31 March 2021, social rent policy requiring social housing providers in England to reduce social rents by 1% per annum for the four years from 1 April 2016, as prescribed in the Welfare Reform and Work Act 2016 will come to an end. From April 2021, the rents for 2021-22 shall increase by Consumer Price Index (CPI) from September 2019 to September 2020 (0.8%) plus 1% and other subsequent September going forward.

A 3.4% increase in garage rents is proposed from April 2021.

The report includes a proposed investment programme in tenants' homes.

The estimates are on the premise of a lower priority to the repayment of debt principal inherited as part of the self-financing HRA settlement as proposed in the business plan.

The Executive is asked to agree, subject to Council approving the budget on 10 February 2021:

(1) That the projects forming the HRA major repairs and improvement programme, as set out in Appendix 4 to this report, be approved.

(2) That the Director of Service Delivery be authorised, in consultation with the Lead Councillor for Housing and Development Management:

(a) to reallocate funding between approved schemes to make best use of the available resources; and

(b) to set rents for new developments.

The Executive is asked to endorse the recommendation to Council below:

Recommendation to Council:

(1) That the proposed HRA revenue budget for 2021-22, as set out in Appendix 2 to this report, be approved.

(2) That a rent increase of 1.8%, comprising the September 2020 CPI (0.8%) plus 1%, as required by the Welfare Reform and Work Act 2016, be implemented.

(3) That the fees and charges for HRA services for 2021-22, as set out in Appendix 3 to this report, be approved.

(4) That a 3.4% increase in garage rents be approved for 2021-22.

(5) That the Housing Investment Programme as shown in Appendix 5 (current approved and provisional schemes), be approved.

Reasons for Recommendation:
To enable the Council to set the rent charges for HRA property and associated fees and charges, along with authorising the necessary revenue and capital expenditure to implement a budget, this is consistent with the objectives outlined in the HRA Business Plan.

1. Purpose of Report

1.1 This report provides a position statement on the 2021-22 draft budget and makes recommendations to the Executive on both the HRA revenue and capital programme budget.

2. Corporate Plan

2.1 Through the provision of new homes and supporting the less advantaged, this budget delivers on the Place-making and Community themes of our Corporate Plan.

3. Background

3.1 The ongoing regime of self-financing arrangements introduced in 2012, empowers the Council to optimise its resources in management of its social housing services. The Housing Revenue Account Business Plan sets the framework upon which the revenue budget and proposed Housing Investment Programme are prepared. This plan sets out our ambitions and priorities for the service.

4. Housing Revenue Account Business Plan

4.1 The objective of the business plan is to optimise its resources in ensuring quality tenantable accommodation for residents, stock growth to address the increasing demand for affordable housing and surpluses to the various reserves in pursuance of its business. It is not limited to housing stock, but also wider issues such as community development and improving the environment.

4.2 The Business Plan, not only concentrates on the financial related strategy and objectives, but also the service priorities of the Council's Landlord function to its tenants and leaseholders. The longer-term perspective is crucial to ensure that the service and its primary assets, the housing stock, are fit for purpose for the whole period of the plan and beyond.

4.3 Brexit and lately the Covid-19 pandemic has been a challenging period for the government, local government, residents, and the economy. The Government has made a number of policy announcements that recognise the important role social housing has across our communities, especially in these challenging times. There also appears to be a renewed desire to see local authorities play an increased role in the delivery of new homes to kick start the economy.

4.4 The announcements are resetting the landscape in which the HRA business operates and are very much in line with the ambitions this Council has for its communities.

4.5 Universal Credit, as currently structured, continues to cause concern. Some of these concerns are increasingly shared at a national level.

4.6 Housing is fundamental to an individual's health and wellbeing. The HRA operates within an increasingly stressed public sector financial environment and we see the impact daily. The intervention threshold for mental health and social services have steadily increased, especially in this period of lock down measures to curtail the spread of coronavirus. We are trying to manage the consequences of this, on both tenants and neighbourhoods, which is proving increasingly challenging.

4.7 North Downs Housing Ltd (NDH) accounts were, for the first time grouped, with the Council's Statement of Accounts in the preceding financial year ended 31 March 2020. The accounts are in line with the business plan to break-even in 2023-24. Whilst NDH's role is to provide an alternative range of tenures, it offers the opportunity through partnership working to consider a wider range of development opportunities.

4.8 The Council has, through the Community Wellbeing Team and Project Aspire, provided greater support in less advantaged areas. They work closely with Landlord Services.

5. Potential Pressures

5.1 As mentioned, the Covid-19 pandemic has played a major impact on the social and healthcare services on tenants. The cost of managing tenancies is likely to see upward pressure as we are forced to deal with situations we are less well equipped to manage.

5.2 The pandemic has led to several business closures, despite government support, with resultant increase on demand for social housing, putting pressure on our limited resources and time expediency in responding to this new demand.

5.3 The funding framework available to meet the cost of supported housing remains fragile. Last year we received just £144,000 in Supporting People Grant funding with a further likely reduction.

5.4 The Homeless Reduction Act 2017 has placed greater obligations on the Council. This is coinciding with a steady rise in the number of households at risk. Many of those at greatest risk have not only housing issues but a range of complex needs. Together they are placing greater demands on the Housing Service that in turn flows through to the teams managing our properties.

5.5 The wider social housing sector is becoming increasingly commercial. Some housing associations are focusing on minimising risk by being very selective on who they will house and also their move to market rent that is 80% of commercial rent for their new build and letting. We are fortunate in having a retained stock, which gives us greater flexibility in helping those in housing need. It does, however, create a cost pressure.

5.6 The affordability of shared ownership properties is an issue for many. Whilst it enables a resident to join the home ownership ladder, the reality for many is that they are unable to stair-case (acquire further equity shares) or move to a larger property as their household grows. Expanding this stock is not currently a priority for the Business Plan; however, this will be revisited when we have the opportunity to develop larger sites. In such cases, shared ownership brings down the overall cost of a large development.

5.7 The estimates, consistent with the business plan, continue to attach a lower priority to the repayment of debt principal inherited as part of the self-financing HRA settlement, reflecting the Council’s determination to provide new additional affordable homes.

5.8 For the first time in a long period we have underspent in our responsive repairs budget as a result of the pandemic as both staff and contractors are limited to mainly urgent and essential repairs. This may have an impact on our housing stock and future repair bills, in the long run.

6. Preparation of the revenue and capital programme budget for 2021-22

6.1 The 2021-22 budgets have been prepared having regard to the recent policy announcements and the positive impact they might have. At the same time, we are conscious of various cost pressures along with the implications of our debt financing profile.

6.2 **Capital expenditure:** The proposed investment in our existing property base takes account of the downward pressure on our income stream since 2016. It also reflects the latest information we have on the condition of the stock.

Revenue expenditure: We have already taken a number of steps to limit our ongoing revenue commitments until we fully understand the implications of the challenges we face.

- We will continue to evaluate all posts that fall vacant to determine whether it is appropriate to reappoint or whether an alternative approach is considered.
- The Covid-19 pandemic has changed the way we work with an increased use of IT, remote working and virtual meetings.
- The Allpay system and mobile payment App has being useful in this trying period, in our drive for rent collection.
- Rent collection analytics technology introduced earlier has helped colleagues focus and strategise their rent collection.

7. HRA Revenue Budget 2021 - 22

Assumptions

7.1 The total HRA debt stands at £197 million. It is projected that the interest charge for 2021-22 will be £5,142,230. No provision is included in the budget for the repayment of debt during 2021-22 in line with the Executive's decision that debt repayment is not a priority.

7.2 The revenue budget for 2021-22 is predicated around a number of key assumptions. The most important of which are set out in the table below:

Item	Assumption		
Opening stock	4.780 units of accommodation		
HRA Debt	£197 million		
Average cost of capital for 2017-18	2.60%		
September CPI	0.8%		
Rent increase CPI + 1%	1.8%		
Garage income increase	3.4%		
Bad debt provision 2021-22	£500,000		
Void rate	1%		
Service charge increases	Linked to contractual arrangement with suppliers		
Housing units lost through Right to Buy (RTB)	2019-20 19	2020-21 10 +8	2021-22 15
Retained receipts	Held in reserves		
HRA ring fence	Policy of strong ring fence continues		
Debt repayment	No provision made for the repayment of debt		

7.3 The revised budget set out in Appendix 2 is based on a 52-week rent year.

7.4 Due to the requirement under the Welfare Reform and Work Act 2016, rents will increase by CPI plus 1% per annum in 2021-22, which will result in additional income of approximately £630,000.

Summary of Revenue Account Budget 2021-22

7.5 The table below summarises the proposed 2021-22 revenue budget, which reflects our current Treasury Management Strategy – in effect an interest only mortgage rather than a repayment mortgage. The timing of debt repayment will largely be a treasury management decision aligned to the overarching objectives of the HRA Business Plan.

Gross Expenditure alternatively analysed as:	**£000**
Management and maintenance	8736
Depreciation	5,529
Other	3,629
Interest payable	5,142
Transfer to reserves	11,295
	34,331

Received From:	£000
Council House Rents	30,507
Interest receivable	598
Rent income	1,320
Fees, charges and miscellaneous income	1,905
	34,331

7.6 Based on the assumptions contained in the HRA Business Plan and detailed in paragraph 7.2 above, it is estimated that the HRA will have an operating surplus of £11.221 million for 2021-21. The size of the surplus reflects a number of factors:

- the prevailing borrowing rate
- the impact of Covid-19 on maintenance expenditure
- the impact of historically high levels of investment in the stock over past years maintaining stock condition
- good income collection performance
- strong rental stream with many properties at or close to target rent levels

Expenditure

7.7 The main headings are summarised below:

Subjective Heading	2020-21 Budget	2020-21 Projection	2021-22 Budget
	£	£	£
General Management	5,933,810	6,090,631	6,324,322
Responsive and planned maintenance	5,857,920	3,793,321	5,857,920
Interest payable	5,142,230	5,675,260	5,142,230
Depreciation	5,525,000	5,528,730	5,528,730
Cost of democracy	256,800	251,530	256,800

7.8 **General Management**: Budgeted expenditure on delivering continuing HRA services is less than 5% increase on previous year's budget, reflecting the review of revenue commitments outlined in paragraph 6.2 above.

7.9 **Repairs and maintenance:** Budgeted expenditure on revenue-funded works remains at previous year's budget due to the restrictive access and less physical contact as a result of Covid-19 pandemic. We are hoping the vaccination programme will lead to a resumption of activities to manageable levels.

7.10 **Interest payable:** Approximately 75% of the loan portfolio consists of fixed interest loans, whilst the remaining portfolio is on a variable rate arrangement. Although the variable rate loans are subject to prevailing market conditions, it is likely that interest rates will remain low in the short to medium term. The table below sets out our current loan portfolio.

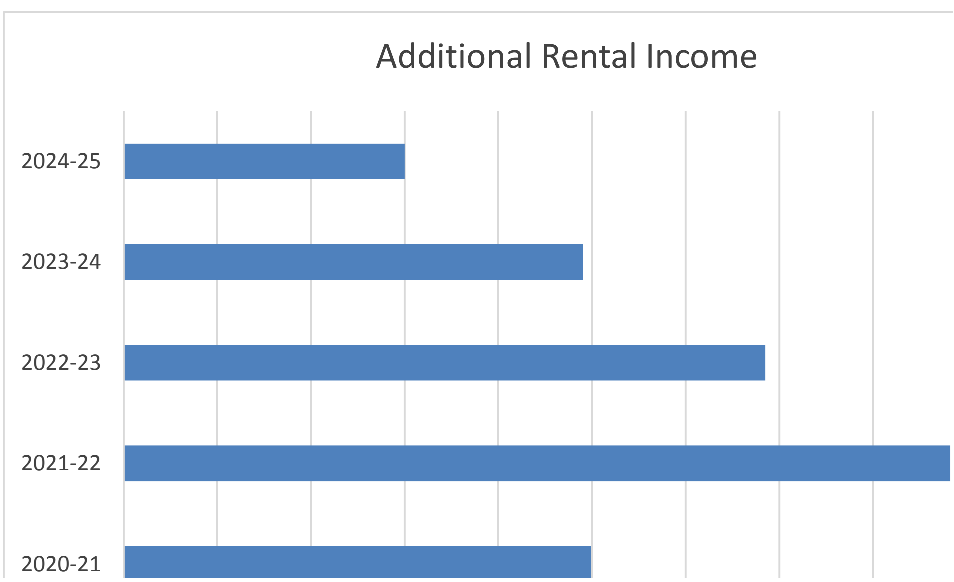
Loan Type	Principal	Remaining years	Rate
Variable	£45,000,000	10	0.48%
Fixed	£10,000,000	12	2.70%
Fixed	£10,000,000	13	2.82%
Fixed	£10,000,000	14	2.92%
Fixed	£10,000,000	15	3.01%
Fixed	£25,000,000	17	3.15%
Fixed	£25,000,000	20	3.30%
Fixed	£25,000,000	15	3.44%
Fixed	£15,000,000	29	3.49%
Fixed	£17,435,000	30	3.50%

7.11 **Depreciation:** To safeguard future rental streams, we need to ensure our properties and assets are adequately maintained. This will involve the replacement of ageing components at the appropriate time. In order to do so, it is important that we set aside adequate funds each year to meet future liabilities. The depreciation charge is one of the key mechanisms we use to do this. The proposed 2021-22 charge represents, in officers' view, a realistic amount having regard to the outcome of the stock condition survey. A charge of £5,528,730 is considered both appropriate and affordable.

Income

Rent Increase

The September CPI plus 1% rent increase gives an additional income of roughly £0.5m, yearly as demonstrated in the graph below:



7.12 The previous stated formula in the last four years as per the Welfare Reform and Work Act 2016 requires us to reduce our social housing rents by 1% a year for four years from April 2016, which ended in April 2020. The policy reverts back to our original business plan of annual increase in rents of CPI inflation + 1% each year. The result of this policy means that in five years, there will be cumulative rental income surplus of £2.67m at our disposal.

7.13 A provision for bad debt charge of £500,000 is included in the estimates, revised from £300,000 to take cognisance of the effect of the pandemic. This charge will remain under review, but it is considered appropriate - it represents 1.7% of the annual tenanted income.

Right to Buy sales (RTB)

7.14 RTB activity remains steady during 2020-21. However, as a result of Brexit and Covid-19, we are expecting a significant drop in take-up.

7.15 The table below outlines activity as at December 2020.

Activity	Number
Properties sold since 1 April 2020	10
Applications being processed	8

7.16 Under the government's one-for-one replacement scheme, we are able to retain the majority of the capital receipt provided it is re-invested in additional affordable housing or regeneration schemes within three years. Only a third of the cost of a development can be financed from this source - we must finance the balance from capital receipts or other sources including reserves accruing from the appropriation of revenue account surpluses. Our current development plan fully commits the one-for-one retained receipts we have accumulated to date. The ambition remains to utilise the receipts we are anticipating in future years.

7.17 On current levels of activity, we project a loss of units to be in the region of 15-25 units per year. Our new build programme is mitigating the impact of the on-going right-to-buy programme, but it is unfortunate there are, to date. no proposals to amend the scheme in order to prevent the ongoing loss of much needed social housing in the area.

7.18 Increasing sales has three negative impacts. It:

- reduces the number of affordable homes
- removes the long-term positive contribution each property makes to our operating costs
- increases the unit costs of managing and maintaining properties. Invariably tenants buy the better properties.

HRA Borrowing Cap

7.19 The removal of HRA borrowing restrictions gives greater flexibility on borrowing additional funds and dexterity in treasury management to maximise investment, reduce cost and risk.

7.20 We hope to carry out adequate investment appraisal weighing up various options and ensuring each scheme and investment add value to our business, by choosing the best return against our benchmark. We expect to fund schemes using:

- capital receipts retained under the 1 for 1 replacement scheme
- HRA reserves
- HRA borrowing

7.21 HRA borrowing will be within the Prudential Borrowing framework – it must be affordable by the HRA and not place our existing services and stock investment programmes at risk. Each development scheme will be appraised individually to ensure it is viable and affordable as is currently the case.

8. HRA Capital Programme and Reserves

8.1 We will continue to assess a range of different delivery mechanisms for new homes. Whilst these will introduce a greater degree of complexity, the indications are that they will provide additional freedoms. The housing market in the borough does not work for many and a wider range of interventions are needed, beyond those that the HRA is able to make. The section below sets out what the HRA can do over the coming year.

8.2 Currently, there are four potential strands forming our HRA capital programme under the self-financing regime. In the past, not all have been viable options, but that position has changed. The four strands are:

- replacing ageing components such as roofs and kitchens
- improving and enhancing existing properties – for example, installing double glazing
- stock rationalisation – the most common example to date being the decommissioning of outdated sheltered units
- expansion – the provision of new additional affordable homes.

8.3 The funding sources enabling us to deliver a capital programme are as follows:

- HRA rental stream
- Capital receipts generated from the disposal of HRA assets including land
- HRA reserves
- HRA borrowing

8.4 The HRA has built up significant revenue reserves and as at 31 March 2021 are estimated to be in the region of £11.106m– excluding capital receipts. These can be used for specific HRA related purposes. It is proposed that these reserves are set aside to support the major repairs and improvements and new build programme. The HRA also has usable capital receipts, generated from the sale of HRA land and housing assets.

8.5 The table below shows the available reserves that can support the HRA Business Plan and they reflect only the schemes currently included in programme, and the decision not to repay debt. The contribution into the reserve for future capital programmes is maintained.

Year ending	Reserve for future capital works	Major repairs reserve	New Build Reserve	**Total**	Usable capital receipts	Usable Capital Receipts (one-for-one receipts) 1	Usable Capital Receipts (HRA debt repayment)	**Total usable capital receipts**	**Total reserves/ receipts**
	£000	£000	£000	**£000**	£000	£000	£000	**£000**	**£000**
Mar-19	33,329	9,598	45,789	**88,716**	6,760	6,142	4,158	**17,060**	**105,776**
Mar-20	35,829	9,977	51,687	**97,493**		7,666	4,819	**12,485**	**109,978**
Mar-21	38,329	9,977	48,818	**97,124**		5,443	5,502	**10,945**	**108,069**
Mar-22	40,829	9,977	40,475	**91,281**		877	6,207	**7,084**	**98,365**
Mar-23	43,329	9,977	42,768	**96,074**		874	6,935	**7,809**	**103,883**
Mar-24	45,829	9,977	46,316	**102,122**		1,412	7,687	**9,099**	**111,221**

Potential reserve commitments - Illustrative example	
Potential repayment of variable rate loan	**45,000**
Cumulative reserve balance	**66,221**

8.6 The business plan is most sensitive to the following assumptions:

- income trends
- legislative changes
- inflation rates
- cost of debt
- capital investment
- right-to-buy sales
- Covid-19

8.7 The degree to which a development programme can be financed will in part be determined by a continued willingness to attach a lower priority to debt repayment coupled with the release of land for such purposes under the provisions of the Local Plan.

8.8 One-for-one receipts are being applied to current and proposed new build schemes to minimise the risk of repayment of such receipts. This will enable the retention of future one-for-one receipts, with a reduced risk of repayment, pending the identification of new sites[1]

8.9 A combination of usable one-for-one receipts, and the new build reserve will be used to fund a number of schemes on the approved capital programme. Where appropriate, investment will be supplemented by appropriate borrowing.

8.10 **Development Projects:** An update of our current development projects shall be provided during the year.

8.11 **Existing housing stock:** Based on an analysis of our stock condition data and the detailed knowledge that the Property Manager has of the stock, a proposed investment programme is set out in Appendix 4. An update of Schemes completed during 2020-21 was given during

[1] The Council has entered into an agreement with the Secretary of State whereby it is allowed to retain an element of the capital receipts that it receives from Right to Buy sales. Under the terms of the agreement these receipts must be used to finance up to 30% of the cost of replacement social housing within three years, otherwise the retained receipts must be repaid to the MHCLG with interest.

the year and hopefully the same strategy of continuous update will be applied in the 2021-22 financial year.

9. Robustness of the Budget and Adequacy of Reserves

9.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the budget and adequacy of the proposed financial reserves.

9.2 Paragraph 7.2 above details the assumptions used in the preparation of the 2021-22 budget.

9.3 Staffing costs have been included based on the Full Time Equivalents (FTEs) included in the approved establishment of 65.26.

9.4 Throughout the budget process, the Corporate Management Team, the Leader and relevant lead councillors have been involved in what is considered to be a deliverable budget.

9.5 A prudent assessment of income has been made and only income that has a high level of certainty of being received is included within the budget. The 2021-22 budget includes a bad debt provision of £500,000. This provision reflects the economic climate and continuing welfare reform changes. The level of operating balance remains unchanged at £2.5 million.

9.6 Surrey County Council continues to fund the Sheltered Housing service; hence it is not shown.

9.7 Service level risk assessments have been undertaken for both existing major areas of the budget and mitigating actions have been taken and monitored in the course of the year

9.8 The corporate risks will be included in the corporate risk register, whilst service risk registers are prepared having regard to the comprehensive guidance available about how to identify and score risks.

9.9 The overarching HRA business plan reflects the changing financial environment in which it needs to operate and to ensure the business plan remains fit for purpose. The HRA will continue to need to balance tenant needs and expectations in the context of its financial situation.

9.10 The housing related reserves are adequately funded is projected to be around £132.56m as at April 2021 and growing. The estimated value of all HRA reserves for the period up to 31 March 2023 is shown in paragraph 8.5. The HRA reserves shall be engaged on value adding expenditure to maintain growth and stability.

10. Legal Implications

10.1 The HRA is a separate account that all local authorities with housing stock are required to maintain. This account contains all transactions relating to local authority owned housing. The Local Government and Housing Act 1989 prohibits the Council operating its HRA at a deficit. The proposed balanced budget meets this obligation.

10.2 Notices of any increase in rent have to be sent to tenants 28 days in advance of the new charges coming into effect.

11. Human Resource Implications

11.1 The decision to review and where necessary to freeze or delete vacant posts is outlined in paragraph 6.2.

12. Conclusion

12.1 The proposed HRA revenue budget not only meets our obligation to deliver a balanced budget but also delivers opportunities to improve services to tenants. It also enables the Council to provide new affordable homes at a time when access to housing is increasingly difficult.

12.2 The proposed HRA capital programme sets out to maintain and improve our existing assets. It is essential we do so, not only to meet our regulatory obligations but also to safeguard future income streams.

13. Background Papers

None

14. Appendices

Appendix 1: HRA Business Plan 2019-2049
Appendix 2: Draft HRA Revenue Budget
Appendix 3: HRA Fees and Charges
Appendix 4: HRA Investment Programme (Major repairs and improvements)
Appendix 5: Housing Investment Programme, resources and funding statement