

HOUSING REVENUE ACCOUNT

1 SUMMARY

The Housing Revenue Account includes and expenditure associated with the Council's function as a social housing landlord. The items that can be debited and credited to the account are determined by statute

	2020/21 Budget £'000	2020/21 Forecast £'000	2021/22 Budget £'000
EXPENDITURE			
Management	1,832	1,879	1,838
Repairs and maintenance	1,150	1,059	1,039
Council Tax	10	10	10
Debt Management	10	10	10
Depreciation (MRA cont.)	1,338	1,338	1,373
Provision for Bad Debts	100	100	100
Gross Expenditure	4,440	4,396	4,370
INCOME			
Rents - Dwelling	(4,759)	(4,743)	(4,800)
Rents - Non Dwellings	(102)	(96)	(102)
Charges for Services and Facilities	(181)	(181)	(184)
Gross Income	(5,042)	(5,020)	(5,086)
Interest payable	580	547	630
Interest Receivable	(5)	(5)	(5)
Revenue Contribution to Capital			
Transfers to/(from) Reserves			91
Total Capital Charges and Appropriations	575	542	716
(Surplus)/Deficit for the Year	(27)	(82)	0
Opening Balances			
Housing Revenue Account	(1,083)	(1,083)	(502)
Universal Credit Reserve	(140)	(140)	0
Housing Levy	(220)	(220)	0
Debt Management Reserve	0	0	(1,023)
Closing Balances			
Housing Revenue Account	(1,110)	(502)	(509)
Universal Credit Reserve	(140)	0	0
Housing Levy Reserve	(220)	0	0
Debt Management Reserve	0	(1,023)	(1,107)

Service Statistics

	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>
Average Number of Dwellings	1,200	1,195	1,190	1,185	1,180
Housing Rent					
Rent per dwelling	77.54	78.70	80.67	82.69	84.75
Unpooled Service Charge	1.59	1.62	1.66	1.70	1.74
Total Rent	<u>79.13</u>	<u>80.32</u>	<u>82.33</u>	<u>84.39</u>	<u>86.50</u>

2 Specific Charges

In addition to Dwelling Rents the HRA makes charges for other associated services offered to tenants. It is proposed that these increase by 1.5% which is in line with the rent increases CPI+1% for September 2020

	2020/21	2021/22
	Current Charge	Proposed Charge
	£	£
<u>Garage Spaces</u>		
48 Week Basis	4.17	4.23
52 Week Basis	3.85	3.91
<u>Lock up Garages</u>		
48 Week Basis	7.70	7.82
52 Week Basis	7.11	7.22
<u>Caretaking Charge (Lower Rate)</u>		
48 Week Basis	3.32	3.37
52 Week Basis	3.06	3.11
<u>Caretaking Charge (Higher Rate)</u>		
48 Week Basis	6.65	6.75
52 Week Basis	6.14	6.23
<u>Heating and Hot Water Charges in Sheltered Schemes</u>		Increase for 2020/21 %
Chartwell House, Oadby		1.5
Marriott House, Oadby		1.5
William Peardon Court, Oadby		1.5
Mobility Scooter Garaging		1.5

3 CAPITAL PROGRAMME

The Council is currently undergoing a full stock condition survey which will layout the amount of work required to keep the current stock up to the 'Decent Homes Standard'. Early indications are that the stock will require approximately £12million of capital work which will put pressure on both the financial position of the HRA but also the Department's capacity to carry out the work.

The works to be carried out include;

- Refitting of kitchens and bathrooms
- Replacement of boilers and central heating systems
- Re-wiring
- Health and Safety works including the removal of any category 1 hazards.
- Insulation for both energy efficiency and sound
- Replacement of doors both individual and communal.

The Capital programme is financed by two principal sources of funding.

- a) The Major Repairs Allowance
- b) Borrowing.

For the 2020/21 programme any unspent balances or unfinished schemes will be determined at year end and brought to members to carry forward in the July cycle of meetings.

The initial allocation for capital works in 2021/22 is proposed at £1.5million

4 HOUSING REVENUE ACCOUNT BUDGET BACKGROUND CONSIDERATIONS FOR THE REVENUE BUDGET CAPITAL PROGRAMME 2020/21

BACKGROUND CONSIDERATIONS

This provides commentary on the background considerations and key issues on which the draft budget. It also summarises the overall financial position. The structure of this commentary is as follows:

1. Basis for preparation of the draft budget.
2. Rent Policy
3. Changes in Stock Levels
4. Treasury Management
5. HRA Capital Programme
6. Level of Reserves
7. Other budget considerations

1. Basis for preparation of the draft budget and forward forecast

The revenue budget for 2021/22 sets out the costs of delivering current levels of service while taking into account the effect of current government legislations regarding changes to housing finance including rent increases of no more than CPI +1%. This follows four years of rent reductions imposed by the Government.

The budget has been set assuming that a 2% pay award will be implemented for 2021 and that non contractual upward inflation will be 0% to encourage value for money.

2. Rent Policy

From 2003 the Council had adhered to the guidelines laid down in the Governments rent restructuring policy and up to 2016/17 had gradually moved its rents up towards the target rents. However at the point at which restructuring ended less than 5% of the stock had converged.

In 2020/21 the Authority was able to increase its rents for the first time in five years, by CPI +1%, resulting in an overall increase of 2.7%.

However this has left a continuing gap, between actual and formula rents, which can no longer be closed year on year. The gap between total actual and formula rents currently equates to around £200,000 of potential income per annum which the Council cannot access.

The Council should therefore place new tenants coming in, as well as tenants transferring to a larger property, directly onto the formula rent for that property. In order to encourage tenants who are living in a property, larger than their needs, to downsize they would be placed on the lower of their new property's formula rent or the rent they were paying at their current property.

The COVID 19 pandemic has seen a suppression of CPI which at September 2020 stood at 0.5%. The principal drivers behind this fall have been a sharp decrease in oil prices in the first half of 2020 and the governments 'Eat Out to Help Out' stimulus to the hospitality industry which saw the cost of eating out fall in August. This translates into a rent increase for 2021/22 of 1.5%.

The table below shows the new, old and average rent for each of the four sizes of properties in the Council's portfolio.

Property Type	Average Rent 2020/21	Average Rent 2021/22	Increase £
1 Bedroom	£68.16	£69.18	£1.02
2 Bedroom	£76.67	£77.82	£1.15
3 Bedroom	£84.82	£86.09	£1.27
4 Bedroom	£95.54	£96.97	£1.43

Each year the Council expects to lose a small proportion of rent during periods between tenancies, known as void losses. It is assumed that this will equate to 2% of the gross rent.

3. Changes in Stock Levels

When the Government revised the 'Right to Buy' discount scheme the Council saw a pickup in sales to tenants, this however flattened off and then dropped slightly over the last couple of years. This, together with the Council's policy of purchasing properties to replenish the stock where possible through the 1-4-1 scheme, suggests stock levels will only decline slightly over the next few years.

As a result of this, assumptions have to be made about the sale and acquisitions of properties from the current stock. Sales of dwelling have decreased in recent years with the COVID-19 pandemic suppressing them further. Going forward it is assumed that there will be seven sales each year of the plan counterbalanced by two purchases – a net reduction of five properties from its current stock.

There is a risk that stock losses do not follow the pattern assumed in the budget and forecast. This could mean that either savings in costs are made ahead of time or that they are not made in time. The Council's Finance and Housing teams will monitor the developments in this area very closely.

4. Treasury Management

In 2012 the Council borrowed £18.114million in order to finance the retaking control of its Housing Stock. The debt consisted of 18 loans of £1.06million, these were due to be repaid between March 2020 and 2037. The Council has not able to repay in 2020 and instead refinanced it using short-term borrowing which has been at an advantageously low interest rate for some time, particularly compared to Public Works Loans Board (PWLB) rates which had been pushed up by the Government towards the end of 2019.

Under 12 months	£2,006,333	11%
1 - 2 Years	£2,012,666	11%
2 - 5 Years	£3,018,999	17%
5-10 Years	£5,031,665	28%
Over 10 Years	£6,038,004	33%
	£18,107,667	100%

However, Government policy once again intervened at the end of 2020 as new rules regarding PWLB were brought in to restrict its use while lowering rates once again for those Council's investing in areas the Government deemed appropriate. One area where the government is keen to see investment is housing which gives the Council the opportunity to invest in its stock, develop new sites and refinance debt. The Council could potentially take this opportunity to push some of the original debt out to beyond 2037 so it fits into the repayment profile of the Debt Management Reserve.

The Section 151 officer together with the Treasury Management team will assess the available interest rates as each loan comes to its settlement date. As the Council is building up a reserve to pay off substantial amounts it is suggested that these replacement loans are kept as maturity type loans, with interest only being paid, until the whole repayment becomes due.

The ongoing capital programme will be jointly funded with MRA and Borrowing. This will mean that around £6million will need to be borrowed over the next five years. This extra borrowing can be repaid over the life of the assets which is between 15 and 20 years depending on the work being done.

5. HRA Capital Programme

The capital programme will continue to balance the need to maintain decent homes and other priorities such as health and safety, aids and adaptations, sustainability, energy efficiency and meeting tenants' aspirations. The stock condition survey is nearing completion and once concluded a new Asset Management Strategy will be drawn up

The cycle of works identified in the plan will be funded by the MRA, Capital receipts and borrowing. Careful planning of the capital programme will be needed, bearing in mind the uncertainty of Government Policy, to ensure that it not only meets the needs of the tenants but is also affordable and sustainable.

6. Level of Reserves

Council policy has for some years required the HRA main reserve to retain a minimum balance of £300,000. This should now be reviewed in order to provide a more robust and prudent financial structure.

It is recommended that the minimum balance on the main reserve be increased to 10 percent of the HRA's annual Income, moving it to just over of £500,000 for 2021/22. This in itself does not present a problem because currently the reserve contains in excess of £1million. The remainder will be moved to a Debt Management Reserve.

The Debt Management Reserve will have two uses;

- To repay the long-term debt the Council incurred for the HRA 'New Financing Arrangements' from 2012 and
- To act as a balancing account for the main reserve in years of annual deficit.

The HRA currently has two capital reserves

- 1) The Regeneration Reserve - For the provision of new properties in the stock. This can be utilised to support either new building in the HRA or the buying back of former Council Houses.
- 2) The Major Repairs Reserve (MRR) – To support and fund the annual capital programme agreed by the Council and holds any unused amounts of the annual Major Repairs Allowance (MRA). Normally it would be planned to fully utilise this funding each year.

There are no plans to change the way these Capital reserves are operated

7. Other Budget Considerations

Provision for Uncollectible Debts and Collection Costs

The provision for uncollectible debts at 31 March 2020 was £169,000. A provision for bad debts is made in respect of both former tenant arrears and current tenants. The Council included £100,000 in the 2020/21 and 2021/22 budgets for further provision against write-offs of bad debt. This is considered to be a prudent measure against a back drop of the Government's policy of Welfare Reform with Universal Credit going to 'full service' in June 2018 and with migration to Universal Credit from legacy benefits still ongoing over the next few years.

General Fund Recharges

In the light of accounting practices relating to recharges in the Council's accounts, recharges to the HRA will be reassessed to make sure that these are correct and fair.

Service Charges

Tenant's service charges for 2021/221 have been increased by 1.5%, which is the same increase as applied garage rents and other miscellaneous charges.

HRA Business Plan

The HRA Business Plan is in the process of being re-written and will outline the long-term future for a sustainable HRA. Significant developments in the plan are incorporated within this document including next year's budget outlined in Section 1 of the appendix. The plan is in its final draft stages and will be brought before Members at the next committee cycle.