

REPORT TITLE: HOUSING REVENUE ACCOUNT (HRA) BUDGET 2020/21 AND BUSINESS PLAN

12 FEBRUARY 2020

REPORT OF CABINET MEMBER: Cllr Kelsie Learney, Cabinet Member for Housing and Asset Management

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WARD(S): ALL

PURPOSE

This report requests approval for the proposed HRA revenue budget for 2020/21, as detailed in Appendices 1 and 2.

The report also requests approval for the capital programme forecast for 2019/20, budget proposal for 2020/21 and 10 year plan to 2029/30. These figures are detailed in Appendices 3 and 4, taking account of the funding shown in Appendix 5.

The 2020/21 budget proposal and 10 year plan maintains a long term sustainable HRA Financial Plan accommodating the future maintenance requirements from the latest stock condition survey. The survey maintains the policy of keeping existing stock at above decent homes standards and provides for substantial investment in new housing.

RECOMMENDATIONS:

1. That delegated authority be given to the Corporate Head of Housing, in consultation with the Strategic Director (Services) and the Cabinet Member for Housing and Asset Management, to make adjustments to the overall Maintenance, Improvement and Renewal programme as set out in Appendix 3 to the report,

That Cabinet recommend that Council;

2. Approve the 2020/21 Housing Revenue Account budget and final forecast for 2019/20, as detailed in Appendices 1 and 2 to this report.
3. Approve a rent increase in 2020/21 in accordance with the Government's national rent standard (September CPI + 1%) resulting in an average rent increase of 2.7%.
4. Approve capital expenditure in 2020/21 of £9.1m for the Maintenance, Improvement and Renewal programme as detailed in Appendix 3 of the report, in accordance with Financial Procedure Rule 6.4
5. Approve capital expenditure in 2020/21 of £26.91m for the New Build programme as detailed in Appendix 4 of the report, in accordance with Financial Procedure Rule 6.4.
6. Approve funding for the HRA Capital Programme, as detailed in Appendix 5, including the additional borrowing requirement.
7. Approve the HRA Financial Plan operating account extract, including annual working balances, as detailed in Appendix 6.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 “Homes for All” is one of the 5 priority outcomes of the Council Plan 2020 – 2025. A key objective is to support those residents who require assistance meeting their housing needs by continuously maintaining the Council housing stock and by providing a range of housing options. Outstanding management of housing capital and revenue budgets plays a central part in delivering this objective.

2 FINANCIAL IMPLICATIONS

- 2.1 These are fully detailed in section 11 of this report, in summary:
- 2.2 The proposed HRA budget for 2020/21 shows a surplus of £1.26m.
- 2.3 Employee costs take into consideration an assumed pay award of 2.5% from April 2020.
- 2.4 Revenue repairs budgets take into consideration inflationary increases for 2020/21, as shown in Appendix 1.
- 2.5 Dwelling rents take into consideration the Ministry of Housing Communities and Local Government (MHCLG) rent standard from April 2020. Under the rent standard, rents can increase by CPI + 1% in 2020/21 resulting in an average increase of 2.7%. The business plan projections set out in appendix 6 also take full account of this standard, assuming rents increase by CPI + 1% for 5 years from 2020/21 and by base CPI only annually after that.
- 2.6 Other income, including garage rents, are assumed to increase by 3% in 2020/21.
- 2.7 The housing services capital programme is based on the HRA stock condition survey and uplifted by RPI.
- 2.8 The proposed 2020/21 budget includes a £1m fire safety provision to support recommendations arising from the Hackett review.
- 2.9 In support of the Council plan priority for a carbon neutral district by 2030, the 2020/21 budget includes a Climate Emergency provision of £1m. The financial plan also assumes an overall investment of £10.7m over the next 9 years.
- 2.10 The 2020/21 budget also includes a provision of £400k to fund Estate Improvements.
- 2.11 The new build programme includes scheme completions that are currently on site and due for completion in 2020/21.

- 2.12 The 2020/21 revenue & capital budgets have been tested in the HRA 30 year financial model to include the impact on the HRA carrying balance and funding requirements.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Council is required to maintain a separate Housing Revenue Account (HRA) with a positive working balance, set at a minimum of £1.1m, increased by RPI each year. The Local Government and Housing Act 1989 prohibit the Council operating its HRA at a deficit. Effective management of the HRA is necessary to ensure that statutory requirements are met. The proposed balanced budget meets this obligation.
- 3.2 Notices of any increase in rent have to be sent to tenants 28 days in advance of the new charges coming into effect.

4 WORKFORCE IMPLICATIONS

- 4.1 The 2020/21 budget assumes a cost of living increase of 2.5% on staffing costs.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The capital programme for the next 10 years ensures that major works identified in the stock condition survey continue to be carried out to ensure that existing Council stock not only maintains decent homes standards but also improves energy efficiency and contributes to carbon reduction targets.

6 CONSULTATION AND COMMUNICATION

- 6.1 A briefing paper on the key points of this report was discussed at the Tenants and Council Together (TACT) meeting on 15 January 2020. TACT are supportive of the proposals and will be invited to speak at the relevant point of the Cabinet meeting on 12 February 2020.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 The investment in property and estates set out in this report has a direct impact on improving the environment, including upgraded heating systems and estate improvement works.
- 7.2 The HRA Business Plan and capital programme includes provision of £10.7m to support investment to address the Climate Emergency Council Plan priority.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 The HRA budget is delivered in line with the Council's housing strategy which was subject to an equality impact assessment.

8.2 This includes ensuring that recruitment and selection methods are fair, systematic, unbiased and based solely on merit using only rational objective & job related criteria.

8.3 The 2020/21 HRA revenue budget includes the provision of equality training within the training budgets.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None.

10 RISK MANAGEMENT

10.1 The key risks impacting on the HRA budget are shown below:

Risk	Mitigation	Opportunities
<i>Property That the Council fails to adequately maintain housing stock and their condition falls below decent homes standards.</i>	An effective and well funded programme of capital works linked to comprehensive stock condition survey and sound planning ensures decent home standards are met and maintained.	The government are considering making changes to the decent home standards as part of the Climate Change Emergency review and fire safety measures resulting from the Grenfell disaster review recommendations.
<i>Community Support Consultation is required with tenants regarding HRA budgets and with the wider community over new build developments.</i>	Regular communication is maintained with tenants and leaseholders on a variety of housing issues. The Council consults with local residents and stakeholders on proposed new build schemes.	Pro-active consultation can bring forward options that otherwise may not have been considered.
<i>Timescales Delays to new build contracts result in lost revenue and potentially increased costs. An achievable new build programme is necessary to avoid the Council having to repay Right to Buy 1-4-1 receipts with interest or penalties.</i>	New build contracts contain clauses to allow the Council to recover damages if the project is delayed due to contractor actions. Close control is maintained on Right to Buy receipts and these are monitored against future spending plans to ensure action can be taken if necessary.	In addition to providing funding to support the new build development programme, the 1-4-1 receipts can also be used to buy back former Council owned properties.

<i>Project capacity Staff resources are insufficient to enable the planned new build programme to be delivered and the programme of major repairs on existing properties to be completed.</i>	Resources are monitored to ensure they are adequate to support the delivery of new build schemes and major repair liabilities.	
<i>Financial / VfM The costs of running the housing service could exceed the level of rental income,</i>	Regular review of services provided, including contract commitments and budget monitoring will keep expenditure levels as low as possible.	
<i>Legal Changing Government priorities and a greater emphasis on “social housing” (as compared to affordable housing) may impact on the Council’s</i>	Government policy changes are being followed closely to identify any new risks or opportunities that they bring.	
<i>Innovation</i>		
<i>Reputation Failure to complete new build projects on time and to the required build standards would be likely to affect both customer satisfaction levels and the Council’s reputation.</i>	Building contractors are closely managed throughout the construction phase and at completion to ensure properties meet design standards and letting requirements.	
<i>Other None.</i>		

11 SUPPORTING INFORMATION:

11.1 Housing Revenue Account Budget 2020/21

11.2 Details of the proposed budgets are shown in Appendices 1 and 2 and the larger item adjustments highlighted in the subjective summary in Appendix 2 are shown below:

11.3 Employees – The 2020/21 budget position is £3.86m, a decrease of £90k on the 2019/20 forecast position. The employee budget includes the full year effect of the recent service review. The pension contribution requirement in

2020/21 has been reduced as a result of improved pension fund performance over the last 3 years.

- 11.4 Cost savings arising from the recent service review and outcome based budget (OBB) have been reflected in the 2020/21 HRA budget. These savings have been re-invested in improving the quality of the housing stock.
- 11.5 Premises – The 2020/21 budget includes the financial plan assumptions for response, void & cyclical repairs. The budget also includes an additional £200k of services provided by the in-house special maintenance team towards essential maintenance and improvement works to housing land.
- 11.6 Net Interest – The 2020/21 budget assumes an interest cost of £5.96m, an increase of £773k compared to 2019/20, as the financial plan assumes additional borrowing of £15m in 2020/21 to finance the New Build Housing capital programme expenditure.
- 11.7 Depreciation – This takes into consideration a change in the component accounting calculation method agreed with Ernst & Young (External Auditors) following the 2018/19 year end audit.
- 11.8 External Income – The 2020/21 budget assumes a rent increase of CPI + 1% from April 2020, an average of 2.7%. Other income, including garage rents, is assumed to increase by 3% in 2020/21.
- 11.9 Housing Services Capital Programme
- 11.10 The 10 year forward financial projection for major repairs is based on the latest stock condition survey. A detailed analysis is shown at Appendix 3.
- 11.11 All HRA properties are maintained to decent homes standard with the property services team managing the upkeep of properties taking into consideration the stock condition survey information. In order to manage the maintenance, improvement and renewal programme effectively, the property services team need to have the flexibility to substitute projects and re-balance expenditure between repair budgets.
- 11.12 The latest forecast for 2019/20 includes a fire safety provision of £1m. In anticipation of the full recommendations arising from the Hackitt review, a detailed fire safety review is in progress. This will result in some initial upfront costs and potentially increase operational repair costs. With this in mind it is proposed to budget for a further fire safety provision of £1m in 2020/21.
- 11.13 The asset management strategy will be updated in 2020/21 to reconsider fire safety measures and identify climate change emergency initiatives. This could potentially include the replacement of gas boilers with low-carbon heating systems and the installation of solar panels in sheltered schemes to provide heating and power to communal areas. The strategy would also address our policy on nitrate neutrality, including water efficiency measures.

- 11.14 The stock condition survey will be updated in due course to include additional costs arising from fire safety and climate change emergency measures once the position is clearer.
- 11.15 A key element of the Council's Climate Emergency Action Plan includes additional investment in the Council's housing stock to improve energy efficiency and help tenants reduce their carbon emissions. The financial plan includes an additional £1m climate change provision per year from 2020/21 through to 2028/29. The requirement could change once the asset management strategy has been updated, but this does demonstrate that the financial plan can afford this level of additional expenditure and provides a positive opportunity to make a real difference to tenant's lives and the district as a whole.
- 11.16 The latest financial projection also includes an annual provision of £400k for Estate Improvements for the next 10 years. The scope of the programme includes environmental improvements resulting from the Climate Change Emergency Action Plan, including electrical vehicle charging points in a number of Council Car Parks. The HRA could afford to increase the £400k annual level if there is an identified need.
- 11.17 New Build Capital Programme
- 11.18 The "Homes for All" Council Plan priority continues the Council's commitment to new homes and the HRA New Build programme forms a key and important element of new homes provision. The Plan set out in appendix 4 includes current projects and provision for emerging opportunities. It continues to support the target to deliver a minimum of 1,000 Council home over the next 10 years. So far, the 10 year forward financial projection has identified a capital expenditure requirement of £160m. The projection includes known schemes and an unallocated provision to cover additional schemes in the future. A breakdown of the schemes is shown at Appendix 4. Application for additional housing grant will be considered for all future developments where appropriate.
- 11.19 The new build programme assumes steady delivery of unallocated schemes and small sites over the next 10 years to maximise available funding within the HRA.
- 11.20 The Valley – This scheme is for 77 units (54 Social Rent & 23 Shared Ownership) and is due for completion in 2020/21. The scheme started on site in April 2019 and is partly funded with a Homes England grant allocation of £6m.
- 11.21 Hookpit, Kings Worthy – This scheme is for 35 units (25 Affordable & 10 Shared Ownership) and started on site in December 2019 and anticipated to complete by the end of 2020/21.
- 11.22 Winnall Flats – This scheme is at feasibility stage, but the intention at present is to develop a 75 unit scheme. This would include 40 units for discounted

open market sale, 32 units for Affordable market rent and 3 units for Shared Ownership. The current proposal would be for the HRA to build out the whole scheme and sell the 40 discounted open market sale units to Pocket Living and the 32 affordable market rent units to the Winchester Housing Company. The HRA would retain the shared ownership units and undertake some estate improvements to the open space and communal areas of the existing blocks.

- 11.23 Dyson Drive – This scheme is for 8 units (6 Affordable Rent & 2 Shared Ownership). The overall cost of the scheme is £1.9m and the initial scheme has passed the financial viability tests. A planning application is due to be submitted, and subject to approval, a tender process will be carried out for the construction element.
- 11.24 Witherbed Lane – This scheme is for 4 units, all Shared Ownership properties. The overall cost of the scheme is £800k and the initial scheme has passed the financial viability tests. A planning application is due to be submitted, and subject to approval, a tender process will be carried out for the construction element.
- 11.25 HRA Capital Programme Funding
- 11.26 Appendix 5 gives full details of how it is proposed to fund the Housing Services & New Build Budgets from 2020/21 to 2030/31.

12 OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 The proposed 2020/21 budget and financial plan incorporates all the budget options identified in CAB 3216 (HRA 2020/21 Budget options) and the impact of the housing services & new build capital expenditure requirements on the operational revenue budget.
- 12.2 In preparing the business plan and budget, options regarding the balance of investment between maintenance and new build have been assessed and the risk of investing more on a range of services has been tested thoroughly. The proposed budget and business plan is considered to present a positive balance between investment priorities and has been supported by TACT.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB 3161(CAB) HRA 2018/19 Outturn and Key Performance Indicators: 17 July 2019

CAB 3216(CAB) HRA Budget Options 2020/21: 22 January 2020

Other Background Documents:-

HRA Business Plan 2020/21 – 2049/50, held within the Housing department.

APPENDICES:

Appendix 1: HRA 2020/21 Budget – Service Summary

Appendix 2: HRA 2020/21 Budget – Subjective Summary

Appendix 3: Housing Services Capital Programme 2019/20 to 2029/30

Appendix 4: New Build Housing Capital Programme 2019/20 to 2029/30

Appendix 5: HRA Capital Programme Funding 2019/20 to 2029/30

Appendix 6: HRA Financial Plan 2019/20 to 2049/50 Extract – Operating Account