

This Report will be made public on 16 February 2021

Report Number **A/21/09**

To: Council
Date: 24 February 2021
Status: Non-Key Decision
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Members: Councillor David Monk, Leader of the Council and Councillor David Godfrey, Housing, Transport and Special Projects

SUBJECT: HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL ORIGINAL BUDGET 2021/22

SUMMARY: This report sets out the Housing Revenue Account Revenue and Capital Budget for 2021/22 and proposes an increase in weekly rents and an increase in service charges for 2021/22.

REASONS FOR RECOMMENDATION:

Cabinet is requested to agree the recommendations set out below as the Local Government Housing Act 1989 requires the Council, as a Local Housing Authority, to keep a separate Housing Revenue Account and to produce estimates to ensure that the account does not go into deficit. The authority also has a duty to set and approve rents in accordance with government guidelines that are outlined in the self-financing determination. The Constitution requires that the annual Budget and any variations to the Budget are approved by Council.

RECOMMENDATIONS:

1. To receive and note Report A/21/09.
2. To approve the Housing Revenue Account Budget for 2021/22. (Refer to paragraph 2.1 and Appendix 1)
3. To approve the increase in rents of dwellings within the HRA on average by £1.27 per week, representing a 1.5% increase with effect from 5 April 2021 (Refer to paragraph 3.2)
4. To approve the increase in service charges. (Refer to section 3.5)
5. To approve the Housing Revenue Account Capital Programme budget 2021/22. (Refer to paragraph 4.1 and Appendix 2)

1. INTRODUCTION

- 1.1 The Housing Revenue Account (HRA) is a ring-fenced account and is outlined and projected within the HRA Business Plan. The HRA Business Plan determines HRA budget setting, as estimates need to be closely aligned to the model to ensure that the HRA remains financially viable.
- 1.2 The Reform of Council Housing Finance came into effect from 1 April 2012, and significantly brought an end to the subsidy system where authorities such as Folkestone & Hythe made a contribution to the national pot. Instead, authorities are now part of the self-financing arrangements following a redistribution of the national housing debt and the abolition of rent restructuring.
- 1.3 In October 2018, Government announced the removal of the HRA borrowing cap to enable local authorities to build more homes. In light of this and following a review of the financial position within the HRA, there was an opportunity for the Council to expand its New Build Programme to significantly increase the number of new homes in the district. In February 2020 Cabinet approved the updated HRA Business Plan to deliver 1,200 homes by 2034/35. Included within the updated plan was a provision to invest £10m into existing stock through an enhanced capital programme over a three year period up to 2022/23.
- 1.4 In February 2020, following consultation with tenants and leaseholders, a decision was taken by all four owner Councils to disband EKH and bring the management of housing stock back in-house. The service transitioned to the Council on 1st October 2020 and continues to be embedded, and it is expected that EKH will be wound up by 31st March 2021.
- 1.5 Cabinet approved the draft HRA Revenue and Capital Budget for 2021/22 at its meeting on 20 January 2021. Since this meeting the following changes have been made to the revenue and capital budgets presented to Council for approval to reflect the most current known position:

Revenue Budget – Increase of £148k

	£000's
Increased cleaning contract cost for enhanced cleaning at sheltered schemes	90
Increased management recharges	40
Debt management recharges	21
Other minor changes	(3)

Capital Budget – Increase of £5k

	£000's
Increased management recharges relating to the new build programme	5

2. HOUSING REVENUE ACCOUNT REVENUE ESTIMATES

2.1 Original Budget 2021/22

The proposed HRA Budget for 2021/22, at Appendix 1, shows a forecast deficit of £5.1m. This is in line with the agreed HRA Business Plan which will continue to fluctuate from year to year, depending on the profile of the stock, size of the new build programme and the resources available. The year-end HRA revenue reserve balance as at 31 March 2022 is expected to be £4.0m as shown at Table 1 below:

Table 1	£000's
Original estimate of balance at 31 March 2021	(9,110)
Movement from Original to Original budgets	
Reduction in rents and other service charges (see 2.1.2)	528
Reduction in general management costs (see 2.1.3)	(314)
Increase in special management costs (see 2.1.3)	1,216
Increase in repairs and maintenance (see 2.1.4)	284
Other net movements	20
	1,734
Deficit 2020/21	3,364
Original estimate of balance at 31 March 2022	(4,012)

2.1.1 HRA Revenue budget

The HRA revenue budgets are reflected in the HRA business plan. The business plan sets out the Council's income and expenditure plans for its landlord service over a 30 year period, including the capital costs of maintaining the decent homes standard and of any additional improvements agreed with tenants.

2.1.2 Rents

The dwelling rents have been increased in line with the Rent Standard 2020 of CPI + 1%. This revised policy was announced in February 2019 and allows social landlords to increase rents by CPI plus 1% for a period of five years from 2020.

The reduction in income reflects the anticipated loss of rental income due to the ongoing impact of Covid-19 on the economy. The budget assumes a 5% loss of income based on the latest forecast losses being seen in 2020/21.

2.1.3 General and Special Management Costs

In October 2019 tenants and leaseholders were consulted and asked for their views on the future of EKH and the results showed an overwhelming desire to disband EKH and for the council owners to take on its role. In February 2020 all four council owners agreed that the management of council housing stock should be brought back in-house and that a

termination to the management agreement with EKH should be negotiated as soon as practicable. The service transitioned back to the council on 1st October 2020 and the new housing management service continues to be embedded and it is expected that EKH will be wound up by 31st March 2021.

The increase in general and special management costs largely reflects the cost of the new housing structure as shown below:

	£000's
Removal of EKH Management Fee	(2,480)
Removal of Transition budget	(250)
Cost of new Housing structure	3,056
Additional management recharges	240
Total additional costs of new Housing structure	566

Further additional general management costs of £100k have been included within the budget for additional ICT costs as a result of increased staff numbers and licences required and additional resources to support the Northgate implementation.

An additional £145k has also been included within the proposed budget to carry out a full stock condition survey across all properties to inform the Asset Management Strategy and future capital programme and HRA Business Plan.

Special management costs also include an additional £90k increased cleaning contract costs for the enhanced cleaning requirements at the Sheltered accommodation due to Covid-19 and an uplift in the National Living Wage.

In February 2020 Cabinet agreed to invest £10m into existing housing stock by way of an enhanced capital programme. Work has not yet commenced on this due to the transition of EKH and the planned stock condition surveys will identify required works and enable this programme to get underway.

2.1.4 Repairs and Maintenance

The increase in repairs and maintenance is largely due a higher level of works required on void properties and a higher volume of asbestos removal being identified.

2.2 HRA Reserve Balances

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan. The actual reserve balance on the HRA at the start of 2020/21 was £9.1m, this has increased due to the planned accumulation of balances to help fund the future new build programme.

Table 2 below shows the estimated HRA balances to 31 March 2022.

<i>Table 2</i>	2020/21	2021/22
	£000's	£000's
Balance as at 1 April	12,475	9,110
Balance as at 31 March	9,110	4,012

The HRA reserve is expected to decrease by £4.0m from the close of 2020/21 and the end of the financial year 2021/22.

The changes with the introduction of Self-Financing have significantly increased the flexibility for the Council to manage the resources and debts within the HRA to best meet the needs of existing and future tenants. The estimated HRA balances, set out in table 2, are above the revised recommended minimum balance, which is £2m.

Major Repair Reserve (MRR) – This reserve is derived from the transfer of the depreciation charge from the revenue account and can be used to fund major repairs for capital expenditure or debt repayment. The Council's Business Plan requires that the reserve is allocated to fund capital expenditure. The proposed HRA capital programme should leave the Major Repairs Reserve with a nil balance. This is in line with the practice adopted by the Council in previous years, of using the Major Repairs Reserve in the year it is received.

3. RENT SETTING GUIDANCE & RENTS

3.1 Rent Policy – National context

In February 2019 the Government introduced a new rent policy to come into effect from 1st April 2020 permitting annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% for a period of five years.

The new policy recognises the need for a stable financial environment to support the delivery of new homes. The government is now looking to the social housing sector to make the best possible use of its resources to help provide the homes that the country needs.

3.2 Rent Increase – Local context

In line with last years approved report, Housing Services will be charging the 'formula rent'¹ when a property is re-let to a new tenant and service charges that fall under utilities will be charged at the 'actual' cost on new lets.

The proposed increase of CPI plus 1% which is 1.5%, in line with Government guidelines, equates to an increase of £1.27 per week or £66.04

¹ The 'formula rent' is the amount an individual rent can be set at before taking into account the rent restructuring restrictions and maximises the rental income received without penalising any individual.

per annum. This gives an average rent of £89.17 (over 50 weeks) in 2021/22 (average rent in 2020/21 is £87.81 (over 50 weeks)).

3.3 New Build rents

In line with proposals set out in the Council's current HRA Business Plan, the rents for any new homes will be set at affordable rent levels. Affordable rents are defined as being a maximum of 80% of the prevailing average market rent for the area and should be no more than the prevailing local housing allowance (LHA) rates for the area to ensure that properties remain affordable.

The local housing allowances rates for 2021/22 will not be available until early February 2021. LHA rates have been frozen since 2016, however the Government announced in January 2020 that the freeze has been lifted, meaning that rates will rise by inflation from April 2020. The indicative 2021/22 affordable rents for the Folkestone & Hythe area are as follows:

Bedsits	£60.88 per week
1 bedroom houses	£88.92 per week
2 bedroom houses	£118.57 per week
3 bedroom houses	£148.21 per week
4 bedroom houses	£173.11 per week

3.4 Rent Comparisons

The table below compares Folkestone & Hythe's average weekly rent to that of other authorities in Kent.

<i>Table 3</i>	Average weekly rent over 52 weeks (2020/21) £	Difference between FHDC and other authorities £
Folkestone & Hythe	85.74	-
Dover	86.97	1.06
Canterbury	92.89	6.98
Thanet	83.05	(2.86)

- Subject to Dover, Canterbury and Thanet's approval at their own Council meetings.

3.5 Service Charges

3.5.1 General Service Charges

The general principle for service charges for tenants is that they are set to recover the costs of the service they fund. However, increases in service charges should endeavour to be kept to the Consumer Price Index (CPI) plus 1.0% per annum limit as part of rent setting guidance. The CPI for September 2020 was 0.5%, CPI plus 1.0% is therefore 1.5%. As a result

general service charges within the HRA will increase by 1.5% with effect from 5 April 2021.

Local authorities can increase charges above this level where costs are increased that are beyond the authorities' control. Utility charges, such as heating and hot water in sheltered housing schemes are an example where this applies. Proposals for these charges for 2021/22 are set out in 3.5.2 below.

3.5.2 Heating Charges in Sheltered Housing

Residents in 12 of the Council's sheltered housing schemes have heating and hot water provided to their flats by communal systems. Charges are made for this service based on the floor area of each flat.

For 2021/22 it is proposed to increase these charges in line with the rent setting guidance while a detailed review of costs is undertaken now the service is managed by the Council. Therefore these charges will increase by CPI plus 1.0%, which is 1.5%, with effect from 5 April 2021.

4. HOUSING REVENUE ACCOUNT CAPITAL ESTIMATES

4.1 Original Budget 2021/22

The proposed HRA Capital Budget for 2021/22, shown in Appendix 2, is £14.5m. Table 4 below shows the movements in the programme from the 2020/21 original budget to the original budget for 2021/22.

<i>Table 4</i>	£000's
Original estimate 2020/21	13,505
Increases in programme	
Fire Protection Works (see 4.1.1)	650
Re-roofing (see 4.1.1)	450
Doors (see 4.1.1)	290
External Enveloping (see 4.1.1)	230
Enhanced Capital Programme (see 4.1.2)	(1,000)
Other net variances	335
Total increase in expenditure	955
Original estimate 2021/22	14,460

4.1.1 Decent Homes Standard

The increased budget requirement for Fire Protection Works, Re-roofing, Doors and External Enveloping is to address recommendations and carry out works identified from verified surveys and sample testing to maintain the Decent Homes Standard.

It should be noted that priorities from the ongoing Fire Risk Assessments may identify further works and so an additional budget for this programme

may be required during the year. This will be reported via the usual budget monitoring process.

4.1.2 Enhanced Capital Programme

A budget provision of £10m was allocated in 2020/21 for investment in existing stock over a three year period up to 2022/23 and the budget was allocated evenly over the three years. None of the £3.5m allocated budget was utilised in 2020/21. This budget has been reduced in 2021/22 to partially offset the increase in the decent homes standard capital programme budgets to carry out identified works.

The revenue budget includes provision for stock condition surveys to be carried out across the entire housing portfolio which will begin in late 2020/21 and conclude in early 2021/22. The results of these surveys will be used to inform the Asset Management Strategy and capital programme. Once the results of these surveys are known the remainder of this budget will be allocated to specific programmes based on the priority of works identified.

4.1.3 New Build Programme

The budget required for the new build programme will vary from year-to-year depending on the profile of the programme. This is reflected within the HRA Business Plan which was agreed by Cabinet on 19 February 2020 and stated that 1,200 new homes would be delivered by 2034/35.

Works on the High View and Biggins Wood schemes are due to commence in 2021/22 and the Council will be pursuing further acquisition opportunities, including a site at Radnor Park Road which will provide 14 units for rent which is expected to complete in the latter part of 2021/22.

All of the new build options will be subject to a detailed viability appraisal to ensure they meet the requirements of the HRA Business Plan.

4.2 HRA Reserve Balances

HRA Reserve – The HRA reserve consists of revenue balances that can be used for revenue or capital expenditure in line with the HRA Business Plan.

The following table shows the required resources to finance the original budget for 2020/21 and original budget for 2021/22 for the HRA capital programme.

<i>Table 6</i>	Major Repairs Reserve	Use of RTB Capital Receipts	Revenue Contribution	Total
	£000's	£000's	£000's	£000's
Original budget 2020/21	5,275	1,425	6,805	13,505
Original budget 2021/22	5,880	1,956	6,624	14,460

5. RISK MANAGEMENT ISSUES

5.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Budget not achieved	High	Low-Medium	Stringent budget monitoring during 2021/22 enabling early corrective action

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Comments (NM)

There are no legal implications arising directly out of this report other than as already stated therein. (Following the coming into force of Schedule 15 of the Localism Act 2011, English local authorities are required to be self-financing in relation to their housing stock, financing their housing stock from their own rents.)

6.2 Finance Comments (LW)

All financial effects are included in this report.

6.3 Diversities and Equalities Implications

This report is in line with the Council's Diversity and Equality policies.

7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

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The following background documents have been relied upon in the preparation of this report:

None

Appendices:

Appendix 1 - HRA Revenue Budgets

Appendix 2 - HRA Capital Programme