

Agenda Item 8

For general release

REPORT TO:	Scrutiny Streets, Environment and Homes Sub Committee 4 February 2020
SUBJECT:	Housing Revenue Account 2020/21
LEAD OFFICER:	Yvonne Murray, Director - Housing Assessment and Solutions Stephen Tate, Director - Council Homes, Districts and Regeneration
CABINET MEMBER:	Councillor Alison Butler, Deputy Leader and Cabinet Member for Homes and Gateway Services Councillor Simon Hall, Cabinet Member for Finance and Resources
PERSON LEADING AT SCRUTINY COMMITTEE MEETING:	Yvonne Murray and Stephen Tate

CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:

The Council's Corporate Plan sets out the commitment to provide "*good, decent homes, affordable for all*" and sets out the Council's strategic approach to housing in all its forms, reflecting the three themes set out in the Corporate Plan: *new homes, quality homes and homes for everyone*.

ORIGIN OF ITEM:	This item has been identified by the Streets Environment and Homes Scrutiny Sub-Committee as an area of Scrutiny
BRIEF FOR THE COMMITTEE:	To review the budget options for the Housing Revenue Account 2020/21

1. EXECUTIVE SUMMARY

- 1.1. The Housing Revenue Account (HRA) records expenditure and income on running the Council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants.
- 1.2. The budget for the Housing Revenue Account is set as part of the Council's budget setting process.

2. PURPOSE OF THIS REPORT

2.1. This report aims to inform Scrutiny Streets, Environment and Homes Sub Committee members of the key changes within the 2020/21 HRA Revenue and Expenditure budget and Capital Programme.

3. Overview of the Housing Revenue Account

3.1. There are 13,756 homes within the HRA . The Housing Asset Management Plan, presented to Cabinet in February 2019, set out the plans to ensure that the Council's vision for managing its housing assets is delivered within a financially balanced business model. In order to aid long-term financial planning, there is a 40 year HRA business plan which is updated annually to reflect changes in legislation and any material changes to key assumptions. Any changes arising from the updated business plan will /be reflected in the annual budget setting exercise.

3.2. The HRA is a landlord account, recording expenditure and income arising from the provision of housing accommodation. It is not a separate fund but a ring-fenced account of certain defined transactions, relating to local authority housing, within the General Fund.

The HRA does not operate as a separate entity or single business unit within the Council. The key functions are managed across various divisions:

- Tenancy and caretaking services, which has moved from the Gateway, Strategy and Engagement Department to Health, Wellbeing and Adults. Responsible for tenancy services including enforcement of conditions of tenancy and changes to tenancies. They tackle anti-social behaviour and carry out regular estate inspections. They also promotes resident participation, community engagement and run a caretaking service, ensuring the cleanliness of council estates.
- Repairs, maintenance and improvement of housing assets. It is planned to move this division from the Council Homes, District and Regeneration directorate to Assets and Social Inclusion within the Place Department. This move is so that the maintenance and upkeep of our council homes can work alongside Corporate Assets and Estates, and Facilities Management.
- Financial planning and monitoring within the Resources Department. Longer term planning for the HRA is undertaken using a 40 year business planning financial model which is updated annually to reflect key changes within legislation and any key assumptions.

4. Impact of central government policy on the HRA

4.1. Rent levels: The Welfare Reform and Work Bill required councils to reduce rents by 1% per annum from 2016/17 to 2019/20. The rent reduction resulted in reduction in revenue totalling £13m since 2016/17. This period of rent reduction has now ended, the Council is now permitted to raise rents by

CPI+1% from 1 April 2020. The ability to increase rents will make the HRA more financially sustainable but will of course mean an increase for residents following 4 years of rents being lowered. Where tenants are eligible for receipt of Housing Benefit, the level of benefit will reflect the higher rent.

- 4.2. Right to Buy: Under the right to buy policy, tenants are able to purchase their HRA property for a discount, provided they meet the relevant criteria. Any sales receipts are subject to a 1-4-1 retention agreement, which Croydon Council entered into with the government in 2012. Receipts from RTB sales are largely retained by Croydon Council, with a portion returned to central government to fund national homebuilding. Croydon Council is allowed to use a portion to cover administration costs of RTB sales and a further portion equivalent to the debt associated with the sold property. This can be used to fund the capital programme or repay debt as required. The remaining amount, roughly 2/3 of the receipt obtained, is subject to the 1-4-1 retention agreement and can only be used to fund up to 30% of affordable housing build or acquisition costs.
- 4.3. Under the terms of the agreement, the government requires that local authorities can only retain the receipts from right to buy (RTB) sales if they spend it within three years of retention to create new stock by match funding the purchase of this new supply on a 70:30 basis.
- 4.4. Borrowing Cap: The government has lifted the borrowing cap, providing an opportunity for the Council to borrow more money for social housing provision. The lifting of the cap has given the HRA funding capacity to acquire properties. It is forecast that the Council will acquire the first affordable units completed by the fully Council owned development company, Brick by Brick, and hence 114 homes are assumed to transfer to the HRA across 2019/20 and 2020/21. These acquisitions will be part funded by the GLA in the amount of £100k per unit and the remainder by borrowing. These homes will be let at Social Housing level rents.
- 4.5. In 2018, central government launched a consultation on its Social Housing Green Paper, which included a number of proposals which could impact on the HRA. These include proposals to extend how long RTB receipts can be retained for and cost limits for property acquisitions using RTB receipts. As yet, the government has not published its response to the Green Paper, so we are unable to assess the impact on the HRA business plan.

5. Budget proposals

- 5.1. Longer term planning for the HRA is undertaken using a 40 year business planning financial model which is updated annually to reflect key changes within legislation and any key assumptions. The most significant assumptions relate to tenant rent levels, changes in the property portfolio caused by RTB sales or additions, and the ongoing maintenance and investment programme set out by the Housing Asset Management Plan.
- 5.2. The following will impact on the capital programme:

5.3. Following the priorities set out in the Housing Asset Management Plan (HAMP) 2019-28, the Council have set out a programme of investment for 2020/21.

The HAMP aims to deliver:

- Compliant, decent and energy efficient homes
- We will remain compliant and keep up to date on changes to legislation, regularly review policies and procedures and ensure we have robust assurance reporting to strengthen residents' trust.
- Undertake Housing Health and Safety Rating assessments to address hazards in homes.
- Continue to meet the Decent Homes Standard.
- Replace old and inefficient building components with modern efficient and easy to maintain facilities.
- Improve energy performance of homes by installing energy efficient components and embracing new technologies.
- Homes will be suitable for residents at all stages of life.
- Review the communal spaces to sheltered and special sheltered blocks.
- Focus on the properties most in need of investment.

5.4. Homes are surveyed on a five to seven year cycle, gathering information on the age and condition of building components, and HHSRS hazards. Using this information, and our knowledge of repairs, we have developed a programme of capital investment for 2020/21.

5.5. As a result, the proposed major repairs and improvement programme for 2020/21 will set at £26.77m. Capital budget of approximately £3m from 2019/20 will also be carried forward into 2020/21.

5.6. **Fire safety.** In order to be able to respond to any future requirements in respect of fire safety, a £5m capital reserve will be set aside using general reserves.

5.7. **Grant funding.** The Council was successful in securing £11.4m of funding from the Greater London Authority (GLA) under its Council Homes for Londoners programme. This funding is being used to meet £100k towards the cost of purchasing BxB properties, to be held within the HRA. By 2020/21, a total of 114 new BxB homes will be purchased, of a total cost of £28.5m. HRA borrowing will be used to be fund the cost alongside using the GLA grant.

5.8. **Affordable Housing Programme:** In order to meet the need for affordable housing, particularly with the pressure on emergency and temporary accommodation, there is a proposal to carry out a third phase of the ETA programme, to be approved by Cabinet. This will enable the Council to continue with property acquisitions, increasing the volume of affordable supply in the Borough.

5.9. The key changes in the revenue and expenditure result from inflationary and cost pressures, as follows:

- The budget for tenant rental income will increase by CPI +1% across the main housing stock in line with central government policy. The budget for tenant rental income will also increase due to BxB properties partly purchased using GLA grant funding. This will result in total growth in income of £2.1m.
- Inflationary pressures and a review of recharges for costs such as waste disposal, grounds maintenance and central overheads will result in growth of £3.4m
- Thames Water has terminated their agreement with the Council to collect water rates on their behalf. Tenants will now receive separate bills from Thames Water instead of an additional amount being applied to their rent charges. Thames Water were paying an administration fee in respect of this service in the amount of £437,000 per annum. This will create a cost pressure of £437k, which has been included as a growth item.

6. Summary

6.1. The financial model underpinning the 40 year business plan demonstrates that the HRA remains financial viable over the next 40 year period, including the changes set out in this note. The current key assumptions driving the capital programme are:

- The rent levels
- The repairs and maintenance programme driven by the Housing Asset Management Plan
- The level of RTB sales. This is assumed to be 80 per year, reflecting recent actual sales
- Forecast transfer of 114 additional homes from BxB

6.2. The graph in Appendix 1 shows how the capital programme is funded over 40 years based on the assumptions above. This will be subsequently updated following the agreement of the Housing Strategy by Cabinet. The capital programme is mainly funded by revenue contributions with some borrowing relating to the acquisition of BxB properties.

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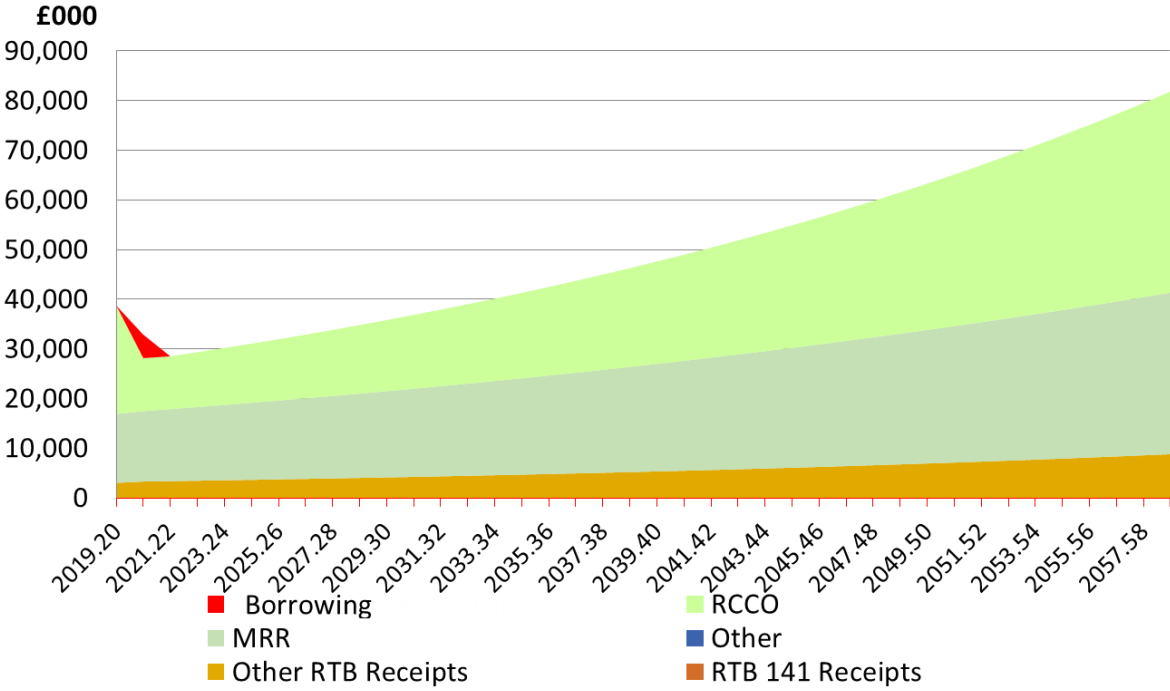
BACKGROUND DOCUMENTS:

1. Link to Housing Asset Management Plan 2019-2028:
<https://democracy.croydon.gov.uk/mgConvert2PDF.aspx?ID=13871>

APPENDICES: Appendix 1: Graph showing funding of the capital programme over 40 years

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