

# CABINET



Report Subject	<b>Housing Revenue Account (HRA) Budget Setting 2020/21</b>
Meeting date	12 February 2020
Status	Public report
Executive summary	<p>The Housing Revenue Account (HRA) is a separate account within the Council that ring-fences the income and expenditure associated with BCP Council's housing stock. The HRA does not therefore directly impact on the Council's wider General Fund budget or on the level of council tax. Income to the HRA is primarily received through the rents and other charges paid by tenants and leaseholders.</p> <p>Poole Housing Partnership continues to manage the Poole Neighbourhood stock on behalf of BCP Council while the stock in the Bournemouth Neighbourhood is directly managed. Although there can only one HRA, BCP Council maintains two separate accounts for each neighbourhood within it.</p> <p>This report seeks approval for the proposed budget for the HRA for 2020/21 and the key principles on which it is based.</p> <p>This report sets out the proposals regarding the rents, service charges and other charges to tenants as well as the expenditure plans for the 2020/21 rent year. These proposals and the actions within the delivery plans for each neighbourhood all support the priorities set out in the Council's new Corporate Strategy.</p>
Recommendations	<p><b>Cabinet recommends that Full Council approves the following:</b></p> <p><b>1. The set of key principles proposed for the HRA operating in both Bournemouth and Poole neighbourhoods for 2020/21 as follows: -</b></p> <ul style="list-style-type: none"> <li>(i) Deliver strong financial management of the HRA which maximises the ability to collect income, gain efficiencies and service outstanding debt</li> </ul>

- (ii) Ensure HRA stock is adequately and efficiently maintained particularly in relation to the Council's legal obligation to ensure the health, safety and welfare of its tenants
- (iii) Focus on the delivery of effective housing management services to support successful tenancies and strong and sustainable communities
- (iv) Continue to secure funding opportunities to deliver additional social rented and affordable housing through new build and acquisitions

These principles, and the actions that will be linked to them in the Delivery Plans, support the newly agreed themes within the Council's Corporate Strategy.

Note that these objectives are broadly stated in order of priority. As a landlord, it is important that debt is serviced in the first instance, followed by ensuring the effective and efficient maintenance and management of the properties and support for tenants. Subsequent surpluses and borrowing will then be maximised to bring forward additional affordable housing.

**2. That revenue budgets for 2020/21 and provisionally for 2021/22 and 2022/23 are set using the following principles: -**

- (i) That dwelling rents are increased by 2.7 per cent (CPI for September 2019 + 1 per cent) in line with the Ministry of Housing, Communities and Local Government (MHCLG) Policy statement on rents for social housing published in February 2019.
- (ii) That garage rental charges are increased by RPI which for September 2019 was 2.4 per cent across both the Bournemouth and Poole neighbourhoods.
- (iii) That leasehold services are charged to leaseholders in line with actual costs incurred.
- (iv) That the following tenant service charges are budgeted for based on an increase of 2.4 per cent:
  - Scooter charges (both neighbourhoods)
  - Laundry (Bournemouth neighbourhood)
  - Window cleaning (Bournemouth neighbourhood).

And that a 2 per cent increase is applied to caretaker charges and a 3 per cent decrease for utility charges in the Poole neighbourhood.

- (v) That service charges within the Bournemouth neighbourhood for communal gardening and cleaning will be adjusted based on the cost of providing the

	<p>service. The previously approved tenant service charge policy will continue to be rolled out with communal electricity charges applied from 1 April 2020.</p> <p>(vi) That the PHP management fee paid from the HRA is increased by £203,000 to reflect pay award and employer contribution pension increases and new annual IT licencing costs.</p> <p>(vii) That the bad debt provision is held at 2019/20 levels for both neighbourhoods - £188,000 for the Bournemouth neighbourhood and £197,000 for the Poole neighbourhood.</p> <p>(viii) That the depreciation budget for the Bournemouth neighbourhood is decreased by £65,000 and by £21,000 for the Poole neighbourhood.</p> <p>(ix) That HRA reserves should be maintained at a minimum level of 5 per cent of total expenditure. This equates to £1.103 million for the Bournemouth neighbourhood and £803,000 for the Poole neighbourhood for 2020/21, totalling £1.906 million.</p> <p>(x) That a one-off contribution of £1 million from each neighbourhood HRA to the General Fund is proposed in support of the overall cost of BCP Council's transformation programme to implement organisational change on the proviso that the HRA also benefits from the savings that are made because of the programme.</p> <p><b>3. That capital budgets for 2020/21 and provisionally for 2021/22 and 2022/23 are set using the following principles: -</b></p> <p>(i) That funding totalling £4.3 million is carried forward from the 2019/20 Bournemouth neighbourhood capital programme and that funding totalling £5.659 million is carried forward from the 2019/20 Poole neighbourhood capital programme, to more accurately reflect cash flow of agreed projects between financial years.</p> <p>(ii) That the planned maintenance programmes as set out in Appendix E are agreed.</p> <p>(iii) That the major projects plan as set out in paragraphs 81 to 94 and Appendix F is agreed.</p> <p>(iv) That the development of Luckham Road/Charminster Close and the determination of the final funding</p>
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	<p>arrangements delegated to the s151 Officer in consultation with the Cabinet Holders for Housing and Finance are agreed.</p> <p>(v) That final approval is provided for the development of temporary accommodation at Herbert Avenue to progress through to completion in line with the approved Business Case.</p> <p><b>4. That the Delivery Plans for each neighbourhood to support the key principles for the HRA and the Council's new Corporate Strategy are agreed as set out in appendices G and H.</b></p> <p><b>5. That further work is supported regarding the financial remodelling of the HRA and its two neighbourhood accounts to: -</b></p> <p>(i) Agree a Housing Development Strategy for new build activity to consolidate the way forward on issues such as the delivery of social rented homes and the achievement of sustainable new build housing with these being brought forward during 2020.</p> <p>(ii) Review options for current stock and a refresh of the Asset Management Strategy to assess opportunities for delivering higher standards of sustainability for all existing homes.</p>
Reason for Recommendations	HRA rents and other charges along with the HRA Capital Programme are subject to review and require Cabinet and Council approval in order for rents and charges to be levied.
Portfolio Holder	Councillor Kieron Wilson, Cabinet Holder for Housing
Corporate Director	Kate Ryan, Corporate Director – Environment and Community
Contributors	<p>Tina Worthing, Group Accountant - BCP Council</p> <p>Caroline Wayne, Strategic Director – Corporate (PHP)</p> <p>Seamus Doran, Head of Neighbourhood Management, BCP Council</p> <p>Lorraine Mealings, Director of Housing, BCP Council</p> <p>Su Spence, Chief Executive (PHP)</p>
Wards	All

Classification	For Decision
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## Background Detail

1. Each year social landlords must set rent levels and budgets for the forthcoming financial year and provide each individual tenant with statutory notice of any proposed rent change. This report sets out the proposals regarding the rents, service charges and other charges to tenants as well as the expenditure plans for the 2020/21 rent year.
2. The Council housing stock in the Bournemouth neighbourhood comprises 5,085 tenanted and 537 leasehold properties (as at 1 April 2019) with a rent roll of £22.610 million in 2020/21. The Poole neighbourhood stock comprises 4,508 tenanted and 591 leasehold properties (as at 1 April 2019), with a rent roll of £20.070 million. There is no Council housing stock in the Christchurch neighbourhood as the stock was transferred to a housing association several years ago.
3. The HRA is a ring-fenced account within the Council and records the income and expenditure associated with the landlord function in respect of the Council's housing stock. The account is separate from the wider General Fund budget which is funded by a variety of income flows, including council tax.
4. The Council's HRA was formed on 1 April 2019 and combined the HRA's of Bournemouth and Poole Councils. BCP Council can only operate one HRA legally but continues to maintain two separate neighbourhood accounts within it, one for Bournemouth and one for Poole. This approach was agreed with the Ministry of Housing, Communities and Local Government (MHCLG).
5. PHP operates as an Arm's Length Management Organisation (ALMO). It manages homes in the Poole Neighbourhood in line with a long-term management agreement with the Council. Compliance with this agreement is managed through a Commissioning and Performance Management Framework.
6. It was not feasible to accurately merge the two neighbourhood accounts into one when the legacy councils merged. One account would have also removed the ability to differentiate between the different services which have been developed in the two neighbourhoods over many years.
7. These differences will continue for the foreseeable future, but work has commenced to review activities where it may be appropriate to align service provision and policy direction. An external review has also been commissioned to consider the issues and complexities of operating two neighbourhood accounts rather than one.
8. The Council is required by law (Local Government & Housing Act 1989, section 76) to avoid budgeting for a deficit on the HRA. This means the budget must not be based on total HRA revenue reserves falling below zero. In practice the Council is expected to

maintain a reasonable balance of HRA reserves to cover contingencies. The HRA will maintain reserves above a minimum level of 5 per cent of expenditure. In 2020/21 this gives a minimum level of reserve for the Bournemouth and Poole neighbourhoods of £1.103 million and £803,000 respectively.

9. On 29 October 2018 the Government revoked the indebtedness limits that were introduced for HRA's in December 2010 by the Localism Bill under self-financing determinations, by lifting the HRA borrowing cap. This means the BCP HRA will not be subject to a limit on borrowing. However, borrowing must conform to the Prudential Code which requires that borrowing be affordable and prudent. Total borrowing within the BCP HRA is forecast to be £52 million (Bournemouth) and £82.24 million (Poole) giving £134.24 million (BCP) as at the 31 March 2020.
10. Business cases that set out how and when the HRA will borrow will be developed and submitted for approval during 2020/21 per individual scheme.
11. The delivery of new affordable homes and ensuring current stock meets local requirements is a key priority for councils. Within both Neighbourhoods work continues on re-designation and redevelopment of sheltered stock with some changing to general needs, to ensure properties meet future needs in relation to those households on the Council's housing register.
12. Following the Grenfell fire tragedy in June 2017 a full review of fire safety issues has been undertaken in Bournemouth and Poole and regular monitoring arrangements are in place to ensure that current safe practices remain under constant review. A review of building regulations and fire safety, and a subsequent Government consultation will place additional responsibilities on the Council to ensure the safety of its residents. A separate enquiry into the fire has also produced recommendations which the Government has promised to fully implement. Implementing the recommendations may result in challenges around costs and practicality and we are watching the national agenda closely.
13. PHP has taken the decision to replace cladding at Sterte Court with a non-combustible cladding and will also be installing sprinkler systems within Poole's six tower blocks. A national issue relating to fire doors was identified as part of the Grenfell enquiry as some of the national fire door products had failed to provide 30 minutes of smoke and fire protection. Actions are in place to mitigate any risks relating to the doors in both Bournemouth and Poole and door replacement programmes are underway.
14. In September 2019 a report was presented to Cabinet setting out the Council's legal obligations as a landlord to ensure the health, safety and welfare of its tenants and details of performance against these. The Council must comply with statutory instruments and specific guidance around fire safety, gas safety, water hygiene, lift safety and asbestos safety. These are high risk areas and are given a high priority to ensure compliance. The Regulator for Social Housing has also written to all stock holding local authorities to remind them of the regulatory requirement under the Home Standard to ensure compliance in these areas.

15. The Home Standard forms part of the Regulator's consumer standards that apply to the Council as a stock owning authority even if part of the stock is managed by someone else. The Regulator's role is to set these standards and to intervene where failure to meet the standards has caused or could have caused serious harm to its tenants. Where a local authority feels that it has systematic failings in meeting the standards then they are expected to self-refer to the Regulator.

### **BCP Council's Corporate Strategy**

16. The Council's new Corporate Strategy sets out its priorities, the objectives to achieve these, key actions and measures of success. The services delivered within the HRA support the strategy and the key priorities that make up the Corporate Strategy in many different ways as set out below.
17. Sustainable Environment - Energy efficiency and sustainability will continue to be considered when building new homes and carrying out capital improvement works to existing properties. This will help lead towards a sustainable environment and tackle the climate and ecological emergency. There will be challenges regarding costs and the feasibility of undertaking work particularly to existing properties but there will be very clear benefits for tenants through lower energy bills and clear benefits for the wider environment. This area of work will also be influenced by developments in national policy. Considerations are also given to retrofitting options for existing homes.
18. Dynamic Places – One key priority within the HRA is to develop new homes for those in housing need. Well established development expertise is in place in-house to bring forward new homes on numerous surplus Council owned sites. These additional homes will add to the overall homes that the BCP Council area needs.
19. Connected Communities – Both neighbourhoods support activities to build communities in which people feel safe and where their views are considered. There is formal engagement through residents' groups to scrutinise the services that are provided and ongoing work to develop these services and policies. As well as supporting the Council's objectives, this also meets the regulatory requirements as determined by the Regulator for Social Housing. Enforcement and preventative measures are undertaken to reduce anti-social behaviour and there is close partnership working with the Police and other agencies to deal with this and to reduce the fear of crime. A large proportion of sheltered properties within the housing stock provides support to older tenants to help them live independently and reduce social isolation.
20. Brighter Futures – Housing can play an important part in the care for children and young people. The provision of the right accommodation can have a significant impact and staff are trained to recognise support needs as well as safeguarding issues. There is close partnership working to help provide suitable accommodation for young care leavers.
21. Fulfilled Lives – The provision of support within sheltered housing enables people to lead healthy and independent lives. Partnership work is undertaken with other services within the Council and other agencies to provide accommodation where high levels of support can be provided, for example adults with a learning disability. Both neighbourhoods make

a good contribution to the Housing First programme which supports rough sleepers into accommodation. Minimising evictions of existing tenants is a priority with work ongoing to look at how support can be provided to help tenants sustain their tenancies and prevent homelessness.

22. Modern, Accessible, Accountable Council – Both neighbourhoods are committed to working with residents to scrutinise services and seek feedback through formal resident engagement, satisfaction surveys and learning from complaints. The report and delivery plans also set out how we will provide an improved, modern and efficient service as well as meeting our obligations to ensure the health and safety of residents.

### **Strategic Objectives**

23. The strategic objectives for the BCP Council HRA operating in both Bournemouth and Poole are as follows: -

- (i) Deliver strong financial management of the HRA which maximises the ability to collect income, gain efficiencies and service outstanding debt
- (ii) Ensure HRA stock is adequately and efficiently maintained particularly in relation to the Council's legal obligation to ensure the health, safety and welfare of its tenants
- (iii) Focus on the delivery of effective housing management services to support successful tenancies and strong and sustainable communities
- (iv) Continue to secure funding opportunities to deliver additional social rented and affordable housing through new build and acquisitions

Note: that these objectives apply equally to both the Bournemouth and Poole Neighbourhoods and are broadly stated in order of priority. As a landlord, it is important that debt is serviced in the first instance, followed by ensuring the effective maintenance and management of the properties and support for tenants. Surpluses and borrowing will then be maximised to bring forward additional affordable housing.

24. The approach to HRA budget setting has focused on three key areas for 2020/21 and the following sections of the report take each of these areas in turn;

- Revenue income expected to be achieved and proposals around rent and service charge levels
- Revenue expenditure plans that reflect local priorities and service delivery patterns, including revenue contributions to capital
- Capital expenditure plans that will deliver essential maintenance to the stock as well as ensuring the Decent Homes Standard is maintained and support the affordable homes new build programme



Financial summaries for the BCP HRA are provided in Appendix A – F.

25. Delivery plans for both neighbourhoods are provided in Appendix G and H.

### **REVENUE INCOME**

26. The HRA receives income primarily from rents paid by tenants and from service charges levied.

### **Tenant Dwelling Rents**

27. The rent to be charged to tenants is governed by the national rent policy and must be followed by all social landlords in order to be free from challenge from residents and to secure eligible housing benefit relief. This national policy sets the level by which tenant rents should be uplifted each year and in 2014/15 a national consultation set the following formula; an increase by the Consumer Price Index (CPI) as at September plus 1 per cent.

28. The rent formula was superseded by an announcement in the July 2015 budget statement that all social rents would decrease by 1 per cent each year until 2020. Rent increases from April 2020 of CPI + 1 per cent resume for a period of five years as set out in the MHCLG policy statement on rents published in February 2019.

29. Although the return to the policy is welcomed and will help the Council meet its responsibilities, the four years of rent reduction have reduced rental income by £3.2 million for the Bournemouth neighbourhood and £2.9 million for the Poole neighbourhood and will continue to have a significant cumulative impact on the level of income that will be available to the HRA over the course of the 30-year business plan. Any income that is available after the cost of servicing debt and managing and maintaining the stock is made available to the capital programme. It is this contribution to the capital programme that potentially may be greatly reduced due to the falling level of income. The approach to budget setting has therefore ensured that maximum value from all areas of expenditure is being achieved so the capital development programme can secure as many funds as possible. This will ensure that the strategic priority of delivering more social and affordable housing can still be delivered from within HRA resources.

30. Other adjustments that will impact on the level of achievable dwelling rent income relate to the number of Right to Buy (RTB) sales expected to occur and the number of days properties are empty during a change of tenancy. With regards the RTB, it is assumed there will be 20 sales during the year from the Poole neighbourhood and 28 from Bournemouth and the part year income associated from these properties has been deducted from the income budget.

31. Both neighbourhoods manage a small number of shared ownership properties. Shared owners can purchase part of the property and pay a monthly rent on the share that remains in the ownership of the Council. Owners can normally purchase the remaining share of the property in a process known as "staircasing". Rent increases are based on the terms of the lease provided to residents. The lease used is based on the model form

of lease provided by the Government which is widely recognised by lenders and solicitors. Rent increases are upwards only with increases set at RPI + 0.5 per cent.

32. For 2020/21 it is assumed that 1 per cent of the Poole and Bournemouth neighbourhood housing stock will be void at any one time and therefore rent cannot be charged. This reduces the total income expected to be achieved by £230,000 for the Bournemouth neighbourhood and £203,000 for the Poole Neighbourhood.
33. Acquisition and new build programmes increase the stock of affordable housing for the HRA. The Poole neighbourhood account will reflect the additional income expected from the delivery of 62 units at Canford Heath Road as well as from acquisitions budgeted annually. The Bournemouth Neighbourhood account will reflect the additional income from the delivery of 35 homes across several sites. However, there are inherent uncertainties around timescales for new build schemes, but an estimate has been accounted for.

***Recommendation 2 (i) –***

***That dwelling rents are increased by 2.7 per cent (CPI for September 2019 + 1 per cent) in line with the Ministry of Housing, Communities and Local Government (MHCLG) Policy statement on rents for social housing published in February 2019.***

**Garage Rents and Service Charges**

34. The Council can set its own charges for items that attract service charges but must review annually the costs that drive these charges as well as how that money can be utilised.
35. Garage rents cover income received from garages in Bournemouth and Poole that are situated on land currently owned within the HRA. The majority of garages in both Bournemouth and Poole were transferred from the HRA to the General Fund in 2018/19 and those remaining are located on sites identified as potential for re-development. In Bournemouth, 129 garages remain in the HRA alongside a further 240 garage plots and bases for potential development sites. In Poole, 43 garages remain within the HRA.
36. The current level of garage charges has been benchmarked against those charged by other landlords locally and these have been confirmed as broadly similar. It is therefore proposed to uplift for inflation (2.4 per cent), Retail Price Index for September 2019 across Bournemouth and Poole neighbourhoods to reflect the ongoing rise in cost of managing the garages whilst being mindful of ensuring they remain affordable and lettable.

***Recommendation 2 (ii) –***

***That garage rental charges are increased by RPI which for September 2019 was 2.4 per cent across both the Bournemouth and Poole neighbourhoods.***

37. Other rents, within the Poole neighbourhood, reflect those charged to tenants occupying commercial space at Trinidad Village. These have been budgeted in line with the lease

agreements in place and will increase by RPI on their agreed rent review dates. The Bournemouth neighbourhood does not receive any commercial rental income.

38. Leasehold service charges cover costs that are recharged to leaseholders in year to reflect either the cost of maintaining the fabric of the building or the cost of maintaining the communal areas. These charges must reflect the full cost that is incurred by the HRA, but no profit must be achieved through the levelling of these charges. Given this, the income budgets proposed reflect only an indicative level and actual charges will be reconciled during the summer to actual costs incurred. Within the Poole Neighbourhood service charges will be increased by 1 per cent to reflect the expected level of costs. In Bournemouth leasehold charges for each building will be estimated and leaseholders will be notified of the charges to be applied for 2020/21.
39. The cyclical and reactive maintenance income budgets for leaseholders reflect actual works undertaken and are charged on a cost per case basis. These budgets in Poole reflect the works that have been undertaken on a year on year basis. Cyclical and reactive maintenance undertaken in Bournemouth is also charged on a cost per case basis.
40. Expenditure levels on the management costs for general leasehold management have been increased by 2 per cent in line with the expected pay award.
41. Expenditure on utility costs for the Poole neighbourhood for the communal areas, covering water, gas and electricity, are subject to a four-year price agreement which began in September 2016. For the Bournemouth neighbourhood, a new utility contract commenced in October 2018 which has brought an increase in energy tariffs.

***Recommendation 2 (iii) -***

***That leasehold services are charged to leaseholders in line with actual costs incurred.***

42. Tenant service charges must mirror the charges incurred by the HRA in the same way as leasehold charges. For the Poole neighbourhood the expenditure costs driven by staffing levels are expected to increase by 2 per cent from April 2020 and this will affect the caretaker charges. The cost of delivering utility services has decreased following reductions in usage. The utilities budget has been adjusted downward to reflect the removal of Cynthia House which is a site being redeveloped and increased to reflect the cost of utilities at Canford Heath. Scooter charges will be increased in line with September's RPI of 2.4 per cent.
43. For the Bournemouth neighbourhood, service charges for laundry, window cleaning and scooter storage charges will increase by 2.4 per cent in line with RPI as at September 2019. Charges for communal heating/hot water and water/sewage will remain at 2019/20 levels except on those schemes with individual metering, where charges will be based on usage. Other charge introduced in December 2018 for communal gardening and cleaning will be based on actual costs incurred. The previously approved Service Charge Policy will continue to be rolled out over time as previously agreed, with additional charges for communal electricity applied from 1 April 2020. Communal telephone and internet

charges will be applied to the Council's extra care scheme at Brushett House from 1 April 2020.

***Recommendation 2 (iv) –***

***That the following tenants service charges are budgeted for based on an increase of 2.4 per cent:***

- ***Scooter charges (both neighbourhoods)***
- ***Laundry (Bournemouth neighbourhood)***
- ***Window cleaning (Bournemouth neighbourhood)***

***And that a 2 per cent increase is applied to caretaker charges and 3 per cent decrease in utility charges in the Poole neighbourhood.***

***Recommendation 2 (v) –***

***That service charges within the Bournemouth neighbourhood for communal gardening and cleaning will be based on the cost of providing the service. The previously approved tenant service charge policy will continue to be rolled out with communal electricity charges applied from 1 April 2020.***

44. Arrangements relating to retained Photovoltaic (PV) solar panels and PV licencing costs remain unchanged.

**REVENUE EXPENDITURE**

45. The HRA manages expenditure that covers delivery of the general housing management function as well as overhead and capital financing charges.

**Management and Maintenance**

46. PHP delivers the management and maintenance service to the Council in relation to Poole neighbourhood stock and this is funded through the annual management fee paid to PHP. It is recognised that the current financial climate is challenging across the public sector and the four years of reduction in rental charges to tenants have reduced the level of funds available to deliver all the priorities for housing support and delivery across Poole. However, the strategic aims of the HRA remain fit for purpose and they support the delivery of effective asset management via a long-term approach supported by the 30-year business plan.
47. PHP will continue to look at ways to ensure the underlying resources are delivering more. During 2017/18 it delivered a fundamental cost review which looked at options for reducing costs across the management fee in line with Borough of Poole objectives. This cost review reduced the management fee by £500,000 between 2018/19 and 2019/20.
48. PHP faces unavoidable cost pressures in 2020/21. These reflect the pay award of 2 per cent, an increase in pension contribution requirements of 0.5 per cent and the cost of providing annual IT licences.

49. The BCP Council HRA remains committed to the delivery of social rented and additional affordable housing in order to meet identified housing need and support economic development through maintaining an effective local workforce. This can be achieved through maximising the revenue contribution to capital and bringing forward plans around the use of HRA land to deliver this via the capital programme. It is therefore essential to demonstrate efficiencies across all areas of spend to maximise the funds available for capital developments.
50. The strategies across both Bournemouth and Poole are to ensure that costs are driven down, that these are benchmarked to test that value is being achieved and the organisation learns from the best to inform the decisions being made.
51. The Bournemouth housing stock is managed within the senior management structure of the Council and therefore does not have a management fee arrangement in place. However, the same pressures relating to pay awards and increased pension contributions will also apply.
52. Some changes have been made to the staffing establishments within the Bournemouth neighbourhood to reflect changing needs. Increases in Development Team staffing resources have been made to help bring forward the new build programme. Some additional staff have also been employed to ensure the effective management of tenancies involving tenants with complex needs such as substance misuse.

***Recommendation 2 (vi) –***

***That the PHP management fee is increased by £203,000 to reflect pay award and employer contribution pension increases and the cost of annual IT licences.***

**Overheads and Other Expenditure**

53. The HRA holds general budgets that meet the cost of other service areas that support the overall delivery of the housing management function. These budgets have also been considered as part of the budget setting process.
54. The HRA picks up charges via “SeRCOP” recharges that identify costs held elsewhere in the Council but that relate to delivery of housing services. These include areas such as grounds maintenance provision, oversight of CCTV within buildings and corporate support costs. These need to be reflected in the HRA in order to ensure the full cost of delivering services to tenants is recognised. Such charges have to be fundamentally reviewed on a regular basis to ensure they remain up to date and appropriate.

**Management of Bad Debts**

55. One of the main areas of risk for the HRA going forward is arrears and the management of debt within the rent account. There is a specific risk around the ability to collect this debt as national welfare reform changes are rolled out. The spare room subsidy changes have now been in place for almost seven years and work to manage under occupation is now business as usual.

56. One key current risk is Universal Credit (U.C.) which went live for Poole in October 2017 and for Bournemouth in November 2017. Evidence from other areas, along with our experience so far, shows the level of arrears increases in the short to medium term following implementation.
57. Whilst the increase to date has not been too significant, arrears among tenants in receipt of U.C. has increased as more tenants move onto UC. As the roll out continues and the number of tenants on U.C. increases over time, it is expected arrears will continue to increase. The arrears have increased for many reasons. These include:
- 1) The often unpredictable U.C. payments made from the Department for Work and Pensions which are difficult to monitor
  - 2) The inherent time delays in receiving U.C. payments because payments are made in arrears
  - 3) The computer literacy required by tenants to manage their U.C. 'journal' claim with some having real difficulty in engaging.
  - 4) Where the housing element of U.C is paid directly to tenants, they do not always use this to pay their rent.

Both neighbourhoods continue to work closely with tenants to assist with financial and budgeting skills and continue to undertake proactive work to help with any issues around their U.C. claims and any associated issues.

58. As the level of arrears across all other tenants continues to remain broadly consistent with previous years and because there was an overestimate of the bad debt provision set aside for welfare reform in previous years, the current level of bad debt provision of £188k for the Bournemouth neighbourhood and £197k for the Poole neighbourhood is considered to be adequate and has been maintained at the same level for 2020/21.

***Recommendation 2 (vii) –***

***That the bad debt provision is held at 2019/20 levels for both Neighbourhoods - £188,000 for the Bournemouth Neighbourhood and £197,000 for the Poole Neighbourhood.***

59. Under the self-financing regime the HRA holds a depreciation charge that recognises the cost of managing and maintaining the Council stock at the current level. This funding represents a revenue cost to the HRA that is then used to support the capital programme to deliver the required enhancements to the stock to keep it fit for purpose. Under these arrangements the Council is required to demonstrate the stock has been accounted for in line with IAS 16 and follows componentisation accounting principles.
60. Depreciation charges in both neighbourhoods are calculated using components. However, the depreciation policy for each neighbourhood is significantly different - the Bournemouth neighbourhood uses six components and Poole uses 86. Life cycles also vary across the two neighbourhoods. These differences in approach will be reviewed during 2020/21 but have not been aligned in this budget as doing so now could impact the level of resource available to support the maintenance programme.

**Recommendation 2 (viii) –**

***The depreciation budget for the Bournemouth neighbourhood is decreased by £65,000 and by £21,000 for the Poole neighbourhood.***

**Reserves**

61. The Council is required by law (Local Government and Housing Act 1989, section 76) to avoid budgeting for a deficit on the HRA. This means the budget must not be based on total HRA revenue reserves falling below zero. In practice the Council is expected to maintain a reasonable balance of HRA reserves to cover contingencies. An appropriate level has been determined as 5 per cent of expenditure. This level has been reached after carrying out a risk assessment of key items affecting income/expenditure and allowing for a contingency for unidentified items. In 2020/21 this gives a minimum reserve requirement of £1.103 million for the Bournemouth Neighbourhood and £803,000 for the Poole Neighbourhood.

**Recommendation 2 (ix) –**

***That HRA reserves should be maintained at a minimum level of 5 per cent of total expenditure. This equates to £1.103 million for the Bournemouth neighbourhood and £803,000 for the Poole neighbourhood for 2020/21, totalling £1.906 million.***

62. In November 2019 Cabinet agreed to adopt a strategic vision and design for the Council and to establish a transformation programme to deliver this. This programme seeks to achieve up to £36.8 million in savings for the Council through modern efficient ways of working and better understanding the needs of customers. A three to five-year plan will set out the investment needed in areas such as new technology, skills and office accommodation. Both HRA Neighbourhoods are to contribute £1 million each towards this programme and can expect to benefit from the savings. The programme will also provide new ways of working across all activities including the HRA which will in turn help provide a better, more efficient service for customers.

***Recommendation 2 (x) – That a one-off contribution of £1 million from each neighbourhood HRA to the General Fund is proposed in support of the overall cost of BCP Council's transformation programme to implement organisational change on the proviso that the HRA also benefits from the savings that are made because of the programme.***

**Capital Financing**

63. The budget to support interest paid on HRA debt will rise in future years as external borrowing is required. For 2020/21 the BCP HRA will not need external borrowing to fund its capital programme. Cashflow adjustments are being made between the neighbourhoods in order to minimise external borrowing costs.
64. The continued strong management of expenditure costs and the good level of income collection mean that for 2020/21 the revenue contribution to capital from the Poole neighbourhood is budgeted at £2.6 million which will be made available to the major repairs reserve. For Bournemouth, the contribution to capital which is made available to

the major repairs reserve is achieved through the amount for depreciation. Although there are differences in how depreciation is calculated, as set out below, and how the cost of major repairs is accounted for, the amount to be spent on major repairs will be broadly similar. Poole's contribution to capital is in addition to the amount for depreciation.

### **CAPITAL EXPENDITURE**

65. Financial regulations require capital schemes to be categorised into appropriate approvals categories. All Planned Maintenance Programme items within Appendix E are Unconditional. Major Projects (shown in detail in Appendix F) are categorised as Unconditional, Conditional or Requires Subsequent approval, as appropriate.

### **Planned Maintenance Programme**

66. The HRA capital programme aims to ensure first and foremost, that the current housing stock is fit for purpose and specific projects that will enhance the delivery of social rented and affordable housing across both neighbourhoods are achieved. The Decent Homes target was achieved in December 2010 when the significant backlog works were completed, and all stock met the target. However, each year elements of this stock will need to be replaced or updated in order to keep all stock at the Decent Homes (and the Bournemouth and Poole) standard. The delivery of these enhancements is the first call on capital resources.
67. The 2019/20 capital programme was agreed at £14.543 million (revised to £18.366 million) for Poole and £21.395 million for Bournemouth (revised to £11.095 million). Timing of cash flows for large capital projects spanning several financial years can be difficult to predict and are re-forecast as the projects progress. Capital budgets are carried forward when timing of cash flows becomes more accurate to predict.

### ***Recommendation 3 (i)-***

***That funding totalling £4.3 million is carried forward from the 2019/20 Bournemouth neighbourhood capital programme and that funding totalling £5.659 million is carried forward from the 2019/20 Poole neighbourhood capital programme, to more accurately reflect cash flow of agreed projects between financial years.***

68. There are new areas of work that need to be delivered as part of the planned maintenance programme. Fire safety is a key area. Whilst an urgent review of activity was undertaken in an immediate response to Grenfell and no significant issues of concern locally were identified, fire safety remains a top priority across housing services and is regularly reviewed in order to help identify any improvements needed.
69. It is important to note that no ACM cladding of the type used in Grenfell, is in place on Council owned blocks in either Bournemouth or Poole.
70. A national issue relating to fire doors was identified as part of the subsequent Grenfell Enquiry because some of the fire doors in the block failed to provide 30 minutes of smoke and fire protection. Fire doors have been reviewed locally across both Bournemouth and Poole neighbourhoods to ensure a safe current situation and budgets for the cost of



replacing all fire doors in flats for integrated fire door sets have been allocated for coming years.

71. A Sustainable Environment forms part of the Council's Corporate Strategy. Within this are objectives to ensure that sustainability underpins all of our policies, tackle the climate change emergency and promote sustainable resource management. This is achieved through sustainable methods of construction in relation to new homes with high levels of thermal insulation and more energy efficient hot water and heating systems. Energy efficient measures are also provided in the refurbishment of existing homes including more efficient gas boilers, consideration of alternative heat sources, increased levels of thermal insulation, communal heating systems and low energy lighting to communal areas. Such measures often increase development and refurbishment costs, but more energy efficient homes can benefit tenants through lower energy bills.
72. A review is currently underway seeking national and international good practice with regard to sustainability for new build and retrofitting of existing housing stock. This work is being undertaken across both the Poole and Bournemouth neighbourhoods to help conclude the policy going forward. Technology is changing constantly in this fast-moving sector but it is clear that the HRA housing stock will embrace this issue within its programme going forwards.
73. There are differences for proposed expenditure between the two neighbourhoods within the planned maintenance programme. Each has its own asset management strategy which reflects the nature of the stock and drives this programme. Different services and policies have also developed between the two neighbourhoods over many years which have been influenced through engagement with tenants.
74. The planned maintenance programme is proposed at £7.139 million for Poole and £7.937 million for Bournemouth. A full breakdown of these programmes is included within appendix E and these will deliver a programme of work that is safe and meets legislative and other priorities.

***Recommendation 3 (ii) –***

***That the planned maintenance programmes as set out in Appendix E are agreed.***

**New Build and Major Projects**

75. The HRA is committed to delivering additional affordable housing across both Bournemouth and Poole and ensuring the current HRA land is used as effectively as possible. Whilst the majority of activity is new build, the Bournemouth and Poole neighbourhoods have also successfully acquired existing properties. These are usually via buy back of RTB properties but may be where other housing providers are looking to dispose of suitable stock within the geography. Each new build scheme and purchase is subject to both financial and managerial due diligence to ensure they deliver value for money. New build schemes and other major capital programmes not defined explicitly within this report will be brought for individual Cabinet approval as per the Financial Regulations.

76. The exact tenure mix of this new build programme is being considered in the context of overall financial viability. Each scheme is required to be viable over the duration of any borrowing period in line with the Prudential Code and work is being undertaken to determine the proportion of social and affordable rented that can be accommodated within available finances over the next few years. The provision of new build social rented homes as part of the development pipeline presents some viability challenges in that they often require significant additional capital subsidy to ensure the scheme remains viable over the agreed borrowing period in line with the borrowing rules.
77. There are ongoing ambitious new build plans, a requirement to make significant changes to the stock to more adequately meet needs and the HRA must continue to assist in the management of homelessness. This funding can be achieved in part via borrowing additional resource. In the October 2018 budget, the Chancellor abolished the limit on HRA borrowing which allows for more to be delivered from HRA budgets where additional funding can now be raised in accordance with the Prudential Code – removing the HRA borrowing cap. This provides an opportunity to expand our new build ambitions across both Bournemouth and Poole to help further meet the needs of those on the housing registers.
78. Borrowing within the BCP Council HRA is forecast to be £134.24 million at 31 March 2020 to help finance new build and major projects.
79. Many schemes will also require additional subsidy alongside rental income to meet the borrowing requirements. RTB receipts, HRA reserves and Section 106 affordable housing developer contributions are also used across both neighbourhoods to help financially support the delivery of new homes, although these funding sources are finite.
80. The new build and acquisition programme for Bournemouth totals £11.7 million for 2020/21. The new build and acquisition programme for Poole totals £14.3 million.

### **Major Projects – Bournemouth Neighbourhood**

81. The redevelopment of Northbourne Day Centre has commenced and will provide nine homes for rent including one and two-bedroom flats and two-bedroom houses.
82. Garages on Barrow Drive and Ibbertson Way are to be demolished to provide five new two-bedroom houses and one new three-bedroom house for rent. Works will commence shortly with completion anticipated during 2020/21.
83. Plans have been drawn up for 27 new homes at Templeman House. A planning application will be submitted in the coming months with works to commence later in 2020/21. It is anticipated that these will be completed in early 2022.
84. The development on the Cabbage Patch car park will provide 11 new homes for rent including one and two-bedroom flats. It is anticipated that work will commence in 2020/21.
85. Work to replace existing Council homes at Luckham Road/Charminster Road with new more modern homes for rent will commence in 2020/21. Approval is sought for the

development of nine homes (three, three-bedroom houses, two, two-bedroom flats and four, one-bedroom flats). The site currently consists of two, three-bedroom houses and eight, two-bedroom flats. The replacement homes will be of a high quality and built to Passiv Haus principles with additional sustainability components such as PV panels and electric heating. The scheme will also provide much needed off-road parking for residents in line with planning requirements which will help to improve the congested street parking in the local area. The Council's Asset management plan provides a commitment to modernise housing stock where required and where possible, look at existing stock for redevelopment, to reduce future maintenance costs. The existing properties present ongoing significant maintenance issues for the Council and the site presents an opportunity for redevelopment and the building of replacement better quality sustainable family affordable homes. The tenants of the existing properties have been relocated to alternative Council owned homes. Planning permission was granted in March 2019, and the site has been secured in anticipation of development. The development is estimated to cost £1.856 million and has been modelled as funded from a combination of capital contribution of £360,00, RTB receipts of £557,000 and Prudential Borrowing of £939,000 which will be repaid over 25 years. The s151 Officer has reviewed the financial modelling for Prudential Borrowing repayment (including 'stress testing' of underlying assumptions). The s151 Officer in consultation with the Cabinet Holders for Housing and Finance will determine the final funding arrangements of £150,000 in 2019/20 and £1.706 million in 2020/21.

86. Works to build 14, four-bedroom houses on Moorside Road has been delayed are anticipated to commence in 2020/21. Stopping-up of an additional public right of way is to be decided at Public Enquiry before works can commence.
87. Council properties on Princess Road have been demolished to provide 120 new homes and a 20-bed hostel. The existing properties were in a very poor state of repair. These were previously used as temporary accommodation. The new homes will include one, two and three-bedroom flats for affordable rent, market rent and shared ownership.

### **Major Projects – Poole Neighbourhood**

88. Project Admiral will deliver a major maintenance programme of the four tower blocks situated in Poole Old Town. This work will ensure that these blocks remain fit for purpose and extend their life by a further 30 years. This project is to be delivered over four years.
89. In Poole, during 2018/19 issues were identified with the fitting of cladding at Sterte Court, although it is important to note the cladding was not of the same nature as used on Grenfell. Rather than replace with a like for like product of limited combustibility the decision was taken to replace with a non-combustible cladding and at the same time retrofit sprinklers. Budgets were allocated to address both issues in 2019/20 and unused budget will be carried forward to 2020/21 to complete these works. Procurement is underway to deliver these projects.
90. A £1.1 million budget for New Build has been reserved in each year. This will be used to fund new build schemes as they arise, with any under-spends each year being returned to HRA reserves.

91. The redevelopment of Cynthia House commenced in 2019/20. A review undertaken in 2016 identified this site as having high levels of voids, expensive to maintain and unpopular to rent. The scheme comprising 37 bedsits will be re-developed into a 22 unit scheme.
92. Herbert Avenue – Further to Cabinet/Council approval gained by the Borough of Poole in October 2018 for the development of a 24 unit temporary accommodation scheme at Herbert Avenue, BCP Council is confirming approval for this scheme to progress through to completion, in line with the approved Business Case. The project will provide much needed new homes for homeless families based on a modular construction approach. The project costs will be partly offset by savings within the General Fund in terms of providing valuable, cost effective, alternative accommodation to bed and breakfast for homeless families. The properties are being delivered within the HRA as in the longer term it is envisaged that they will be used to provide general needs affordable housing. The overall scheme costs were proposed to be £2.508 million including contingency and professional fees. The final tender price for the construction works, as part of that, was higher than the expected amount stated in the original Business Case (£2.324 million compared with £2.044 million). There are likely to be marginal increases to the other associated project costs in line with this, such as the required contingency amount. This increase in cost was due to a change of specification to slightly increase space standards in order to enhance the scheme and ensure a sustainable community. The innovative nature of the construction type also meant that the original amount was difficult to more accurately estimate. The chosen contractor presented the best value for money through the competitive tender exercise. The necessary approvals will be sought for a capital virement from within the Major Projects Poole Neighbourhood budget to cover the uplift in actual contract value before awarding.
93. Hillbourne – this site will deliver around 100 houses. Budget has been allocated for phase one of this project and wider approval will be sought when plans are further developed and in line with the school project.
94. The capital programme can be funded from existing resources with external borrowing required from 2021/22.

***Recommendation 3 (iii) –***

***That the major projects plan as set out in paragraphs 81 to 94 and appendix F is agreed.***

***Recommendation 3 (iv) –***

***That the development of Luckham Road/Charminster Close and the determination of the final funding arrangements delegated to the s151 Officer in consultation with the Cabinet Holders for Housing and Finance are agreed.***

***Recommendation 3 (v) –***

***That final approval is provided for the development of temporary accommodation at Herbert Avenue to progress through to completion in line with the approved Business Case.***

## **DELIVERY PLAN**

95. The Management Agreement between BCP Council and PHP sets out the requirement for an annual delivery plan to be agreed. The PHP Delivery Plan sets out the Key Deliverables for PHP which support the refreshed Housing Strategy 2017 to 2020. The annual Delivery Plan for the Bournemouth Neighbourhood is also presented. Work is currently ongoing between the teams to align ways of working as appropriate across both neighbourhoods.

### ***Recommendation 4 –***

***That the Delivery Plans for each neighbourhood to support the key principles for the HRA and the Council's new Corporate Strategy are agreed as set out in appendices G and H.***

## **FINANCIAL MODELLING**

96. The existing new build programme reflects the ambitious plan to provide much needed additional homes for rent and detailed consideration is being given to the delivery of new homes at social rent rather than just at the higher affordable rent levels. Financial modelling is taking place to look at options to help shape the identified new build programme over the next few years. The Council is also committed to improving the sustainability of its new build programme to support the climate emergency which needs accommodating in refreshed financial modelling.
97. It is worth noting here that options around retrofitting our many existing homes is also being considered to address sustainability concerns. This will also have financial implications as we move forward.
98. Work will be concluded to determine the financial viability of the new housing development programme, taking into account how we might accommodate the delivery of social rented homes. This will be consolidated into a Housing Development Strategy. This will also feed into a Sustainability Strategy for housing and construction projects.

### ***Recommendation 5 -***

***That further work is supported regarding the financial modelling of the HRA and its two neighbourhood accounts to: -***

***(i) Agree a Housing Development Strategy for new build activity to consolidate the way forward on issues such as delivery of social rented homes and the achievement of new build sustainable housing with these being brought forward during 2020.***

***(ii) Review options for current stock and a refresh of the Asset Management Strategy to assess opportunities for delivering higher standards of sustainability for all existing homes.***

## **Consultation**

99. There is no legal obligation to consult on the annual rent changes. The rent changes noted in this report for 2020/21 are set by government policy.
100. The Poole neighbourhood consults on the rent approach with local residents via the Tenant Involvement and Empowerment (TIE) panel and feedback from this meeting will be available to Cabinet if requested.
101. Consultation on the new service charge policy for the Bournemouth neighbourhood was undertaken as necessary before implementation in 2018/19.
102. The Cabinet Holder for Housing has been consulted and their feedback had been addressed in this report.

## **Summary of Financial Implications**

103. Financial and resourcing implications are explained within the report.

## **Summary of Legal Implications**

104. Council housing landlords are required to give 28 days' notice to all tenants of changes to the rental and charges for the new financial year. This will be achieved should all the recommendations be accepted by Cabinet in February 2020.

## **Summary of Human Resources Implications**

105. There are no HR implications for this report.

## **Summary of Environmental Impact**

106. HRA properties continue to benefit from photovoltaic and solar panels reducing carbon emissions across Bournemouth and Poole. The ongoing maintenance of existing stock, such as heating replacement, insulation and low energy LED lighting in communal areas also help to increase the energy efficiency of our existing stock. Consideration is currently being given to new methods of building construction, alternative heating systems on new build developments, photovoltaic panels and air source heat pumps. Already properties have been constructed to very high standards of thermal insulation, "Passiv Haus", and use of mechanical ventilation and heat recovery systems. A review currently underway with regard to new build and retrofitting will help determine the policy going forwards. National and international good practice is being considered. Technology is changing constantly in this fast-moving sector but it is clear that the HRA housing stock will embrace this issue within its programme going forward.

## **Summary of equality implications**

107. Proposed revenue budgets for 2020/21 onwards should not impact on front line service provision, and the level of capital disabled adaptations in the estimated Capital

Programme should enable us to meet the needs of disabled and older residents to have aids and adaptations fitted to support their independence.

108. Older and disabled residents will be positively affected by the investment in dwelling insulation, energy efficiency and changes to heating and communal utility charges. Many have benefited from reduced personal heating charges and a lower split of communal utility costs between all residents benefiting from these services. New energy efficient building design has been piloted including the use of "Passiv Haus" principles in new build to date.
109. There is a clear correlation between effective housing and better health outcomes. By ensuring that housing meets minimum maintenance standards respiratory health issues can be reduced as well as minimising trips and falls.
110. Community development work undertaken seeks to minimise isolation, particularly with older people, contributing to improved physical and mental health outcomes and more active communities. We will continue to work with community and voluntary groups, promoting their services and offering practical help where feasible, for example land for community gardens.
111. There are many reasons why tenants may struggle to maintain their tenancies including drug and alcohol problems, mental health and hoarding. We will seek to support tenants in their homes to ensure that they are able to maintain successful tenancies and to reduce the number of evictions. Both neighbourhoods have staff who can provide support for tenants including financial advice and work is ongoing to ensure that sufficient resources are available.

### **Summary of Risk Assessment**

112. From April 2012 the risk in financing the management and maintenance of the housing stock moved from Central Government to Local Government as part of the Self-Financing Settlement Agreement.
113. The risk associated with future rent increases and decreases is no longer a local decision.
114. The following considerations must be made:
  - a) As the self-financing valuation and settlement is premised on the Council continuing to implement the Government's Rent Restructuring formula, the deviation from this with regards the national government mandated CPI + 1 per cent increase could potentially undermine the financial viability of the BCP Council HRA.
  - b) The HRA will be committed in the first instance to the servicing of new and existing debt.

c) Only once debt is serviced (funded) can consideration be given to the maintenance standard of the properties and then in turn to the quality of the housing management service.

d) The Welfare Reform Act changes have affected the payments being made to the HRA and further changes associated with the roll out of U.C. could affect levels of tenant income and further increase rent arrears within the HRA.

e) The end of automatic payment of Housing Benefit direct to Landlords, could significantly reduce rent income levels and increase the level of bad debts within the HRA as U.C. continues to roll out.

f) Compliance with regulatory standards and changes to health and safety legislation particularly regarding fire safety will provide additional challenges over the next few years and are likely to lead to increased costs.

115. The recommendations presented here assures compliance with the national rent setting policy and the key principles have been approved by MHCLG. The proposal ensures the appropriate maintenance and development of HRA stock across the Poole and Bournemouth Neighbourhoods. Not approving this report would significantly risk the ability for BCP to comply with central Government and national legislation that govern the HRA budget process.

### **List of Appendices**

A: Housing Revenue Account – The Rent Increase Effect on Residents

B: Housing Revenue Account – Service Charges for 2020/21

C: Housing Revenue Account – Statement of Accounts for 2020/21

D: Housing Revenue Account – HRA Balances

E: Housing Revenue Account – Capital Programme for 2020/21

F: Housing Revenue Account – Major Project Capital Programme for 2020/21

G: Delivery Plan – Poole Housing Partnership (Poole Neighbourhood)

H: Delivery Plan – BCP Council (Bournemouth Neighbourhood)