

Report of:	Head of Finance and Head of Housing and Partnerships
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Key Decision:	No
Report Track:	Cabinet: 07/02/19 Council: 20/02/19

**CABINET
7 FEBRUARY 2019
HOUSING REVENUE ACCOUNT BUDGETS 2018-19 TO 2021-22**

1 Purpose of Report

- 1.1 To review the 2018-19 Housing Revenue Account Budget
- 1.2 To refresh the Housing Revenue Account budgets for the period 2019-20 to 2020-21 and introduce the 2021-22 Draft Budget.
- 1.3 To determine the proposed three year Housing Revenue Account Budget for consideration by Council on 20 February 2019.

2 Recommendations

- 2.1 That the revised position with regard to estimated income and expenditure in respect of the 2018-19 Housing Revenue Account Budget and Housing Revenue Account budgets for the period 2019-20 to 2021-22 as summarised in Appendix 1 be noted.
- 2.2 That Council on 20 February 2019 be recommended to:-
 - (i) Determine a minimum level of working balances of £1.594 million for 2019-20 and indicative working balances of £1.627 million and £1.663 million for 2020-21 and 2021-22 respectively.
 - (ii) To note the further 1% reduction in rents in 2019-20 in accordance with the Governments Social Rent Policy
 - (iii) Approve the HRA Revenue Budgets for 2019-20, 2020-21 and 2021-22 (and note the estimated outturn for 2018-19) as summarised in Appendix 1 of the report.

3 Key Issues and Reasons for Recommendation

Key Issues

- 3.1 This report considers the proposed three-year HRA budgets for 2019-20, 2020-21 and 2021-22, which have been formulated within the framework provided by the Approved Housing Revenue Account Business Plan.
- 3.2 A review of the 2018-19 HRA budget, together with base HRA budgets for the period 2019-20 to 2021-22 are attached as Appendix 1. The budgets have been formulated in accordance with the assumptions set out in the HRA Business Plan, with projected levels of income and expenditure as summarised below.

Table 1: HRA Summary Budget 2019-20 to 2021-22			
	<u>2019-20</u> £000's	<u>2020-21</u> £000's	<u>2021-22</u> £000's
Income	(19,895)	(20,006)	(20,496)
Expenditure	15,937	16,266	16,633
Revenue Contribution to Capital Outlay	3,895	3,707	3,827
Working Balances Change	63	33	37

- 3.3 Rent income continues to reflect an annual rent reduction of 1% per annum for 2019-20 reflecting the national rent policy as determined by the Government's 2015 Summer Budget. A revised rent policy for social landlords beyond 2020 was agreed by then then Department for Communities and Local Government (DCLG) on 4 October 2017 whereby "increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020".
- 3.4 In preparing the 2018-19 to 2020-21 budget details of the High Value Assets Levy, and in particular the threshold that determined the forced sale of such properties, were still awaited. In accordance with the 2018 Housing Green Paper - "A New Deal for Social Housing" such plans have now been abandoned
- 3.5 In considering the HRA Revenue Account, consideration needs to be given to the HRA Capital Programme and the level of Working Balances. A key consideration of the Capital Programme is the Revenue Contribution to Capital Outlay (RCCO) and Depreciation Charge. Any change in the latter being compensated by an increase or decrease in RCCO. In accordance with the Approved Business Plan ,the RCCO, also represents the net surplus on the Revenue Account after determining the level of Working Balances.
- 3.6 In view of the risks associated with the management of the HRA under self-financing, minimum working balances of 10% of net operating expenditure have been assumed throughout the three-year budget period.

Reason for Recommendations

- 3.7 That Cabinet are required to propose a budget in relation to the HRA for submission to Council on the 20 February.

4 Relationship to Corporate Priorities

- 4.1 The proposed HRA budgets would contribute to the following strategic objectives, which form part of the Housing Portfolio section within the 2019-20 “More and Better Housing” Priority Delivery Plan, i.e.
- (i) Increase the supply of affordable housing.
 - (ii) Improving the Council’s social housing stock.

4 Report Detail

- 5.1 Cabinet on 10 December 2015 approved a revised Housing Revenue Account Business Plan for the continued implementation of the devolved HRA “self financing system”. The revised plan covered the period 2015-16 to 2020-21 and reflected the 1% reduction in rents for 4 years with effect from April 2016, covering the period 2016-17 to 2019-20.
- 5.2 In approving the 2017-18 budget it was agreed that, following details of the Government’s Vacant High Value Payment being published and its impact determined, a revised HRA Business Plan and revised 5 year projection would be produced. Details of the Vacant High Value threshold were still awaited at the time of 2018-19 budget and only a refresh of the existing plan was undertaken.
- 5.3 Cabinet at its meeting on the 8 November 2018 received a report in relation to the Housing Green Paper “A New Deal for Social Housing”. The report outlined the proposals contained in the Ministry of Housing, Communities and Local Government in relation to social housing and amongst other measures stated that
- “The Government does not intend to require Councils to implement the Higher Value Assets Levy and forced sale of higher value Council housing proposed under the Housing and Planning Act 2016 and has promised to repeal the relevant legislation when Parliamentary time allows.”*
- 5.4 The Approved HRA Business Plan therefore remains valid in the short term and has been used to provide the financial framework within which detailed HRA budgets for the three-year period 2019-20 to 2021-22 have been formulated.
- 5.5 A new 30 Year Plan is to be prepared after taking into account :
- The Governments Future Rent policy
 - Stock Condition Survey
 - New Build Strategy (including the removal of the borrowing cap on the HRA)

- 5.6 The proposed budgets reflect ongoing effects of the anticipated outturn in respect of the 2018-19 HRA budget (which is reviewed as part of this report) and other changes in income and expenditure which are projected as a result of the detailed budget formulation work.

The Housing Revenue Account Budget 2018-19

- 5.7 A review of the 2018-19 Budget is presented as part of Appendix 1.
- 5.8 The budget has been refreshed to reflect the latest stock numbers with changes made to Dwellings Rent, Garage Rents and Repairs Budgets.
- 5.9 A detailed review of employee budgets has also been undertaken with the latest budgets reflecting the staff turnover experienced in recent years. Suppliers and Services budgets have also been refreshed to reflect latest spending patterns. Recharges from the General Fund also show an ongoing reduction following service delivery for Social Alarms now being provided by Redditch B.C. In light of the implementation of Universal Credit it is also felt prudent to increase both the additional support and administration costs within Service Improvement budget and ,at this stage in its implementation, the provision for bad debts .
- 5.10 Capital Financing charges reflect a Depreciation Charge rather than a Major Repairs Allowance. Depreciation and Revenue Contribution to Capital Outlay (RCCO) charges represent key financing elements of the Capital Programme. In addition the charges for the medium term, as agreed as part of the 2018-19 budget no longer make provision for the voluntary Minimum Revenue Provision (Repayment of Debt) during the period with a subsequent increase in RCCO of £1.56 million.
- 5.11 Estimated expenditure for 2018-19 is now forecast to be £19.923 million and Income £19.715 million with a forecast release from working balances of £0.208 million. The estimated outturn represents an improvement /additional net Revenue Contribution to Capital Outlay of £1.597 million, inclusive of the £1.56 million MRP reduction, as compared to the Original Budget

Housing Revenue Account Budgets 2019-20 to 2021-22

- 5.12 The Approved 30 year HRA Business Plan has been used as the basis for preparing the HRA budgets for the period 2019-20 to 2021-22 which are attached as Appendix 1.
- 5.13 The budgets reflect a continuation of current policies and the maintenance of existing service provision throughout the budget period.
- 5.14 The Budget does however reflect the creation of a Developer Officer in relation to the Housing Investment Fund at a cost of approximately £0.040 million per annum. In addition to the £12 million approved as part of the 2018-19 budget the lifting of the HRA borrowing cap will potentially create an ongoing new social housing programme. The Development Officer will develop and co-ordinate opportunities for the provision of new affordable housing within the District. Longer term the Development Officer will be responsible for helping to prepare

and deliver a phased programme of Council house development and expansion and rationalisation of the Councils Housing Stock

- 5.15 No material changes have been made in relation to inflation and cost pressures, with the exception of pay awards. The provision for pay awards has been increased to 2% for 2020-21 and 2021-22, reflecting a continuation of the existing 2 year agreement and the prevailing level of CPI. The additional cost including recharges from the General Fund amount to £0.042 million in 2019-20 rising to £0.085 million thereafter
- 5.16 Other assumptions are in line with the indicative budgets set last year with the provision for the 2% per annum increase in employer contributions to the Staffordshire Pension Fund being extended to 2021-22 pending actual determination as part of the 2019 Actuarial Revaluation.
- 5.17 Rent income continues to reflect an annual rent reduction of 1% per annum reflecting the revised national rent policy as determined by the Government's 2015 Summer Budget whereby a 1% per annum reduction applies for the period 2016-17 through to 2019-20. The Housing White Paper, Fixing our broken housing market (February 2017), included a commitment to develop a rent policy for social landlords beyond 2020. On 4 October 2017, DCLG announced that "increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020". This has now been reflected in budgets from 2020-21 onwards.
- 5.18 A comparison of the latest Revenue Contribution to Capital Outlay (which effectively represents the net income of the HRA account) from the Indicative Budgets set last year to the Draft Budget is reflected in Table overleaf.

Table 2: Reconciliation of RCCO – Indicative to Draft Budget			
	2019-20	2020-21	2021-22
	£000	£000	£000
Indicative Budget	2,218	2,452	2,452
Draft Budget	3,895	3,707	3,827
Variance	1,677	1,255	1,375
Of Which			
Depreciation /MRA Adj	1,318	1,271	1,203
Additional Resources	359	(16)	172

- 5.19 The budget has been refreshed to reflect the latest stock numbers with changes made to Dwellings Rent, Garage Rents and Repairs Budgets. 2019-20 represents a 53 week year for rents whereas Rent income will increase by £0. 571 million in 2020-21 following the removal of the 1% reduction and return to CPI +1%. The increase also reflects the reduction in the void allowance by 1% (from 2%) following the abandonment of the Levy on Vacant High Value properties. Although void allowances in 2017-18 were running at 0.8% future years budgets w.e.f 2019-20 had maintained the initial 30 Year Business Plan prudent level of 2% pending the determination of the impact of the proposed Levy.

- 5.20 Capital Financing Charges have been amended to reflect the profile of expenditure as contained in the Draft Capital Programme and the refresh of available resources with savings occurring in 2019-20 and 2020-21. The charges for the medium term, as agreed as part of the 2018-19 budget, no longer make provision for the voluntary Minimum Revenue Provision (Repayment of Debt) during the period.

Proposed Housing Revenue Account Budgets 2019-20 to 2021-22

- 5.21 Proposed Housing Revenue Account Budgets for the period 2019-20 to 2021-22 are attached as Appendix 1.

Effect on Working Balances

- 5.22 The effect of the proposed budgets on the estimated level of working balances is shown as part of Appendix 1. As previously stated a minimum working balance of 10% of net operating expenditure has therefore also been assumed throughout the three-year budget period.

6 Implications

6.1 Financial

The financial implications have been referred to throughout the report.

6.2 Legal

None

6.3 Human Resources

The estimated budgets include provision for employees.

6.4 Section 17 (Crime Prevention)

Actions to combat anti-social behaviour on the council's estates funded through the proposed budgets would have positive implications for crime prevention.

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

Self-financing increases the risks associated with the management of the HRA and a detailed risk analysis forms part of the 30 Year Business Plan.

The risks relate to income as well as expenditure and any change in Government policy will impact upon the balances available to support the Capital

Programme. The risk has however been reduced by the decision not to implement the Vacant High Value Housing Payments as originally proposed in the Housing and Planning Act 2016.

A number of actions are undertaken to further mitigate risks associated with the management of the HRA which include:-

- (i) The adoption of a prudent approach to budgeting, particularly rent income
- (ii) The maintenance of an adequate level of working balances, comprising a minimum of 10% of net operating expenditure.
- (iii) The adoption of a more realistic approach in assessing staff turnover in determining employee budgets.
- (iv) Housing Revenue Account Business Plan projections together with associated sensitivity analysis.
- (v) Firm budgetary control through regular monitoring of actual and forecast income and expenditure.
- (vi) The implementation of an annual Internal Audit Plan and scrutiny from the External Auditor.

6.8 Equality & Diversity

The draft budget reflects a continuation of current policies and the maintenance of existing service provision throughout the budget period.

6.9 Best Value

None.

7 Appendices to the Report

Appendix 1: HRA Budgets 2018-19 to 2021-22

Previous Consideration

Interim Review of Housing Revenue Business Plan	Cabinet	10 December, 2015
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Background Papers

None.

ITEM NO. 7.

Appendix 1

	Original Budget	Approved Budget	Variance	Budget	Budget	Budget
	2018-19			2019-20	2020-21	2021-22
Income	£	£	£	£	£	£
Dwelling Rent	(19,334,000)	(19,307,670)	26,330	(19,487,000)	(19,593,000)	(20,079,000)
Non Dwelling Rent	(374,110)	(355,140)	18,970	(359,140)	(364,140)	(368,140)
Interest	(1,500)	(1,500)	-	(1,500)	(1,520)	(1,540)
Other	(11,770)	(11,770)	-	(11,890)	(12,010)	(12,130)
General Fund Contribution	(35,550)	(38,360)	(2,810)	(35,520)	(35,520)	(35,520)
Total Income	(19,756,930)	(19,714,440)	42,490	(19,895,050)	(20,006,190)	(20,496,330)
Expenditure						
Repairs and Maintenance	4,642,590	4,638,090	(4,500)	4,752,300	4,858,470	4,982,220
Bad Debts Provision		75,000	75,000	100,000	100,000	100,000
Supervision & Management			-			
– General	3,457,730	3,380,100	(77,630)	705,950	3,828,270	3,956,490
– Special	924,740	914,770	(9,970)	918,540	951,250	984,230
Total Management	4,382,470	4,294,870	(87,600)	4,624,490	4,779,520	4,940,720
Capital Financing	7,681,870	6,298,790	(1,383,080)	6,460,610	6,528,240	6,609,650
RCCO	3,019,740	4,616,160	1,596,420	3,894,590	3,707,080	3,827,100
Total Expenditure	19,726,670	19,923,240	196,570	19,831,990	19,973,310	20,459,690
Working Balance transfer	30,260	(208,470)	(238,730)	63,060	32,880	36,640

Appendix 1 Cont.

	2018-19			2019-20	2020-21	2021-22
Working Balance	Original Budget	Revised Budget	Variance	Budget	Budget	Budget
	£	£	£	£	£	£
B/fwd.	(1,640,430)	(1,739,150)	(98,720)	(1,530,680)	(1,593,740)	(1,626,620)
In year	(30,260)	208,470	238,730	(63,060)	(32,880)	(36,640)
C/fwd.	(1,670,690)	(1,530,680)	140,010	(1,593,740)	(1,626,620)	(1,663,260)
Minimum	1,670,690	1,530,680		1,593,740	1,626,620	1,663,260