

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

18 JANUARY 2019

JOINT REPORT OF THE HOUSING PORTFOLIO HOLDER AND FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.3 HOUSING REVENUE ACCOUNT BUDGET PROPOSALS 2019/2020

(Report prepared by Richard Barrett and Richard Hall)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To set out and seek approval of:

- A HRA Budget for 2019/20 including the movement in HRA Balances.
- The level of fees and charges for 2019/20.
- The HRA Capital Programme.

EXECUTIVE SUMMARY

- Pending the development of the Council's Housing Strategy, only limited changes to the HRA budget are proposed in 2019/20.
- 2019/20 is the fourth and final year of the required 1% reduction in rents. This has had a significant impact on the HRA Business Plan and budget. As reported last year, the 2018/19 reduction in rents led to a significant reduction in the revenue contribution to the capital Programme to support new build and acquisition initiatives with the budget reducing from **£0.780m** to **£0.480m**. The 2019/20 reduction in rents has led to this contribution being removed completely to enable a balanced HRA budget to be set for the year.
- From 2020/21, it is expected that rents will be able to be increased by CPI plus 1%, which reflects historic rent setting guidance. Although not yet confirmed, the Government has published a draft rent setting policy statement that sets out this proposal.
- As previously highlighted earlier in the year, a Housing Strategy is currently being developed. This will in turn inform the 30 year HRA Business Plan. The 2019/20 budget proposed therefore reflects only limited changes during this interim period, but it can be reviewed in-year to reflect any changes required once a revised business plan is agreed.
- The HRA general balance is forecast to total **£4.810m** at the end of 2019/20, which retains a strong financial position against which the Housing Strategy and associated HRA 30 year Business Plan can be considered.
- HRA debt continues to reduce year on year as principal is repaid with a total debt position at the end of 2019/20 forecast to be **£40.105m**.
- The Government have committed to removing the HRA debt cap which is currently **£60.285m** for this Council. Any future borrowing decisions will therefore need to take account of existing prudential borrowing principles within a revised HRA

Business Plan rather than be limited to this arbitrary cap.

- Similarly to the General Fund position, this report focuses on the 2019/20 budget, with changes to the in-year budget for 2018/19 being included within the quarterly financial performance reports with the next one planned on being presenting to Cabinet in February. However any issues having an impact on 2018/19 that are considered to be on-going have been reflected in the 2019/20 budget accordingly.

RECOMMENDATION(S)

That Cabinet:

- (a) Notes the 1% reduction in actual rents / formula rents in 2019/20 in line with the Government's imposed restrictions on rent setting policy;**
- (b) approves the 2019/20 Scale of Charges shown in Appendix B; and**
- (c) subject to (a) and (b) above, approves the Housing Revenue Account Budget for 2019/20 as set out in Appendix A, along with the HRA Capital Programme and the movement in HRA Balances / Reserves as set out in Appendix C and Appendix D respectively.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The HRA budget and Business Plan plays a significant role in the delivery of affordable and decent housing in the district and the Council's responsibilities as a landlord has direct implications for the Council's ability to deliver on its objectives and priorities.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are set out in this report and its appendices.

Although the availability of financial resources is a key component in the delivery of HRA services there will also be a need for appropriate input of other resources such as staffing, assets, IT etc.

Risk

There are inherent risks associated with the forecast such as:

- Changes in income achieved and future rent setting policy
- Emergence of additional areas of spend
- Emergence of new or revised guidance
- New legislation / burdens
- Changing stock condition requirements
- Adverse changes in interest rates
- National welfare reforms

In view of the above it is important that a sufficient level of balances / reserves is available to support the HRA. HRA Balances are currently forecast to remain between **£4.000m** and **£5.000m**, which although required to support the business plan and HRA investment in future years, provide a 'buffer' to the 30 year Business Plan if, for example, some of the items highlighted above emerge or are required to deal with changing financial and service demand issues.

In mitigating the transfer of risk from Government to the Council under the self-financing changes that came into effect from April 2012, financial modelling was undertaken taking into account a number of assumptions and sensitivity testing. The outcome of this work confirmed the sustainability and resilience of the HRA within a self financing environment and the ability to provide opportunities for housing investment and associated housing services in the future, although it is acknowledged that the longer term view remains subject to the Government's housing policy.

LEGAL

It is a statutory requirement on a local authority to determine its Housing Revenue Account budget before the upcoming financial year and to ensure that its implementation will not result in an overall debit balance on the Account.

The self-financing regime for the Housing Revenue Account that came into effect from April 2012 was enabled by the Localism Act 2011.

The Welfare Reform and Work Act 2016 introduced the 1% reduction in social rents from April 2016.

The Housing and Planning Act 2016 introduced a number of changes that had an impact on social housing, which via associated regulations are reflected in the HRA estimates as necessary.

The HRA 30 Year Business Plan was agreed as part of the self-financing reforms and associated borrowing agreed by Full Council in February 2012 and the budget proposed for 2019/20 remains broadly in-line with the plan after taking into account changes introduced by the Government since this date.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

In carrying out its functions as a social landlord, the Council has regard to the need to reduce the potential for criminal activity by improving the security of dwellings as part of maintenance and repair programmes and for combating anti-social behaviour through effective management procedures.

Although there are no direct equality and diversity issues, the overall HRA and associated financial planning processes aim to recognise and include such issues where appropriate and relevant.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The HRA is the Council's landlord account and it is 'ring fenced' for this purpose. Comprehensive rules and requirements surround the HRA such as specific accounting treatment and what items can or cannot be charged to the account. Authorities are required to set a balanced HRA budget each year and agree the level of rents it wishes to charge.

From April 2012, the Housing Revenue Account has operated under the self-financing

approach introduced as part of the Localism Act 2011 which required the Council to 'buy' itself out of the previous subsidy arrangements via a debt settlement process.

From 2016/17, the Government have imposed annual rent reductions of 1% for a period of 4 years, with the 2019/20 estimates reflecting the last year of this requirement.

HOUSING REVENUE ACCOUNT PROPOSED BUDGET 2019/20

A high level summary is set out below based on a comparison with the 2018/19 original budget. Additional information for significant items is also provided below with detailed information set out in **Appendix A**.

	2018/19 Original Budget £m	2019/20 Original Budget £m
Direct Expenditure	6.971	6.532
Direct Income	(13.875)	(13.437)
Indirect Income / Expenditure including Financing Costs	7.154	6.830
NET (SURPLUS) / DEFICIT	0.250	(0.075)
Contribution to / (from) Reserves	(0.250)	0.075

To be able to set a balanced budget, it has been necessary to completely remove the revenue contribution to the capital programme (**£0.480m** has been removed). This will have an impact on the new build and acquisition capital scheme which supports housing across the district including within Jaywick Sands. Once all of the necessary budget amendments have been made for the year, there is a modest surplus of **£0.075m** which has been included as a contribution to HRA balances.

Similarly to the General Fund, no general underlying inflationary uplifts have been provided but significant budget items have been subject to separate review where appropriate.

Although subject to separate reporting as part of the in-year financial position of the Council, the 2018/19 HRA budget is broadly on target, with any emerging issues reviewed and included within the 2019/20 budget as appropriate.

Comments against significant items within the overall position for the year are set out below:

Rental and Service Charges Income

As previously mentioned, 2019/20 is the fourth and last year that Local Authorities have to reduce rents by 1%. This has reduced the average rent to **£78.40** (from **£79.19**), which reduces the total rental income by **£0.127m**.

Rental income has been further reduced by **£0.237m** to reflect the current level of voids, right to buy sales and reflect the closure of Honeycroft and Spendalls Sheltered Housing Schemes as agreed earlier in the year.

As explained last year, when a property becomes empty it is possible to charge the new tenant the formula rent associated with the property, which may be greater than the actual

rent charged to the outgoing tenant. However this formula rent is also subject to the 1% reduction which limits the benefit from this change and it is unlikely to have a significant overall impact on rental income for the year.

The above issue with periods of voids has also been reflected in service charge income where necessary.

Other HRA Budgets

The bad debt provision has been increased by **£0.062m** in 2019/20 to reflect current and expected collection performance with the roll-out of universal credit having the most significant impact on the amount required to be set aside.

Revenue contribution to the capital programme – as already mentioned, the amount available to contribute to the capital programme has been removed with **£0.480m** taken out of the budget.

Housing repairs – this budget has been adjusted to reflect the on-going repairs programme.

Recharges from the General Fund – there is an overall change in recharges of **£0.277m** that reflects the most up to date time allocation review along with pension adjustments of **£0.105m**.

Other budget adjustments – a number of further adjustments have been made such as reflecting the most up to date position against a number of budgets including a reduction in interest costs as loans are repaid each year – **£0.039m**

HRA Fees and Charges

Further details are set out in **Appendix B**.

It is not proposed to revise any fees and charges in 2019/20, a position that will be reviewed again once the Housing Strategy and 30 year HRA Business Plan have been agreed.

HRA Capital Programme

The detailed HRA Capital Programme is set out in **Appendix C**.

Following the removal of the revenue contribution as highlighted earlier in this report, the remaining source of funding is the annual Major Repairs Contribution which primarily reflects the charge for depreciation plus an additional voluntary contribution to enable the continued investment in the housing stock.

It may be possible to reinstate the revenue contribution to the capital programme in the future, but this will be subject to the 30 year HRA Business Plan which will be revised later in 2019 as part of the overall Housing Strategy. Therefore at the present time no revenue contribution is included in the capital programme.

HRA BALANCES / RESERVES

The detailed HRA Reserves are set out in **Appendix D**.

The forecast position for HRA balances at 31 March 2019 and 31 March 2020 will vary over time depending on the outturn positions for 2018/19 and 2019/20 as well as the emergence of other unexpected or unplanned matters that could occur in or across these years.

Current estimates put the total HRA reserves at **£9.703m** by the end of 2019/20, with the general balances element within this overall amount being **£4.810m**.

HRA DEBT

The total HRA debt at the end of 2018/19 is estimated to be **£41.770m**.

With forecast repayments of principal of **£1.665m** in 2019/20, the level of HRA debt at the end of 2019/20 is forecast to be **£40.105m**.

With the Government's commitment to remove the HRA debt cap, any future borrowing will need to be considered against the 30 HRA Business Plan and underlying prudential code principles.

The annual cost of principal and interest included in the proposed 2019/20 HRA budget is **£3.078m**.

OTHER HRA RELATED MATTERS

As discussed in previous years, the Government have continued to explore changes to legislation and regulations that would have an impact on Local Authority HRA's. Although some proposals have been subsequently withdrawn by the Government, there remain a number of outstanding proposals as set out in the Government's Social Housing Green Paper, which aims to tackle a range of topics such as social housing regulation, decent homes standards and flexibilities in the Right to Buy scheme. The wide review that this green paper encompasses is being supported by associated consultations and calls for evidence. As the proposals develop, they will be reflected within the Council's Housing Strategy and HRA Business Plan as necessary.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A	HRA Budget Proposals 2019/20
Appendix B	HRA Proposed Fees and Charges 2019/20
Appendix C	HRA Capital Programme
Appendix D	HRA Reserves