

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

20 DECEMBER 2019

### JOINT REPORT OF THE HOUSING PORTFOLIO HOLDER AND FINANCE AND CORPORATE GOVERNANCE PORTFOLIO HOLDER

#### A.4 HOUSING REVENUE ACCOUNT BUDGET PROPOSALS 2020/2021

(Report prepared by Richard Barrett and Richard Hall)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To set out and seek approval of the following for consultation with the Resources and Services Overview and Scrutiny Committee:

- An HRA Budget for 2020/21 including the movement in HRA Balances.
- The level of fees and charges for 2020/21.
- The HRA Capital Programme.

##### EXECUTIVE SUMMARY

- Pending agreement of the Council's Housing Strategy and the long term impact on the 30 year business plan, only limited changes to the HRA budget are proposed in 2020/21.
- 2019/20 was the fourth and final year of the required 1% reduction in rents. For a period of up to 5 years, starting on 1 April 2020, rent increases of CPI + 1% are now allowed. Rents have therefore been increased in 2020/21 by an average of 2.7% (based on a CPI figure of 1.7%).
- The average weekly rent proposed for 2020/21 is **£82.42** (£80.25 in 2019/20)
- The total increase in income from the 2.7% rent increase is **£0.340m**. Although offset / complimented by other budget adjustments as set out further on in this report, this has been the primary contributor to an overall HRA surplus for the year of **£0.363m**.
- It is proposed to contribute the estimated surplus for the year of **£0.363m** to the HRA Capital Programme to support investment in new homes. This goes some way to making good the reduced contributions to the Capital Programme necessitated by the Government's 4 year 1% rent reduction policy.
- The proposed HRA Capital Programme for 2020/21 totals **£3.539m** and continues to provide for a range of schemes and projects as set out within **Appendix C**.
- The HRA general balance is forecast to total **£5.029m** at the end of 2020/21, which retains a strong financial position against which the Housing Strategy and associated HRA 30 year Business Plan can be developed.
- HRA debt continues to reduce year on year as principal is repaid with a total debt position at the end of 2020/21 forecast to be **£38.442m** (A reduction of **£1.664m** compared with the figure at the end of this year).

- As announced during the current financial year, the Government have confirmed the removal of the HRA debt cap. 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, which for this Council was **£60.285m**. As set out earlier in the year, any borrowing decisions that may be required to support the building of new council houses will be subject to separate decisions as the opportunities arise.
- In prior years, the HRA budget has only been subject to approval by Cabinet. However from 2020/21 the approval of the HRA budget will follow the same process as the General Fund budget, which culminates in their consideration and approval at Full Council in February. Therefore at this stage of the process, this report sets out the proposed 2020/21 HRA budget for consultation with the Resources and Services Overview and Scrutiny Committee. The final budget proposals, including any comments from the Resources and Services Overview and Scrutiny Committee will be reported back to Cabinet at its January 2020 meeting before being recommended onto Full Council.
- As highlighted further on in this report, following the demise of Roalco (the Council's primary housing repairs and maintenance contractor) earlier in the year, the work previously undertaken by it is currently being delivered via a mix of the in-house Engineering Team, complimented by a range of external suppliers. A separate report is planned to be presented to Members in the first half of 2020/21 that will seek to formalise a longer term approach, but at this stage it is expected that this will continue to be based on using the in-house team along with external suppliers where appropriate. In the interim period it will be necessary to adjust the budget, as it currently reflects the old arrangements with Roalco. A delegation to the Corporate Director (Operational Services) in consultation with the Housing Portfolio is therefore included in the recommendations below to provide the required budget flexibility.

## **RECOMMENDATION(S)**

**That Cabinet:**

- (a) Approves a 2.7% increase in dwelling rents in 2020/21;**
- (b) approves the 2020/21 Scale of Charges shown in Appendix B;**
- (c) subject to (a) and (b) above, approves the Housing Revenue Account Budget for 2020/21 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;**
- (d) requests the Resources and Services Overview and Scrutiny Committee's comments on the HRA budget proposals for 2020/21; and**
- (e) approves a delegation to the Corporate Director (Operational Services) in consultation with the Housing Portfolio Holder, to make the necessary adjustments to the budget to reflect the changes to the delivery of repairs and maintenance work that was previously undertaken by Roalco.**

## 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 be **£5.029m** at the end of 2020/21, which although required to support the business plan and HRA investment in future years, provides 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.

Although subject to change as part of the development of the Housing Strategy, a 30 year HRA Business Plan is maintained that continues to demonstrate 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 always remains subject to the Government's housing policies.

### 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 Regulator of Social Housing and its predecessor bodies have, at the Direction of Government, issued requirements and guidance to registered providers of social housing (which includes Local Authorities) in respect of rents. This has included the maximum levels of rent they can charge and annual increases in rents.

In 2016, Parliament passed the Welfare Reform and Work Act which, together with

Regulations made under it, created a legislation-based regime of rent reduction across the sector by 1% per year until 2020. Therefore, since 2016, providers have been required to reduce rents by 1% per year across its housing stock.

In October 2017, the Government announced that at the end of the 4 year rent reduction period it intended to return to annual rent increases of up to CPI + 1%, implemented through the regulator's Rent Standard rather than through legislation.

The Secretary of State for Housing, Communities and Local Government published on 26 February 2019 a 'Direction to the Regulator' to set a Rent Standard that will apply from 1 April 2020. That Direction was published alongside the Government's Policy Statement on Rents (the Policy Statement) and the regulator is required to have regard to this when setting its Rent Standard.

The publication of the 'Direction to the Regulator' created an obligation on the regulator to prepare and consult on the new Rent Standard, which will apply from 2020 and fulfil the Secretary of State's Direction. The 2020 Rent Standard is, by Direction, to apply to all registered providers of social housing, including local authority registered providers.

The regulator may under section 194(2A) of the Housing and Regeneration Act 2008 set standards for registered providers requiring them to comply with specified rules about their levels of rent (and the rules may, in particular, include provision for minimum or maximum levels of rent or levels of increase or decrease of rent).

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 2020/21 remains broadly in-line with the plan after taking into account relevant external factors and changes introduced by the Government since that 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 has imposed annual rent reductions of 1% each year for a period of 4 years, with the 2019/20 estimates reflecting the last year of this requirement.

Following the period of consultation on the new rent standard referred to earlier, the Regulator of Social Housing has confirmed rents can be increased by up to CPI+1% per year for a period of 5 years starting from 1 April 2020. The rent standard does not apply to properties let to high income social tenants, so rather than this being a mandatory requirement that the Government had previously looked to implement, it is now a voluntary decision taken at a local level. However given the very challenging administrative issues associated with charging higher rents to high income tenants, it is not proposed to introduce this in 2020/21. However it is acknowledged that this flexibility may be subject to review in future years, for example, as part of developing future policy decisions within the HRA.

One area which it is important to note and which may have a bearing on the overall financial position of the HRA in future years is the emerging regulatory regime surrounding fire safety following the Grenfell inquiry and Hackett review. Whilst the immediate impact on the Council's HRA stock is relatively minimal at this time given the adequacy of safety measures within the stock, there is significant cross sector concern surrounding the potential regulatory regime which is being proposed and potentially extended to buildings which do not exceed the current 18 meter plus threshold. The Council is currently working with the MHCLG and other social housing providers in an attempt to ensure that whatever regime is implemented provides for a safe living environment for residents whilst also being proportionate and affordable.

#### **HOUSING REVENUE ACCOUNT PROPOSED BUDGET 2020/21**

A high level summary is set out below based on a comparison with the 2019/20 original budget. Additional information for significant items is also provided below with detailed information set out in **Appendix A**.

	<b>2019/20 Original Budget £m</b>	<b>2020/21 Original Budget £m</b>
<b>Direct Expenditure</b>	6.532	6.514
<b>Direct Income</b>	(13.437)	(13.713)
Indirect Income / Expenditure including Financing Costs	6.830	6.836
<b>NET (SURPLUS) / DEFICIT</b>	<b>(0.075)</b>	<b>(0.363)</b>
<b>Contribution to / (from) Reserves</b>	0.075	0
<b>Contribution to the Capital Programme</b>	0	0.363

As highlighted in the table above there is an overall net surplus of **£0.363m** in 2020/21. However rather than contribute this to general HRA balances via a reserve adjustment, it has instead been contributed to the capital programme. The thinking behind this approach is to start to recover from the adverse impact on the capital programme brought about by the imposed 1% reduction in rents over the past four years.

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.

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

### **Income Budgets - Rents, Service Charges and Other Fees and Charges**

As highlighted earlier, it is proposed to increase rents by the maximum allowable amount of CPI + 1% to recover from the unsustainable 1% reduction in rents over the past 4 years.

Based on CPI + 1%, rents have been increased by 2.7%, which results in an average rent of **£82.42** (an increase from **£80.25** in 2019/20).

This is estimated to generate an additional **£0.340m** in income in 2020/21. This has been partly offset by increasing the loss in rental income for right to buy sales, which have seen increases over recent years (**£0.067m**).

The various service charges / fees and charges within the HRA are broadly based on the principle of recovering costs where necessary. This approach has continued in 2020/21 but follows the increases in rents above with a 2.7% (CPI + 1%) increase proposed, which is in line with the guidance from the regulator. Further details are set out in **Appendix B**.

### **Expenditure Budgets**

Key areas of the Council's responsibilities as a landlord are set out below along with how they are reflected within the budget:

#### ***Major Refurbishment and Repairs to the Housing Stock***

There have been no major changes to the budget with the following 2 key elements remaining unchanged from 2019/20:

- Improvements, Enhancement and Adaptations to Tenant's Homes - **£3.116m** is included within the Capital Programme
- Planned and Responsive Repairs to Tenant's Homes - **£3.197m** is included within the revenue account.

Taking the above 2 items together, a total investment of **£6.313m** can be made in 2020/21 to ensure that the 3,000+ Council homes are maintained at the current decent homes standard.

Although not included in the 2020/21 budget, it is worth highlighting that changes to the decent homes standard may emerge in the future to reflect issues such as energy efficiency and the outcome of the Grenfell Inquiry which may put pressure on these budgets in future years.

In respect of planned and responsive repairs, this has historically been undertaken by ROALCO, However following their recent bankruptcy / winding up order, the work has

been brought in-house, complimented by a mix of smaller suppliers.

This approach is subject to further development and is not yet fully embedded within the proposed budgets. However it is proposed to present a separate report to Members in the first half of 2020 setting out final proposals, which at this stage are still expected to include an in-house solution, supported by a number of external contractors / suppliers as necessary. In the interim period it is likely that the budgets will need to be adjusted to reflect this approach as it develops and therefore a recommendation is set out earlier on in this report that enables short term budget amendments to be made in consultation with the Housing Portfolio Holder.

### ***Services Provided by The General Fund***

At this stage of the budget process, no adjustments have been made to the money charged to the HRA from the General Fund. However this will be reflected in the final budget proposals that will be presented to Cabinet towards the end of January 2020.

***Other budget adjustments*** – a number of further adjustments have been made such as reflecting increases in gas and electric costs (an increase of **£0.039m**), employee costs (a reduction of **£0.029m**) and the most up to date position against a number of budgets including a reduction in interest costs as loans are repaid each year, which is set out in more detail in a separate section of the report below.

### **HRA Capital Programme**

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

The primary source of funding remains as the annual Major Repairs Contribution which reflects the charge for depreciation plus an additional voluntary contribution to enable the continued investment in the housing stock.

The capital programme includes the reinstatement of a new build and acquisition programme that has been possible by utilising the surplus generated for the year of **£0.363m** explained earlier. It is hoped that this can be increased in future years either as part of separate decisions / budget setting processes or as part of revisions that may be possible within the 30 year business plan.

## **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 2019/20 and 2020/21 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 **£11.281m** by the end of 2020/21, with the general balances element within this amount being **£5.029m**.

As part of an earlier decision during the year, the excess on the Council's property insurance policy has recently been increased to **£0.050m** (from **£0.005m**) Although actions are underway to limit wherever possible claims being made against the Council's policy, it is proposed to use HRA general balances to underwrite this risk. This will closely monitored and be reported as necessary within the financial performance reports presented to members over the course of the year.

## HRA DEBT

The total HRA debt at the end of 2019/20 is estimated to be **£40.106m**.

With forecast repayments of principal of **£1.664m** in 2019/20, the level of HRA debt at the end of 2020/21 is forecast to be **£38.442m**.

With the Government's removal of 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 2020/21 HRA budget is **£3.023m**. This budget has been reduced by **£0.055m** in 2020/21 to reflect lower interest costs due to principle being repaid each year.

It is possible to use the Major Repairs Reserve that currently supports the capital programme to pay down historic debt where it is financially advantageous to do so. The total of this reserve is estimated to be **£5.388m** at the end of 2020/21, but a balance needs to be struck between investing in capital projects and tenant's homes and reducing debt repayment costs. Although no adjustments are included within the 2020/21 budget, this will be revisited as part the continuous development of the 30 year business plan.

## OTHER HRA RELATED MATTERS

Although there are no significant issues to raise at this stage of the budget setting process, it is acknowledged that the Government may reconsider previous housing policy decisions or introduce new housing related initiatives / requirements on local authorities.

## BACKGROUND PAPERS FOR THE DECISION

None

## APPENDICES

<b>Appendix A</b>	HRA Budget Proposals 2020/21
<b>Appendix B</b>	HRA Proposed Service Charges / Fees and Charges 2020/21
<b>Appendix C</b>	HRA Capital Programme
<b>Appendix D</b>	HRA Reserves 2020/21