Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

18 DECEMBER 2020

JOINT REPORT OF THE HOUSING PORTFOLIO HOLDER AND CORORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.10 HOUSING REVENUE ACCOUNT BUDGET PROPOSALS 2021/2022
(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 2021/22 including the movement in HRA Balances. • The level of fees and charges for 2021/22. • The HRA Capital Programme.

EXECUTIVE SUMMARY

- Only limited changes to the HRA budget are proposed in 2021/22, pending a longer-term review of the HRA business plan during 2021.
- 2020/21 was the first year that the Government allowed rents to be increased following a 4-year period where they were required to be reduced by 1% each year.
- In-line with rent setting guidance issued by the Regulator for Social Housing, rents are proposed to be increased by CPI + 1% in 2021/22 (a 1.5% increase) to continue the recovery from the 4 years of rent reductions mentioned above.
- The average weekly rent proposed for 2021/22 is **£84.10** (£82.42 in 2020/21)
- Although the above increase in rents generates additional income of **£0.193m**, other changes to the budget have more than offset this position with an overall deficit of **£0.012m** forecast for 2021/22.
- It is proposed to fund this relatively small deficit by drawing money down from the HRA General Balance, which is estimated to total **£5.257m** at the end of 2021/22 after taking into account this adjustment.
- The proposed HRA Capital Programme for 2021/22 totals **£3.457m** and continues to provide for a range of schemes and projects as set out within **Appendix C**.
- The Capital programme includes a revenue contribution of **£0.281m** to support new build and acquisition projects. As set out later on in this report, this on-going budget can either support the direct cost of projects within the capital programme or meet the borrowing costs that are likely to be required to deliver the 200 new properties the Cabinet have committed to provide.
- Also discussed further on this report is the potential to fund an increase in the level of borrowing required to deliver the new build projects at the speed and scale

committed too.

- As highlighted above, the HRA general balance is forecast to total **£5.257m** at the end of 2021/22, which retains a strong financial position against which the HRA 30 year Business Plan can be further developed.
- 'Old' HRA debt continues to reduce year on year as principal is repaid with a total debt position at the end of 2021/22 forecast to be **£36.777m** (A reduction of **£1.664m** compared with the figure at the end of this year).

RECOMMENDATION(S)

That Cabinet:

(a) Approves a 1.5% increase in dwelling rents in 2021/22;

(b) approves the 2021/22 Scale of Charges shown in Appendix B;

(c) subject to (a) and (b) above, approves the Housing Revenue Account Budget for 2021/22 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; and

(d) requests the Resources and Services Overview and Scrutiny Committee's comments on the HRA budget proposals for 2021/22.

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 **£5.257m** at the end of 2021/22, 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.

Reflecting on 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.

To date the HRA has been largely unaffected financially from the impact of the COVID 19 crisis. Although there are some secondary impacts as set out later on in this report, it is not expected that this situation will significantly change over the remainder of this financial year and into 2021/22. However, the position will be kept under on-going review and the financial sustainability of the HRA remains underwritten by the current level of general balances, which are forecast to be **£5.257m** at the end of 2021/22 as mentioned above.

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, over this 4-year period, 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 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 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 at the present time. 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.

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 2021/22 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.

As mentioned above, 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 rate of CPI used is the figure for September of the preceding year that the increase will apply to. For 2021/22, the figure for September 2020 was 0.5%. Therefore, the maximum that rents can be increased by in 2021/22 is 1.5%.

As highlighted within the budget report last year, one area that is important to note as it may have a bearing on the overall financial position of the HRA in future years is the regulatory regime emerging from the Hackett review, which followed the Grenfell fire incident. The Council remains alert to any changes that may be required in managing its housing stock, which will be reflected in the 30-year business plan as necessary.

HOUSING REVENUE ACCOUNT PROPOSED BUDGET 2021/22

A high-level summary is set out below based on a comparison with the 2020/21 original budget. Additional information for significant items is also provided below with detailed information set out in **Appendix A.**

	2020/21 Original Budget £m	**2021/22 Original Budget £m**
Direct Expenditure	6.585	6.574
Direct Income	(13.713)	(13.690)
Indirect Income / Expenditure including Financing Costs	6.847	6.847
NET (SURPLUS) / DEFICIT	**(0.281)**	**(0.269)**
Contribution to / (from) Reserves	0	(0.013)
Contribution to the Capital Programme	0.281	0.281

As highlighted in the table above there is an overall initial net surplus of **£0.269m** in 2021/22. To maintain the same contribution to the capital programme to support the new build and acquisition policy, it is proposed to draw down **£0.013m** from the general HRA balance. The contribution to the capital programme was seriously eroded prior to 2020/21 due to the previously required 1% reduction in rents, so it is important to sustain the contribution to the new build and acquisition project directly, but also as a platform to identify further opportunities to increase funding to this important programme in future years. Further comments are provided below in terms of these future opportunities.

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:

<u>Income Budgets - Rents, Service Charges and Other Fees and Charges</u>

It is proposed to increase rents by the maximum allowable amount of CPI + 1% to continue the recovery from the unsustainable 1% reduction in rents over the period 2016/17 to 2019/20.

Based on CPI + 1%, rents have been increased by 1.5%, which results in an average rent of **£84.10** (an increase from **£82.42** in 2020/21).

This is estimated to generate an additional **£0.193m** in income in 2021/22. However, this has been offset by increasing the loss in rental income for right to buy sales and for void periods to reflect the current position being experienced this year. These two factors have resulted in the rental income budget being reduced by **£0.209m.**

It is worth highlighting that the level of CPI this year is unusually low, primarily as a result of the COVID 19 crisis. Ordinarily CPI would be nearer to the Bank of England's target rate of 2%. In such circumstances, the level of additional income that could be generated via the application of a CPI + 1% increase would be nearer **£0.400m** per annum, which is likely to be the position from 2022/23.

In respect of voids, there are a number of factors that are currently having an adverse impact on the time taken to relet properties, which include working from home as the current allocations system largely relies on manual processes / paper files (to be imminently replaced with a more efficient digital system), higher vacancies in some months and an increase in the supply of accommodation elsewhere in the social housing sector. COVID19 also initially resulted in a hold on relets and some delays in maintenance works. Although not one of these factors is significant in insolation, when brought together they undoubtedly are having an impact on the relet times, with an increase in the number of days between the old tenant vacating and the new tenant moving in.

Some of the factors mentioned above are temporary in nature and to some extent an indirect impact from COVID19. With that in mind, it is expected that relet times and therefore void periods will reduce going into 2021. However, it is very difficult to forecast the speed that void periods will reduce to more historic levels. With that in mind, the budget reflects the current level of void loss, which is accepted as being potentially greater than the actual position that will be experienced in 2021/22. However, this prudent approach can be kept under review as part of the in-year financial performance reports with adjustments to the budget made on the experienced position rather than forecasted position during the year.

A more detailed analysis of voids and relet times is planned to be presented to Members shortly.

The various service charges / fees and charges within the HRA are broadly based on the principle of recovering costs where necessary and need to reflect the guidance from the regulator. Further details are set out in **Appendix B,** with only limited increases included across a small number of chargeable areas.

<u>Expenditure Budgets</u>

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 within the budget for 2021/22:

- Improvements, Enhancement and Adaptations to Tenant's Homes - **£3.116m** is included within the Capital Programme
- Planned and Responsive Repairs to Tenant's Homes - **£3.050m** (excluding recharges from the General Fund) is included within the revenue account.

Taking the above 2 items together, a total investment of **£6.166m** can be made in 2021/22 to ensure that the 3,000+ Council homes are maintained at the current decent homes standard.

2020/21 saw the first year of operating a dedicated in-house housing repairs team following the demise of ROALCO during 2019. This in-house approach will be complimented by an external contractor from April 2021.

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 2021.

Other budget adjustments – a number of further adjustments have been made such as reflecting increases in gas and electric costs (a net increase of **£0.009m**), employee costs (an increase of **£0.053m** that reflects the necessary inflationary uplifts) and the annual cost of a new IT system to manage the housing allocations process (an increase of **£0.016m**). Further budget adjustments have also been made such as the reduction in investment income due to the very low interest environment (a reduction in income of **£0.038m**) and changes to the bad debt provision calculation to reflect the most up to date position (reduction in the contribution to the provision of **£0.101m**).

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 level of investment in the housing stock.

Following the commitment to increase the Council's housing stock by 200 new homes, a contribution of **£0.280m** from the revenue account has been maintained in 2021/22.

This budget can be used to directly meet the cost of building / acquiring new homes or could be used to support the cost of financing borrowing costs to deliver the target number of properties at the scale set out.

As mentioned above, potential increases in rental income are expected to be greater in future years as CPI, along with void periods, are expected to return to more usual levels from next year. Both these factors would therefore provide the opportunity to support the necessary funding options to meet the key priority of increasing the Council's supply of social housing to the residents of Tendring.

HRA BALANCES / RESERVES
The detailed HRA Reserves are set out in **Appendix D.** The forecast position for HRA balances at 31 March 2020 and 31 March 2021 will vary over time depending on the outturn positions for 2020/21 and 2021/22 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 **£9.572m** by the end of 2021/22, with the general balances element within this amount being **£5.257m**.

HRA DEBT
The total HRA debt at the end of 2020/21 is estimated to be **£38.441m.**

With forecast repayments of principal of **£1.664m** in 2021/22, the level of HRA debt at the end of 2021/22 is forecast to be **£36.777m.**

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 2021/22 HRA budget is **£2.987m**. This budget has been reduced by **£0.036m** in 2021/22 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 **£4.315m** at the end of 2021/22, 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 2021/22 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

Appendix A	HRA Budget Proposals 2021/22
Appendix B	HRA Proposed Service Charges / Fees and Charges 2021/22
Appendix C	HRA Capital Programme
Appendix D	HRA Reserves 2021/22