

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

29 JANUARY 2021

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

#### A.9 HOUSING REVENUE ACCOUNT BUDGET PROPOSALS 2021/2022

(Report prepared by Richard Barrett and Richard Hall)

#### PART 1 – KEY INFORMATION

##### PURPOSE OF THE REPORT

To seek Cabinet's approval of the final HRA budget proposals 2021/22 (including fees and charges, capital programme and movement in HRA Balances) for recommendation to Council on 16 February 2021.

##### EXECUTIVE SUMMARY

- At the meeting on the 18 December 2020, Cabinet considered the initial Housing Revenue Account Budget Proposals 2021/22. The budget proposals at that time provided for a small deficit of **£0.012m** that was to be met by drawing down money from general balances.
- The initial budget proposals were subject to consultation with the Resources and Services Overview and Scrutiny Committee, which met on the 14 January 2021 to consider them and their comments are set out elsewhere on the agenda.
- Since the Cabinet's meeting on 18 December 2020, only one change has been made that relates to an adjustment to the cost of a new IT system where the previous forecast included a one-off amount on top of the on-going annual maintenance cost. As the one-off cost is to be met from the current year's budget, this has been removed from the latest 2021/22 forecast.
- The change above has resulted in a small surplus for 2021/22 of **£0.012m**, a change of **£0.024m** compared to the **£0.012m** deficit presented to Cabinet in December 2020. **Appendix A** sets out the revised position that reflects this change.
- This position remains subject to further adjustments that may be required as part of finalising the budget for presenting to Council on 16 February 2021, with a delegation included in the recommendations to respond to this possibility.
- The revised forecast surplus of **£0.012m** in 2021/22 has been contributed to general balances.
- The proposed HRA Capital Programme for 2021/22 is set out in **Appendix C**, which continues to provide for a range of projects, including new build and initiative schemes.
- The average weekly rent remains unchanged to the figure reported in December at **£84.10**, an increase of 1.5% over the comparable figure of **£82.42** for 2020/21.

- The HRA general balance is forecast to total **£5.282m** at the end of 2021/22, which retains a strong financial position against which the Housing Strategy and associated HRA 30 year Business Plan can be delivered / developed.
- 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)

- (a) That if the financial position changes prior to Council considering the HRA budget on 16 February 2021, Cabinet agrees a delegation to the Chief Executive to adjust the forecast / budget, including the use of reserves, in consultation with the Housing Portfolio Holder.

*That subject to a) above, Cabinet approves and recommends to Full Council on 16 February 2021:*

- (b) A 1.5% increase in dwelling rents in 2021/22 along with the detailed HRA Budget proposals for 2021/22 as set out in Appendices A to D.

## 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 **£5.282m** 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 in the report to Cabinet in December (increased voids), 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 **£5.282m** 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**

#### **LATEST HRA BUDGET PROPOSALS 2021/22**

On 18 December 2020, Cabinet considered the initial Housing Revenue Account Budget Proposals 2021/22 for consultation with the Resources and Services Overview and Scrutiny Committee. The report set out an estimated deficit of **£0.012m** in 2021/22, which was proposed to be met by drawing money down from general balances.

The development of the forecast / budget has continued since Cabinet's meeting on 18 December 2020, to reflect the most up to date information.

This above position has subsequently been revised to a surplus of **£0.012m**, a net reduction of **£0.024m**. This change is due to a reduction in the budget for a new IT system. The initial forecast included a one-off amount associated with implementation of the new system, which was in addition to the annual on-going maintenance cost. This one-off amount has now been removed as it is being correctly paid from the current year's budget. It is proposed to contribute this small surplus to HRA general balances.

All other figures reported to Cabinet in December and considered by the Resources and Services Overview and Scrutiny Committee remain unchanged with some key headlines as follows:

- Rents are proposed to be increased by 1.5% (CPI + 1%) resulting in an average weekly rent of **£84.10** in 2021/22

- **£6.166m** remains within the budget proposals for the major refurbishment and repairs to the housing stock.
- Current estimates put the total HRA reserves at **£9.597m** by the end of 2021/22, with the general balances element within this amount being **£5.282m**.
- 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**.

As set out in the report to Cabinet in December, 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.

The HRA budget proposals for 2021/22 set out a robust position and along with estimated balances of **£5.282m**, it presents a strong financial position against which the Housing Strategy and associated HRA 30 year Business Plan can be delivered / developed.

**At the time of finalising this report, work remained on-going in respect of the Council's overall salary costs along with associated internal recharges. It is therefore possible that further changes to the budget may be required when these areas of the forecast are finalised. A delegation is therefore included in the recommendations above, to enable further changes to be reflected in the budget, including the use of reserves that will then be recommended to Council on 16 February 2021.**

## BUDGET SUMMARIES

Based on all of the adjustments set out elsewhere in this report, the proposed HRA budget for 2021/2022 is summarised below.

### HRA Revenue Budget

Table 1

	<b>2020/21 Original Budget £m</b>	<b>2021/22 Original Budget £m</b>
<b>Direct Expenditure</b>	6.585	6.550
<b>Direct Income</b>	(13.713)	(13.690)
Indirect Income / Expenditure including Financing Costs	6.847	7.128
<b>NET (SURPLUS) / DEFICIT</b>	<b>(0.281)</b>	<b>(0.012)</b>
<b>Contribution to / (from) Reserves</b>	0	0.012
<b>Contribution to the Capital Programme</b>	0.281	0.281

## HRA Capital Programme

Table 2

	<b>2021/22 Original Budget</b>
	<b>£m</b>
<b>EXPENDITURE</b>	3.457
<b>FINANCING</b>	
Major Repairs Reserve	3.176
Direct Revenue Contribution	0.281
<b>Total Financing</b>	<b>3.457</b>

### **BACKGROUND PAPERS FOR THE DECISION**

Working Papers in Accountancy

### **APPENDICES**

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