

 Executive – 9 January 2018		Agenda Item No. 4
Title	Housing Revenue Account (HRA) base budgets 2019/20	
For further information about this report please contact	Mike Snow Tel: 01926 456800 Andrew Rollins Tel: 01926 456803	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number		
Background Papers	Executive Feb 2018 - 2018/19 Budget Report Executive 30 August 2018 – Budget Review to 30 June 2018; Executive 26 September 2018 – Fees and Charges 2019/20; Executive 28 November 2018 – Budget Review to 30 September 2018.	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes Ref 960
Equality Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Bill Hunt
Head of Service		Mike Snow
CMT		
Section 151 Officer		Mike Snow
Monitoring Officer		Andy Jones
Finance		Andrew Rollins
Portfolio Holder(s)		Councillor Phillips
Consultation & Community Engagement		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. Summary

- 1.1 This report presents the latest projections for the Housing Revenue Account (HRA) in respect of 2018/19 and 2019/20 based on current levels of service and previously agreed Executive decisions. There are further matters that will be reviewed in order to finalise the base position as part of the 2019/20 budget setting process, to be reported to Executive in February 2019, as set out in paragraph 3.6.
- 1.2 The 2018/19 latest budgets show a forecast reduction in the transfer to the HRA Capital Investment Reserve (HRA CIR) of £687,200.
- 1.3 The proposed 2019/20 Base Budget forecasts a reduction in the transfer to the HRA CIR of £803,000.
- 1.4 Appendix 'A' summarises the adjustments from 2018/19 base budgets to the 2017/18 latest budgets and 2018/19 base budgets.

2. Recommendation

- 2.1 To recommend to Council:
 - (a) the latest revenue budget for Housing Revenue Account Services in respect of 2018/19 as outlined in Appendix 'A';
 - (b) the base budget for Housing Revenue Account Services in respect of 2019/20 as outlined in Appendix 'A'

3. Reasons for the Recommendation

- 3.1 This report considers the current year's budget, and includes details of proposed updates to the 2018/19 Budget. The report also recommends the base budget requirements that will be used in the setting of the HRA budgets for 2019/20. These figures reflect the costs of delivering an agreed level of service, and any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure).
- 3.2 Any recent changes that need to be resolved that have not been included in the budgets at this stage will be fed into the February report. In February the Council will be in a position to agree the 2019/20 Budget for the year part of the HRA rent setting report (Ref 971), following confirmation of the housing rents and communal utility recharges (Ref 971).
- 3.3 In agreeing the latest 2018/19 budgetary position, managers have reviewed their current and forecast financial requirements. Some changes have already been reported to Members as part of the Quarterly Budget Review Report in August, with further amendments being identified during the budget setting process to determine next year's base position.
- 3.4 **Latest Budgets 2018/19**
 - 3.4.1 A review of the 2018/19 budget has been carried out in order to establish the latest budget for the current year. This then informs the base position for 2019/20.

3.4.2 The following table summarises how the latest 2018/19 HRA budget has been calculated:

	£
Original Approved Net HRA Surplus 2018/19	(28,500)
Increase in Expenditure	735,600
Increase in Income	(67,800)
Pension adjustment changes	19,400
Reduction in contributions to reserves	(687,200)
	<hr/>
LATEST NET HRA SURPLUS 2018/19	<u>(28,500)</u>

3.4.3 Key drivers of the increase in Expenditure budgets include:

- Increase in Housing Repairs Supervision to reflect cost of agreed service £29,400
- Increase in HRA Repairs and Maintenance to reflect amendment to the Cyclical Painting and Decorating programme £200,000
- Reduced contributions to provisions (£54,800)
- Increase in Supervision & Management £234,900, through a number of interim posts to oversee the introduction of Universal Credit and management of fire safety inspections / works, and the increase in support service charges recharged to the HRA.
- Increase in depreciation charged to the HRA £298,700 due to a change from using the MRA as a proxy, to componentisation depreciation.

3.4.4 Key drivers of the increase in Income budgets include:

- Increase in service charges to reflect increased cost of utility provision, and inclusion of Sayer Court service charges (£115,300)
- Reduction in expected income from Lifeline following review of service £47,500

3.4.5 Appendix 'A' provides a more detailed breakdown of key variances.

3.4.6 As a result of the above variations to the 2018/19 HRA budgets, the forecast contribution to the HRA Capital Investment Reserve for the year will be £4.2m, a reduction of £417,900 from original budget.

3.4.7 At this moment in time there are no changes to the HRA element of the Housing Investment Programme that have not already been reported to and approved by the Executive. A full revision of the Housing Investment Programme will be presented to Council in February 2019.

3.5 2019/20 Base Budget

3.5.1 In determining the 2019/20 Base Budget, the over-riding principle is to budget for the continuation of services at the agreed level. The following adjustments need to be made to the 2018/19 Original Budgets:

- Removal of any one-off and temporary items
- Addition of inflation (contractual services and pay only)
- Addition of previously agreed growth items
- Addition of unavoidable growth items
- Inclusion of any identified savings

3.5.2 The table below summarises how the 2019/20 HRA base budget has been calculated.

	£
Original Approved Net HRA Surplus 2018/19	(28,500)
Increase in Expenditure	645,200
Reduction in Income	146,700
Pension adjustment changes	10,200
Reduction in contributions to reserves	(803,000)
BASE NET HRA SURPLUS 2019/20	<u>(29,400)</u>

3.5.3 Key drivers of the change in Expenditure budgets include:

- Increase in Housing Repairs Supervision to reflect cost of agreed service £29,400
- Reduced contributions to provisions (£54,800)
- Increase in Supervision & Management £369,500
- Increase in depreciation charged to the HRA £298,700 due to a change from using the MRA as a proxy, to componentisation depreciation.

3.5.4 Key drivers of the change in Income budgets include:

- Reduction in social housing rents by 1% £250,300
- Increase in service charges to reflect increased cost of utility provision, and inclusion of Sayer Court service charges (£115,300)
- Reduction in expected income from Lifeline following review of service £47,500
- 5% increase in garage rents (TBC in rent setting report) (£33,100).

3.5.5 Appendix 'A' provides a more detailed breakdown of key variances.

3.6 A number of assumptions have been made in setting the budgets for 2019/20.

3.6.1 Inflation

No inflation has been applied to budgets, apart from those where the Council is legally contracted to do so. 2% has been applied for the agreed pay award.

3.6.2 Rents

The base rent budget in this report is a baseline calculated from the rental assumptions presented in the 2017 HRA Business Plan.

The actual rents to be charged in 2019/20 and the Council's rent policy will be decided by Council in February 2018, and budgets will be updated to reflect those decisions.

The base 2019/20 budgets presented here allow for housing rents being reduced by 1% on the rent charged in 2018/19, to comply with the Government's policy on rents for social housing. In the case of void properties, the base rent will be:

The assumed rent rate which should be what the previous tenant paid if that is already above Target Social Rent (Formula Rent) then reduced by 1% in the first relevant year and again by 1% for each successive year.

or

The formula rent for 2018/19, minus 1% in 2019/20 rent year and so on until the recently agreed change from 2020 (see paragraph 8.2.1).

Rent budgets include the projected effect of void homes being moved to Target Social Rent (Formula Rent) when re-let.

2019/20 will be the final year of the rent reduction policy, following the announcement that providers will be permitted to increase their rents by up to CPI+1% each year, for a period of at least 5 years.

Shared ownership properties are not governed by the national Policy. The Council adopted the Homes and Communities Agency (HCA) template lease agreement which includes a schedule on rent review. Schedule 4 of the lease agreement determines that the rent will be increased by RPI + 0.5% from April 2018. At October 2018, the increase has been forecast at 3.8%.

3.6.3 Growth / Income Reductions

Unavoidable and previously committed growth has been included in the Base Budget.

3.6.4 HRA Capital Investment Reserve

Any HRA surplus above that required to maintain the appropriate HRA working balance is transferred into the HRA Capital Investment Reserve to be used on future HRA capital projects. The 2019/20 Base Budget allows for a £4.4m contribution to the reserve.

3.6.5 Notional Interest

Notional interest has been charged to the HRA within the Capital Charges. This represents the cost of tying up resources in the asset. This has been charged against HRA garages and shops at their Existing Use Value (EUUV). HRA housing has not been included in this calculation due to the assured nature of tenancies, restricting the council's ability to sell occupied housing assets.

4. Policy Framework

The Housing Revenue Account (HRA) latest budget 2018/19 and base budget 2019/20 report forms part of the Budgetary Framework for implementing Fit for the Future. This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February 2018.

4.1 Fit for the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
Impacts of Proposal		
Ensure housing and services are suitable for occupiers, meeting their needs and contributing to their health and well-being.	Budgets set to ensure HRA open spaces are maintained.	HRA shop rentals agreed to ensure voids minimised and the District is a place that people will want to visit.
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
The HRA budgets provide the necessary resources to achieve these outcomes	Enable tenants needs to be met, and support improvement of services relating to Council	The budgets ensure that debt can be serviced alongside the strategy outline in the HRA

A key element of Fit for the Future is ensuring that the Council achieves the required savings to enable it to set a balanced General Fund Budget whilst maintaining service provision. The Housing Revenue Account is subject to the same regime to ensure efficiency within the service and value for money for tenants.

4.2 **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. Improving housing standards in residents' homes directly and positively contributes to the Housing and Health-and-Wellbeing priorities within the Council's Sustainable Community Strategy. It also contributes to the Housing and Homelessness Strategy objective of improving the management and maintenance of existing housing.

4.3 **Changes to Existing Policies**

The budgets proposed are in accordance with existing policies. The report does not propose any changes to the policies regarding the plan and strategy which comprise the Housing Investment Programme.

4.4 **HRA Business Plan**

Under 'Self Financing' the HRA has taken on significant debt, £136.2m, but should have gained greater capacity to provide new homes and invest in the service. The HRA Business Plan projects income and expenditure over 50 years to demonstrate the ability to repay the debt, maintain the housing stock and provide new homes. The base budget for 2019/20 is calculated from the projections contained in the latest version of the HRA Business Plan, reported to Executive in March 2017. The Business Plan and base budget will however need to be reviewed as more details of the Housing and Planning Act become known. An updated version of the Business Plan is expected to be reported to Executive in March, reflecting the most up to date Government housing policies, and their impact on the capacity of the HRA to support and develop the Council's landlord service.

4.5 **Impact Assessments**

All budget managers have reviewed their budgets as part of the comprehensive budget setting process, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team. This is in addition to being reviewed on an ongoing monthly basis. Changes incorporated into the latest and 2019/20 budgets based on previously approved Executive Reports (Asset Restructure / Stock Condition Survey) will have had their impacts set out within their own reports, and assessed as part of the Executive process accordingly.

5. **Budgetary Framework**

- 5.1 Members are reminded that the 2019/20 HRA rents and Utility service charges will be set in February after budgets are finalised, as part of separate reports to Executive.

5.2 For the setting of base 2019/20 revenue budgets, a 2% pay award has been factored into staffing budgets. This is consistent with the approach for General Fund Services. No inflation has been added other than where contracted or unavoidable. Other unavoidable approved changes will be funded through reduced contributions to the HRA Capital Investment Reserve.

6. Risks

6.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.

6.2 The main sources of income which may be subject to reductions include:

- Rental income, including bad debts (and the impact from the introduction of Universal Credit), void rent loss and Sale of Council Houses (SOCH) through Right to Buy (RTB)
- Housing Related Support (tenant and private income)
- Fees and charges
- Investment interest
- Grants

6.3 Increased expenditure in service provision may be due to:

- Inflation and price increases for supplies and services;
- Increased demand for services increasing costs;
- Changes to taxation regime;
- Unplanned and unexpected responsive expenditure;
- Assumed savings in budgets not materialising;
- Changes in Government legislation.

6.4 Triggers for increased costs or reduced income include:

- Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available;
- Unplanned expenditure, e.g. costs from uninsured events or legal costs;
- Project costs – whereby there are unforeseen costs, or the project is not correctly costed, or the risks related to them are not properly managed.
- Changes to assumptions underpinning the Housing Business Plan – these assumptions are closely monitored;
- Levies, charges and reductions in housing stock that may result from compliance with the Housing and Planning Act;
- Government policy, e.g. full rollout on Universal Credit.

6.5 Many controls and mitigations are in place to help manage these risks. These include:

- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team.

- Financial Planning with the Housing Business Plan, bringing together all known/projected issues that will impact on HRA finances in the medium and long term.
- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- Project Management and associated controls.
- Trained staff and access to appropriate professional advice (e.g. WCC Legal, Local Government Futures for advice on local government funding and developments in housing).
- Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.
- Maintaining a HRA Capital Investment Reserve (CIR) to enable repayment of self-financing loan, fund capital investment, such as providing new homes, and to fund any unexpected HRA costs. The HRA CIR currently stands at £29.1m.
- In addition to Reserves, the HRA Balance stands at £1.4m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level, increased by RPI each year, and replenish any monies that are drawn down.
- The HRA follows the same Risk Management process as all Service Areas across the Council, including the on-going review and maintenance of risk registers.
- Specific causes of reductions to income or increased expenditure should continue to be managed by the Service Area as part of managing risks within the Service Risk Register. The Housing & Property Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.

7. Alternative Option(s) considered

The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

8. Background

8.1 With effect from April 2002, the Government determined how rents should be set for both housing association and Council properties, by setting out a formula that determines a target rent. Councils and housing associations were expected to amend and alter their rents to move towards this Target Social Rent which was designed to align rents across the two sectors. Municipal rents have traditionally been lower than those charged by associations. This policy, known as Rent Convergence, was abandoned by the government. However, the calculation for a Target Social rent, which determines what a council can charge unless it has entered into an agreement with Homes and Communities Agency to levy higher Affordable Rent (80% of full market rent) to fund new development, remains in place.

8.2 Housing and Planning Act

In October 2015, the Housing and Planning Act was published. This Act, which received Royal Assent in May 2016, provides for a number of policies that will impact on the financial viability of the HRA Business Plan. In the absence of

detailed regulations, it is not possible to accurately predict the impact of these changes. However, it is possible to make some informed estimates about the impacts. The changes and these estimates are detailed below.

8.2.1 **Social rents**

As part of the Prime Ministers keynote speech at the October 2017 Conservative Party Conference, it was confirmed that from 2020 social rents will increase by the consumer price index plus 1% each year. The current policy of reducing rents by 1% each year will therefore continue until this time.

8.2.2 **Right to Buy**

The Right-to-Buy (RtB) is to be extended to tenants of housing associations, with the cost of funding the discounts given to tenants by the associations to be covered by local housing authorities. Local authorities will have a duty to consider but not an obligation to proceed with the sale of 'high value' properties as a way of helping them to find the necessary funds to support this policy. This is currently still at the Pilot stage and no formal notification has been given relating to national implementation.

8.2.3 **Local Housing Allowance**

With effect from April 2018 the payment limits that apply to Local Housing Allowance (LHA), which is payable to tenants in the private sector, applied to all tenants whose social tenancy began after April 2016. The Council's rents are well below current LHA levels for family sized homes but in the case of those aged below 35 whether working or not, LHA is restricted to the cost of single room in a shared household, currently circa £72 a week. This is less than the cost of one bedroom council flat. The Council will therefore continue to consider its approach to this client group, including how it can assess and then manage the financial risks to the HRA Business Plan of this policy.