

REPORT TO: PEOPLE SCRUTINY COMMITTEE
DATE OF MEETING: 10 January 2019
REPORT OF: Chief Finance Officer
TITLE: Housing Revenue Account Estimates 2019-20

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Council

1. What is the report about?

This report sets out the proposed revenue and capital estimates for 2019-20 in respect of the Housing Revenue Account (HRA) and Council Own Build Sites.

2. Recommendations:

That Members of People Scrutiny Committee support the estimates for 2019-20 and recommends their approval at the Special Meeting of the Council on 26 February 2019.

3. Reasons for the recommendation:

The HRA is a record of income and expenditure relating to an authority's own housing stock. Local housing authorities have a statutory duty to keep an HRA in accordance with proper accounting practices, to set an annual budget and to review the account throughout the year.

4. What are the resource implications including non-financial resources

The financial resources required to deliver both housing services to Council tenants and to invest in new and existing housing stock during 2019-20 are set out in the body of this report. The budgets have been set within the confines of implementing the fourth and final year of social housing rent cuts, in accordance with the Welfare Reform and Work Act 2016.

5. Section 151 Officer comments:

The report sets out the proposed income and expenditure for 2019-20. There is a small budgeted deficit, which is in line with the HRA's medium Term Financial Plan. The budgeted deficit is substantially lower than 2018-19, when a planned, large contribution has been made to the construction of the Extra Care facility.

6. What are the legal aspects?

The Local Government Act 2003 places a duty on authorities to set robust estimates, maintain adequate reserves and to monitor the budgets and this applies equally to the HRA as to the General Fund.

The Housing Revenue Account is also framed by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account.

7. Monitoring Officer Comments:

The report raises no issues for the Monitoring Officer.

8. Report Details:

BUDGET FRAMEWORK FOR THE HRA

8.1 SELF-FINANCING

Since April 2012, the Council's HRA is expected to be self-financing. Thus all income collected locally from rents, service charges and other sources are kept at a local level to deliver housing services to tenants and to maintain the housing stock.

8.2 ANNUAL BUDGET SETTING

Budgets are revisited each year to make amendments for assumptions made on stock levels, interest rates, inflation and other changed circumstances.

8.3 INFLATION

An overall allowance of £247,920 has been set aside for inflation within the HRA. The inflationary increases allowed in the budgets are:

Pay award	2.0%
Pay – Increments	0.5%
Electricity	25%
Gas	6%
Water	0%
Insurance	8%
Fuel	3%
General Inflation	0%
Income (except dwelling rents)	3%

General inflation has again been held at zero; however, where there are contracts in place, inflation at around the Consumer Price Index (CPI) has been added.

8.4 INTEREST RATES

In respect of interest rates, next year's budget reflects the likelihood that whilst base rate may remain low, borrowing for cash-flow purposes will increase and the Council may begin to take out borrowing over a longer timeframe as a result.

However, this only affects the borrowing attributable to the original Council Own Build sites; Rowan House and Knights Place, as the HRA has fixed the interest rate payable on its 50 year maturity loan with the Public Works Loan Board (PWLb).

8.5 SOCIAL RENT POLICY

With effect from 1st April 2016, the Welfare Reform and Work Act 2016 requires social housing landlords to reduce social housing rents by 1% a year for 4 years from a 2015/16 baseline.

The financial year 2019/20 represents the final year of implementing the 1% rent cut.

As previously reported, local authorities had previously been given assurance that rents would rise by Consumer Price Index inflation (CPI) + 1% for the ten years; 2015-16 to

2024-25. The statutory 1% rent cut has therefore significantly reduced the resources available to the HRA with approximately £7.9 million less rental income over the 4 year period compared to previous income projections.

For 2019-20 this will result in an average reduction of £0.75 per week, over 52 weeks, per property.

A separate report is being presented to this committee in respect of setting council dwelling rents for 2019-20, which provides more detail.

8.6 HIGHER VALUE ASSETS LEVY

Since 2016-17 the HRA has been reporting a financial risk in respect of the High Value Assets Levy with provisions contained within the Housing and Planning Act 2016 to allow for its introduction. The Act enabled the government to define 'higher value' homes and place a duty on local authorities to make a payment to the Government in respect of its 'high value' homes.

In August 2018, the Government announced that it will not bring the Higher Value Assets Levy into effect and will repeal the legislation.

8.7 LIFTING OF HRA BORROWING CAP

Since April 2012 each local authority had a limit on the amount of borrowing it could have for the purposes of the HRA, called the 'debt cap'. For Exeter City Council, the debt cap was £57,882,413.

The HRA debt cap was formally removed on 29 October 2018, as a result local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

Officers are currently investigating sites for the development of new council housing in order to make use of this new flexibility and to contribute to local housing delivery.

8.8 KEY HOUSING REVENUE ACCOUNT BUDGET CHANGES PROPOSED FOR 2019-20

The table below sets out the key changes between the budgets for the current financial year and the draft estimates for 2019-20. Please also refer to Appendix 1.

Movement	£
Budgeted Deficit for 2018-19	3,762,145
Inflationary increases	247,920
As explained in paragraph 8.3	
Decreased budget for Management	(42,830)
Officer Responsible: Housing Lead – Tenancy Services, Service Lead – Housing Assets, Service Lead Performance, Strategy & Resources	
<ul style="list-style-type: none"> Reflects a reduced support service recharge from the former Housing Development Team. Instead, members of the team have been transferred directly into Planning Services, Environmental Health and the HRA according to the work they perform in respect of building neighbourhoods, empty homes and social housing respectively. <p>Officers transferred into the HRA are now budgeted as employees within the Housing Assets team.</p>	
Decreased budget for Housing Customers	(12,660)
Officer Responsible: Housing Lead – Tenancy Services	

- Reduced employee costs reflect the re-allocation of costs to the Health & Safety Compliance Team, within Housing Assets, in recognition of the regular inspections of communal areas by the Housing Customer Relations Officers. Inspections are undertaken to help ensure escape routes are maintained free from all obstacles in accordance with the new Fire Safety Management Policy, as adopted by Council on 17 October 2017.

Increased budget for Sundry Land Maintenance	65,010
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Officer Responsible: Housing Lead – Tenancy Services

- A 5 year programme to tackle at risk trees on HRA communal land, as identified by Public Realm, started in 2017-18. Next year will be the third year of the programme to deal with trees in decline, unsuitable locations, ash dieback and elm disease.

The HRA's medium term financial plan had already factored in a £70k year-on-year increase for dealing with its trees and the proposed budget increase for 2019-20 reflects this.

Increased budget for Repairs and Maintenance Programme	100,830
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Officer Responsible: Service Lead – Housing Assets

Overall, a minor increase in the budgets required for the Repairs and Maintenance Programme in 2019-20 (equating to 1.6% after inflation), which reflects;

- A new general maintenance contract is due to be awarded from September 2020. In the mean-time the proposed 2019-20 budget has been maintained at 2018-19 levels plus inflation, until the outcomes of a procurement process are known.
- The budget for repairs to void properties based upon last 4 year average spend levels plus an inflationary allowance.
- The budgets for both external painting to council dwellings and communal area decorations provides for works to be undertaken on a 7 year cyclical programme.
- Service and maintenance budgets reflect contract arrangements and allow for inflationary rises, where appropriate.
- The budget for asbestos removal has been increased to allow for asbestos removal works to void properties. The budget also reflects planned capital works (such as kitchen and bathroom replacements), in order to ensure safely removed prior to major works being undertaken.
- A higher than inflation increase has been applied to the Decoration Assistance Scheme in order to help manage the waiting list and planned cycle.

Reduced Revenue Contribution to Capital	(4,696,550)
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Officer Responsible: Housing Lead – Tenancy Services, Service Lead – Housing Assets, Service Lead Performance, Strategy & Resources

- The budget reflects the amount of revenue monies required towards financing the HRA capital programme in 2019-20. This is a significant reduction compared to 2018-19, which is most notably due to a one-off £2.7m contribution to financing the Extra Care scheme at St Loyes.

Increased budget for Capital Charges	217,760
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Officer Responsible: not applicable (statutory accounting charge)	
<ul style="list-style-type: none"> This represents an increased depreciation charge in respect of HRA assets including; dwellings, garages, IT, vehicles and plant and equipment. It is calculated in accordance with the latest Stock Valuation guidance issued by the Department for Communities and Local Government in November 2016. <p>Depreciation is a real cost to the HRA as it represents the minimum amount of revenue monies to be set aside in the Major Repairs Reserve in order to provide for future capital works and help maintain assets in a stable condition.</p>	
Increased budget for Housing Assets	351,280
Officer Responsible: Service Lead – Housing Assets	
<ul style="list-style-type: none"> Following the removal of the HRA borrowing cap from 29 October 2018, local authorities are able to take on new borrowing for housebuilding. Budget provision of £250k has been made for the investigation of new build sites, including viability assessments, scheme modelling and project planning, in order to inform a new build capital programme. Employee costs reflect the transfer of two officers from the former Housing Development Team directly into the HRA to reflect new line management arrangements. The allocation of health and safety related duties performed by Housing Customer Relations Officers are also reflected in this budget area, as explained above. 	
Decreased income budget in respect of Rents	408,390
Officer Responsible: Service Lead – Tenancy Services	
<ul style="list-style-type: none"> The budget for rental income from council dwellings has decreased in accordance with the Welfare Reform and Work Act 2016, which requires social landlords to reduce rents by 1% each year for 4 years, between 2016-17 and 2019-20. The budgets also reflect a greater void allowance for rent lost whilst major works are undertaken (e.g. LAINGS and Rennes House) and takes into consideration the introduction of Universal Credit. Please also refer to the Housing Rent and Service Charge report, for more details. The budgets also reflect the disposal of garage sites to Exeter City Living Ltd and the associated loss of rental income. 	
Increased income budget in respect of Interest	(14,480)
Officer Responsible: Housing Lead – Tenancy Services, Service Lead – Housing Assets, Service Lead Performance, Strategy & Resources	
<ul style="list-style-type: none"> Additional interest receivable in respect of HRA balances (working balance, capital receipts and major repairs reserve). 	
Budgeted Deficit for 2019-20	386,815

8.9 MOVEMENT IN HRA WORKING BALANCE

The proposed budgets for 2019-20 indicate that a total of £386,815 will need to be taken out of the HRA Working Balance in order to meet the budgeted deficit. The impact on the HRA Working Balance is set out below.

It is considered prudent to maintain a HRA Working Balance at no less than £4m over the medium term, whilst plans to embark on an ambitious programme of new build schemes are considered.

Please also refer to Appendix 2 which sets out the total forecast HRA capital resources over the next 3 years, of which the HRA working balance forms a significant part.

Movement on HRA Working Balance	£
Estimated HRA Working Balance, as at 1/4/19	6,344,212
Supplementary budget to be requested at 31/3/19	(200,000)
Budgeted Deficit for 2019-20	(386,815)
Balance resolved to be retained (HRA contingency)	(4,000,000)
Total Forecast Balance Available, as at 31/3/20	1,757,397

8.10 HRA CAPITAL PROGRAMME

The HRA Capital Programme for 2019-20 is £20.591m, which comprises:

HRA Capital Investment	£
Capital investment in existing stock	11,388,670
Capital investment in the provision of new council homes	9,201,840
Total HRA Capital Programme 2019-20	20,590,510

In terms of investment in existing stock the proposed budgets for 2019-20 provide for the following:

- 245 kitchen replacements
- 245 bathroom replacements
- Refurbishment of 17 LAINGS properties
- 480 boiler replacements
- Year 2 of storage facility improvements in accordance with the Fire Safety Management Policy
- Refurbishment of Rennes House to commence following replacement of the lifts
- 200 properties to have window replacements
- Re-roofing to 142 houses

A detailed list of the proposed new schemes for this Committee is attached at Appendix 3.

8.11 HRA CAPITAL FINANCING

The proposed HRA Capital Programme for 2019-20 will be financed as follows. Please also refer to Appendix 2 which sets out the impact on capital resources available to the HRA over the next 3 years.

HRA Capital Financing	£
Major Repairs Reserve	8,432,086
Revenue Contribution to Capital	2,500,000
Capital Receipts	4,030,000
Commutated sums	5,320,000
External contributions	308,424

Total HRA Capital Financing 2019-20	20,590,510
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8.12 FEES AND CHARGES

The proposed Fees and Charges for Housing in 2019-20 are included at Appendix 4.

9. BUDGET FRAMEWORK FOR THE COUNCIL'S OWN BUILD SCHEMES

The Council's own build properties at Rowan House and Knights Place form part of the overall Housing Revenue Account, but separate income and expenditure budgets are maintained in order to ensure that they are self-financing.

There are no significant budget variations for 2019-20. A surplus of £15,470 is budgeted for 2019/20 compared to a budgeted surplus of £16,630 for 2018/19. The difference predominantly relates to inflationary increases in costs. Please also refer to Appendix 5.

10. How does the decision contribute to the Council's Corporate Plan?

The Housing Revenue Account contributes to three key priorities, as set out in the Corporate Plan; providing value-for-money services, leading a well-run council and building great neighbourhoods.

11. What risks are there and how can they be reduced?

It is not permissible for the HRA to go into an overall financial deficit position. In setting the annual budget it is important to ensure that an adequate level of HRA balances is maintained as a contingency against risks.

12. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

The proposed revenue budgets for the year will help the HRA provide tenancy management services and maintain the condition of council dwellings, which has a positive impact on the health and well-being of Council tenants. In the delivery of services, housing officers are able to identify and manage issues relating to safe-guarding, vulnerabilities and community safety.

In terms of capital expenditure, the 2019-20 capital programme will enable enhancements to existing dwelling stock to be undertaken and help support the provision of new housing, both of which will have a positive impact on those in housing need.

13. Are there any other options?

No

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

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