BABERGH DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: BC/18/40**
FROM:	**Councillor Jan Osborne, Cabinet Member for Housing**	**DATE OF MEETING: 19 February 2019**
OFFICER:	**Katherine Steel, Assistant Director, Corporate Resources** **Melissa Evans, Corporate Manager, Finance** **Gavin Fisk, Assistant Director, Housing** **Tricia Anderson, HRA Accountant**	**KEY DECISION REF NO. CNL35**

HOUSING REVENUE ACCOUNT (HRA) BUDGET AND FOUR YEAR OUTLOOK

PURPOSE OF REPORT

1.1 The report contains details of the revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the Housing Revenue Account Budget for 2019/20 and four year outlook.

1.2 To enable Members to consider key aspects of the 2019/20 HRA Budget, including Council House rent levels.

2. OPTIONS CONSIDERED

2.1 The Housing Revenue Account Budget for 2019/20 and four-year outlook is an essential element in achieving a balanced budget and sustainable medium-term position, therefore no other options are appropriate in respect of this.

3. RECOMMENDATIONS

3.1 That the HRA Budget proposals set out in the report be approved.

3.2 That the Housing Revenue Account (HRA) Capital Programme 2019/20 to 2022/23 and HRA Budget for 2019/20 be agreed.

3.3 That the mandatory decrease of 1% in Council House rents, equivalent to an average rent reduction of £0.90 a week as required by the Welfare Reform and Work Act, be implemented.

3.4 That garage rents are kept at the same level as last year.

3.5 That Sheltered Housing Service charges be kept at the same level as last year.

3.6 That Sheltered Housing utility charges be increased by 5% (average £0.61 increase per week).

3.7 That in principle, Right to Buy receipts should be retained to enable continued development and acquisition of new council dwellings.

3.8 That the revised HRA Business Plan in Appendix B be noted.

REASON FOR DECISION

To bring together all the relevant information to enable Members to approve the Councils Housing Revenue Account budget.

4. KEY INFORMATION

HRA Overall Financial and Budget Strategy (short and medium term)

4.1 The Babergh HRA Business Plan presents a positive financial picture over the longer term (a thirty-year period as required under the self-financing regime) but there are short to medium term challenges. However, several announcements during 2018/19 will alleviate some of these as follows:

- The Welfare Reform and Work Act requirement for all social landlords to reduce their rents by 1% each year will cease in March 2019 and rents can be increased by CPI (currently 2.6%) +1% for five years from 2020/21.
- The High Value Assets Levy, which may have resulted in a negative subsidy to Government, is no longer going to be introduced.
- The removal of the HRA Debt Cap from 29th October 2018 means that local authorities can borrow to fund new homes without worrying about breaching this cap. Any borrowing will be subject to the Council adhering to the CIPFA Prudential Code.

5. LINKS TO JOINT STRATEGIC PLAN

5.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

HOUSING REVENUE ACCOUNT (HRA)

6. HRA Financial Position

6.1 The 30-year HRA Business Plan is predicated on an annual rent decrease of 1% for 2019/20 followed by 5 years annual rent increase of CPI + 1%. The remaining 24 years are based on an annual rent increase of CPI only. The Business Plan is attached at Appendix B and shows additional detail for years 1-10.

6.2 The self-financing regime replaced the old Housing Revenue Account subsidy system on 1 April 2012. Babergh’s settlement payment was calculated at £83.6m based on projected income, expenditure and existing stock values. This took HRA long term borrowing to £89.6m.

6.3 The HRA Capital Financing Requirement for Revenue and Capital Maintenance levels is predicted to be £88.5m at 31st March 2019. Of which £5.2m is additional new debt to support our ambitious social housing new build programme.

New build and acquisitions funding within the Capital Programme 2019 – 2023 totals £36.5m. Our HRA reserve balances 2019 – 2023 are forecast to be £11.1m at 31 March 2023.

The table below shows our Capital expenditure for 2019/20 to 2022/23

Expenditure	**£m**
Housing Maintenance Programmes	**22.8**
New build (HCA programme)	**28.2**
RTB receipt funding	**8.3**
Total	**59.3**
Financing	
Capital receipts disposals and RTB receipts and HCA Grant	**32.6**
Revenue Contributions	**14.9**
Borrowing	**11.8**
Total	**59.3**

6.4 The Joint Strategic Plan sets out clearly the Councils' aligned strategic priorities. The key housing projects supporting delivery of the priorities are outlined in the HRA Business Plan.

6.5 For example: The back to back contract with Orbit Housing will deliver 10 shared ownership and 11 affordable homes in Holbrook (a further 2 shared ownership and 4 affordable in 2019/20), together with the acquisition of 15 affordable homes, will bring the total to 36 in 2018/19, which will become new HRA assets. These new homes will deliver New Homes Bonus for the Council, additional rent and council tax and local businesses will benefit. All these factors will bring growth to our local economy. Recent analysis by the Local Government Association and Capital Economics has found:

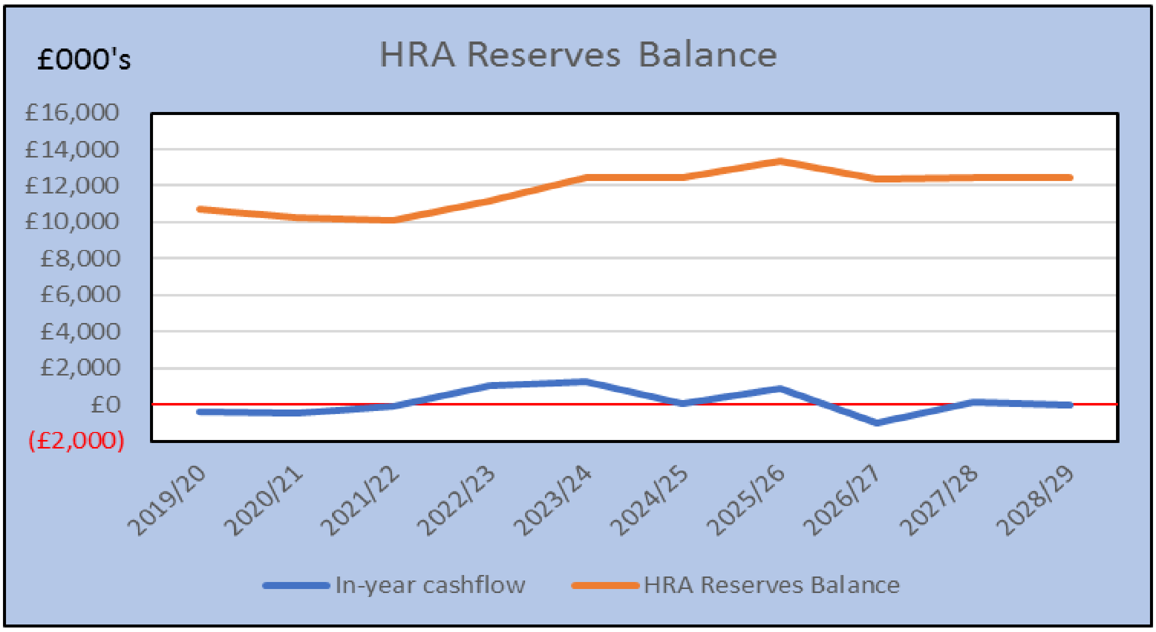
- Every £1 invested in a new social home generates £2.84 in the wider economy.
- Every new social home would generate a saving of £780 per year in Housing Benefit.
- Every new social home would generate a fiscal surplus through rental income.

7. HRA Potential Resources Available for Investment

7.1 A key aspect of the business plan is the reserve balance predicted over the coming years. Another important feature is the ability to repay our debt and amount available for building new homes. Both are illustrated in the following graphs:

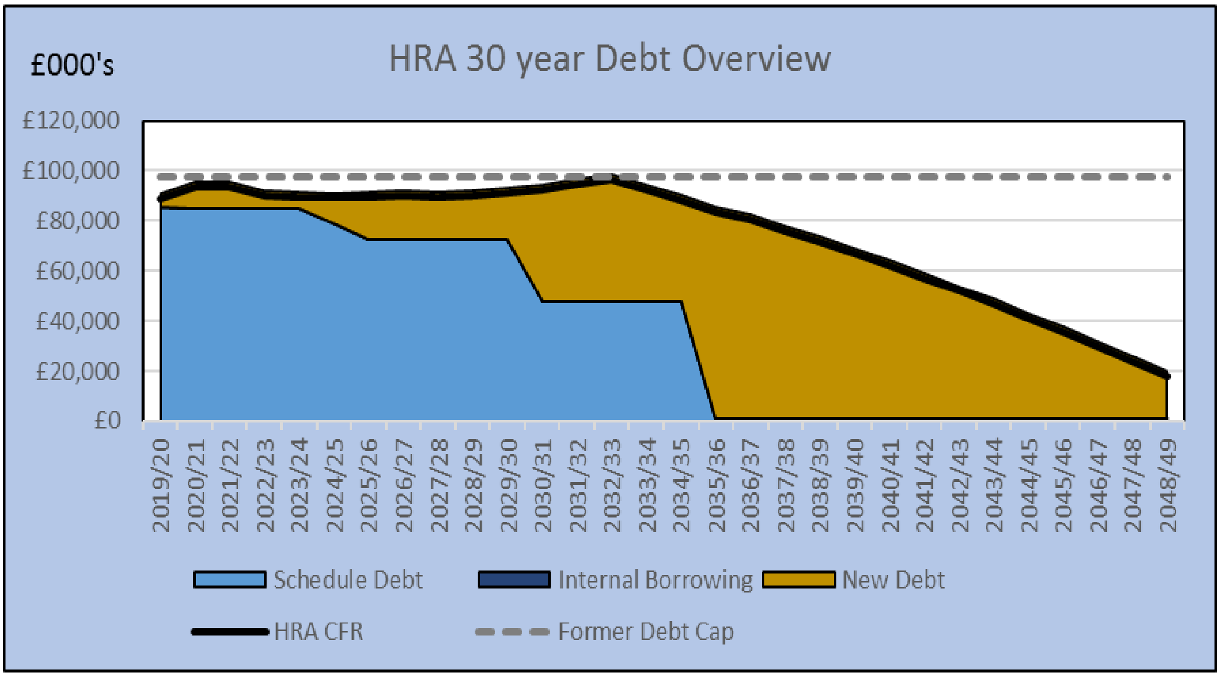
Graph A - Reserve balances from 2019/20 for 10 years

This graph shows reserve balances within the HRA increasing to approximately £12.4m by Year 10 (2028/29). The New HRA Business Model allocates RCCO, not required to fund the Capital programme, to reducing debt rather than to increase reserve balances as in the earlier version. This change has been implemented from 2024/25 onwards and is to demonstrate that we can afford to repay any new debt as required by the CIPFA Prudential code.



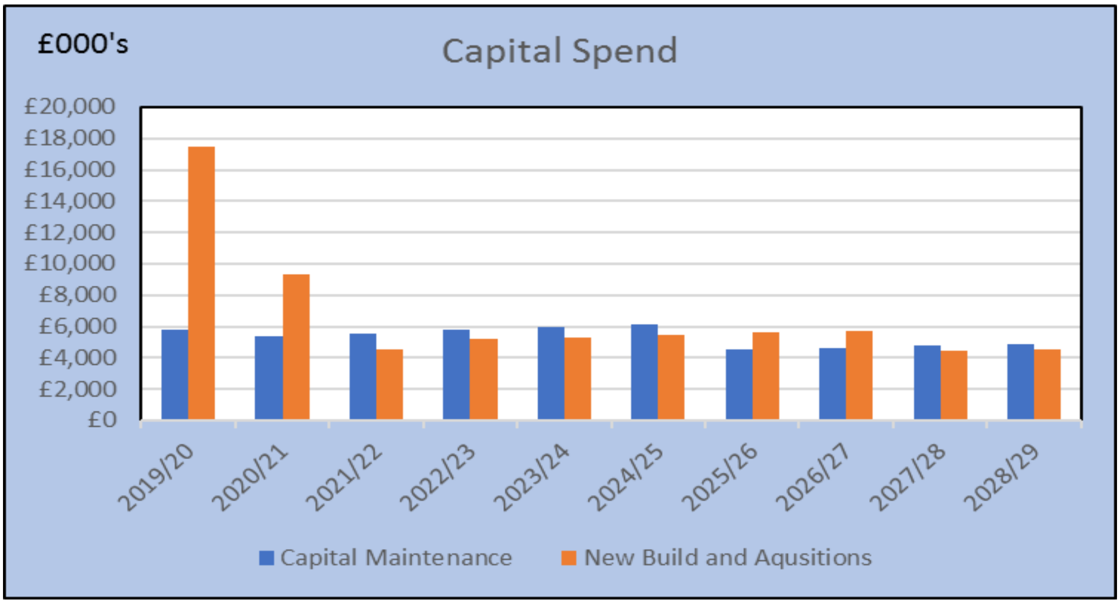
Graph B – HRA Debt Overview from 2019/20 for 30 years

This shows the different types of debt held by the HRA over the next 30 years. Any schedule debt is predicted to be repaid within 17 years and total debt is predicted to reduce to £19.8m by 2048/49. Although the debt cap has been removed it also provides an indication of whether the debt cap would have been breached had it remained.



<u>Graph C - Capital Programme from 2019/20 for 10 years</u>

This graph shows proposed Capital Programme expenditure within the HRA Business Plan up to Year 10 (2019/20 to 2028/29). The spend is split between Capital maintenance on council dwellings and New Build and Acquisitions.



8 HRA Key Achievements

8.1 A balanced budget has been achieved for 2019/20 by reducing both revenue and capital budgets (see table in 11.1). A fundamental review of the housing service has been undertaken during 2018/19 to identify savings, efficiencies and income generation opportunities that will achieve a sustainable business plan into the future. The review has examined:

- New build programme and retention of Right to Buy receipts. The appointment of Iceni to look into development opportunities has enabled us to provide a 3-year development programme of new build and acquisitions. An HCA Bid to increase the Debt Cap was produced in September 2018 but this was superseded by the abolishment of the Cap.
- Review of the Joint Housing Board, which following the review, has been replaced by Tenant Boards and the introduction of Sounding Boards.
- The Babergh and Mid Suffolk Building Services (BMBS) team, which carries out responsive repairs and programmed works, was implemented on 1st April 2017. The introduction of Total Mobile in May 2018 allows jobs to be scheduled for the tradesmen and closed once completed reducing the requirement for manual intervention.
- Fire risk assessments carried out on every site and the implementation of a programme to carry out improvements.
- The Void Project aimed to reduce void times by up to 20 days over a period of 12 months, from an average void period of 44 days in October 2017. However, the cumulative figure for the year (18/19) to date is 22 days, and the average void period for the month of October this year was as low as 12 days.

- Development of the Homes and Homelessness Reduction Strategies to be adopted in early 2019.
- Implementation of Service Delivery Plans.
- Small restructuring and realignment of teams to increase productivity.
- The Housing Solutions team successfully incorporated the Homelessness Reduction Act enabling them to deal with four times the number of customers than in 2017/18.

9 HRA Income and Savings Opportunities

9.1 Our current Homes Strategy specifically identifies the need for the HRA to be as efficient and effective as possible with an ambition to save 1% of our budget over the next 3 years. Examples of how this will be achieved include income and savings opportunities as set out in this report.

9.2 **Sheltered housing** – following an increase of service charges for the past 3 years we propose that this year they are kept at the same level. The previous increases were as follows:

Description	2016/17	2017/18	2018/19
Amount of increase on previous year's charge	£2	£4	£2
% increase on previous year's charge	13.8%	24.4%	9.7%

Utility Charges have kept at the same level for the past 2 years and, following an increase in prices, we are proposing an increase of 5% (average increase of £0.61 per week) in 2019/20, which will result in additional income of £9k.

9.3 **Garage rents** – It is proposed that following a number of significant increases in garages rents, it is not sustainable to continue with a further increase in 2019/20. This would make garages undesirable, as a result we propose to maintain garage rents at current levels. A project to reduce the number of void garages will be undertaken during 2019/20 with the aim to increase income by £18k.

9.4 A project was undertaken by all Corporate Managers this year to identify where income could be increased, or savings made, for the next four years. Income increases or savings for 2019/20 have been included in the Budget and will be reviewed during the year.

A table of income or savings opportunities is detailed below:

BABERGH INCOME AND SAVINGS OPPORTUNTIES 2019/20 TO 2022/23						
Description of increase in income or reduction in spend	**2018/19 Budget**	**2019/20 Savings**	**2020/21 Savings**	**2021/22 Savings**	**2022/23 Savings**	**Total Savings**
	£	**£**	**£**	**£**	**£**	**£**
Income						
Rechargeable repairs increased	(1,169)	(292)	(511)	(887)	(1,572)	(3,262)
Increase in Garage lets	(200,960)	(18,386)	(18,386)	(18,386)	(18,386)	(73,544)
Leaseholder Service Charges increased	(452,430)	(9,048)	-	-	-	(9,048)
Costs						-
Reduction in ICT Project Costs	168,000	(18,000)	-	-	-	(18,000)
Removal of Decorating Vouchers for new tenants	2,000	(2,000)	-	-	-	(2,000)
Reduction in reserves carried forward	75,000	(20,000)	(20,000)	(20,000)	-	(60,000)
Total	**(409,559)**	**(67,726)**	**(38,897)**	**(39,273)**	**(19,958)**	**(165,854)**

10 HRA New build programme and retention of Right to Buy receipts

10.1 Right to Buy (RTB) sales for Babergh were lower than projected in the business plan. In 2017/18 Babergh sold 25 against original projections of 27 sales.

10.2 The money received from RTB sales can only be used as 30% towards the cost of a replacement home. The remaining 70% of the replacement cost must be found from other HRA resources. As sales increase, it means that the level of match funding required (70%) increases. If the receipts are not spent within the 3-year period allowed, they have to be repaid to Government with 4% above the base rate interest added. There has been a recent consultation on Right to Buys, which both Babergh and Mid Suffolk contributed to, and we are currently awaiting the results of this.

11 HRA Budget 2019/20

11.1 The table below sets out the HRA budget for 2019/20, based on a 1% rent decrease, highlighting the variance from 2018/19.

Description	2018/19 £000	2019/20 £000	Variance £000	Reason
Rent and other income	(16,633)	(16,973)	(340)	We are predicting an increase in rental income due to a 53-week collection period (normally 52 weeks), which has been offset by the 1% reduction in rent. The 53-week period occurs every 6 years when 5 collection weeks occur in March. Garage rents are also anticipated to increase by £18k

Description	2018/19 £000	2019/20 £000	Variance £000	Reason
Bad Debt Provision	155	98	(57)	Universal Credit was implemented during 2017/18 but, due to procedures put in place, the impact was not as high as originally predicted. To reflect this the provision has been reduced.
Interest	(15)	(10)	5	
Total Net Income	**(16,493)**	**(16,885)**	**(392)**	
Repairs and Maintenance, Management and other costs	6,057	6,225	168	Repairs and maintenance costs have increased by £235k, of which £150k is for Customer Services overheads following a review of the volume of work undertaken on behalf of Housing and Planned Maintenance - Heating £25k and Asbestos removal £60k. This has been partially offset by the reduction in Professional and Consultancy fees of £57k following the completion of the Voids project and recruitment of permanent staff to vacant posts.
Capital Charges	2,847	3,117	270	A review of the Treasury Loans within the Business Model and an increase in debt has led to an increase in loan interest.
Revenue Contribution to Capital Programme (RCCO)	4,124	3,922	(202)	RCCO is used to cover capital spend once the Major Repairs Allowance has been used. As we are now expecting an increase in this reserve in 2019/20 so the RCCO requirement has reduced.
Depreciation	2,721	3,313	592	Following an overspend in 2017/18 this cost has now been reviewed.
Debt Repayment	500	500	0	
Total Expenditure	**16,248**	**17,077**	**829**	
In-year operating (surplus)/deficit	(244)	193	437	Reflects the increase in Repairs and Maintenance and Depreciation spends which is offset by increases in Rental Income and decreases in Bad Debt and RCCO.
Year-end transfer to/(from) reserves	244	(193)	(437)	
Total	**0**	**0**	**0**	

11.2 A revised and updated HRA Business Plan is attached at Appendix B, based on annual rent reduction of 1% in 2019/20 then increasing by CPI +1% from 2020/21 for five years also reflecting;

- HCA and other scheme development costs;
- Funding to support spend of RTB receipts and capital programme expenditure.

11.3 HRA Business Plans are currently viable over the 30-year business plan with treasury debt forecast to be reduce to £19.8m by year 30.

11.4 The established rent formula empowers Government to restrict our ability to increase rents through applying a 'limit rent' this is the average rent level at which full housing benefit will be paid. If our average rent exceeds this amount, then a payment has to be made to the Government to make up the difference. Limit rent figures will be released at the end of January 2019. This could still have an impact on rent levels in addition to the -1% change required.

12. HRA Capital Programme Investment

12.1 The Capital Programme is attached at Appendix A.

12.2 The engagement of Iceni to work with us to identify development sites for new homes has led to a proposed Capital Programme for 2019 – 2021 of 164 affordable homes and 14 shared ownership homes.

13. FINANCIAL IMPLICATIONS

13.1 These are detailed in the report.

14. LEGAL IMPLICATIONS

14.1 There are none that apply.

15. RISK MANAGEMENT

15.1 This report is most closely linked with the Councils' Significant Business Risks no. 5d. If we do not understand our financial position and respond in a timely and effective way, then we will be unable to deliver the entirety of the Joint Strategic Plan. The key risks at this stage are outlined below: -

Risk Description	Likelihood	Impact	Mitigation Measures
If we do not consider the ongoing impacts of the Welfare and Funding Reforms then it could lead to unpreparedness for further changes. This links to the Council's Significant Business Risks no. 5h.	Unlikely - 2	Bad – 3	Ensure adequate bad debt provision and that the Income Management Strategy seeks to mitigate the impact of the changes on residents, the Council's income streams and budgets.

Risk Description	Likelihood	Impact	Mitigation Measures
If there are increases in inflation and other variables, then Council Housing self-financing could result in a greater risk to investment and service delivery plans.	Unlikely - 2	Noticeable - 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.
If we fail to spend retained RTB receipts within 3 year period, then it will lead to requirement to repay to Government with an additional 4% interest.	Unlikely - 2	Bad - 3	Provision has been made in the updated HRA Investment Strategy to enable match funding and spend of RTB receipts.
If we borrow too much to fund New Homes we will not be able to pay the loan interest.	Unlikely - 2	Bad - 3	Follow the CIPFA Prudential Code which states Capital investment plans must be affordable, prudent and sustainable.
Brexit could have an impact on interest rates/inflation/house prices and demand/jobs	Unlikely - 3	Bad - 3	Understanding and acting on intelligence from LGA, CIPFA.
If Capital data is inaccurate it could lead to problems with treasury management debt and cashflows.	Unlikely - 2	Bad - 3	Work closely with treasury management when setting capital budgets and how this will be financed. Monitor the capital spend quarterly and raise any changes with treasury management.

16. CONSULTATIONS

16.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate.

17. EQUALITY ANALYSIS

17.1 Equality Analyses will be undertaken for any service areas where significant changes are proposed as a result of the above process.

18. ENVIRONMENTAL IMPLICATIONS

18.1 There are no specific environmental implications from the costs and savings identified in this report.

19. APPENDICES

Title	Location
Appendix A – Capital Programme	Attached
Appendix B – Updated HRA Business Plan	Attached

20. BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement

Housing Revenue Account Financial Monitoring 2018/19 – April to August 2018 BCa/18/44

APPENDIX A

CAPITAL PROGRAMME FOR 2019/20 to 2022/23

HRA

BABERGH CAPITAL PROGRAMME 2019/20 - 2022/23 HOUSING REVENUE ACCOUNT	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Revenue Contributions £'000	Reserves £'000	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Housing Maintenance												
Planned maintenance	4,923	4,961	5,079	5,394	**20,357**		7,317	13,040				**20,357**
ICT Projects	200	200	200	200	**800**		708	92				**800**
Environmental Improvements	500	250	50	50	**850**		350	500				**850**
Disabled Facilities work	200	200	200	200	**800**		800					**800**
New build programme inc acquisitions	17,441	9,330	4,526	5,195	**36,492**	14,518	5,675	0	3,390	1,119	11,790	**36,492**
Total HRA Capital Spend	**23,264**	**14,941**	**10,055**	**11,039**	**59,299**	**14,518**	**14,850**	**13,632**	**3,390**	**1,119**	**11,790**	**59,299**

Note: Financing is based on no Strategic Priority reserves being used to fund new build.

HRA Business Plan updated 2019/20 – 2028/29

Appendix B

Year	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
£'000	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
INCOME:										
Rental Income	(16,147)	(16,819)	(17,669)	(18,318)	(19,021)	(19,756)	(20,324)	(20,913)	(21,490)	(22,051)
Service Charges	(561)	(539)	(585)	(604)	(616)	(629)	(641)	(654)	(667)	(680)
Non-Dwelling Income	(232)	(201)	(201)	(208)	(212)	(216)	(220)	(225)	(229)	(234)
Grants & Other Income	(33)	(39)	(39)	(41)	(41)	(42)	(43)	(44)	(45)	(46)
Total Income	**(16,973)**	**(17,598)**	**(18,494)**	**(19,171)**	**(19,890)**	**(20,642)**	**(21,228)**	**(21,836)**	**(22,431)**	**(23,011)**
EXPENDITURE:										
General Management	2,303	2,503	2,578	2,663	2,740	2,798	2,856	2,916	2,978	3,039
Special Management	864	937	969	1,001	1,021	1,041	1,062	1,083	1,105	1,127
Other Management	0	0	0	0	0	0	0	0	0	0
Bad Debt Provision	98	102	134	139	144	150	154	158	163	167
Responsive & Cyclical Repairs	3,058	2,670	2,616	2,636	2,935	3,052	3,175	3,303	3,436	3,565
Total Revenue Expenditure	**6,324**	**6,212**	**6,297**	**6,439**	**6,841**	**7,041**	**7,247**	**7,461**	**7,682**	**7,898**
Interest Paid	3,117	3,161	3,271	3,190	3,111	3,221	3,320	3,298	3,301	3,296
Interest Received	(10)	(6)	(7)	(8)	(6)	(7)	(6)	(7)	(7)	(7)
Depreciation	3,313	3,447	3,313	3,559	3,133	3,212	3,293	3,376	3,461	3,548
Net Operating Income	**(4,230)**	**(4,783)**	**(5,620)**	**(5,991)**	**(6,812)**	**(7,174)**	**(7,374)**	**(7,707)**	**(7,993)**	**(8,275)**
APPROPRIATIONS:										
Revenue Provision (HRACFR)	500	400	150	4,786	6,907	7,330	7,410	7,600	7,988	8,329
Revenue Contribution to Capital	3,922	2,695	3,953	4,280	0	0	0	0	0	0
Total Appropriations	**4,422**	**3,095**	**4,103**	**9,066**	**6,907**	**7,330**	**7,410**	**7,600**	**7,988**	**8,329**
ANNUAL CASHFLOW	**192**	**(1,688)**	**(1,517)**	**3,075**	**96**	**156**	**36**	**(107)**	**(5)**	**54**
Reserves Opening Balance	(12,428)	(12,236)	(13,923)	(15,441)	(12,365)	(12,270)	(12,114)	(12,078)	(12,185)	(12,190)
Reserves Closing Balance	**(12,236)**	**(13,923)**	**(15,441)**	**(12,365)**	**(12,270)**	**(12,114)**	**(12,078)**	**(12,185)**	**(12,190)**	**(12,136)**

Note: The Revenue Provision due to predicted additional payments on loans