

## BABERGH DISTRICT COUNCIL

<b>COMMITTEE:</b> Cabinet	<b>REPORT NUMBER:</b> <b>BCa/19/31</b>
<b>FROM:</b> Councillor John Ward Cabinet Member for Finance	<b>DATE OF MEETING:</b> 16 January 2020
<b>OFFICER:</b> Katherine Steel, Assistant Director, Corporate Resources Gavin Fisk, Assistant Director, Housing Melissa Evans, Corporate Manager, Finance and Commissioning & Procurement	<b>KEY DECISION REF NO.</b> CAB135

### DRAFT HOUSING REVENUE ACCOUNT (HRA) BUDGET AND FOUR-YEAR OUTLOOK

#### 1 PURPOSE OF REPORT

- 1.1 The report contains details of the draft revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the draft HRA Budget for 2020/21 and four-year outlook.
- 1.2 To enable Members to consider key aspects of the 2020/21 HRA Budget, including Council House rent levels.

#### 1. OPTIONS CONSIDERED

- 2.1 The Housing Revenue Account Budget for 2020/21 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 draft HRA Budget proposals for 2020/21 and four-year outlook set out in the report be endorsed for recommendation to Council on 26 February 2020, subject to further consideration at the next Cabinet meeting on 11 February 2020.
- 3.2 That the CPI + 1% increase of 2.7% in Council House rents, equivalent to an average rent increase of £2.38 a week be implemented.
- 3.3 That garage rents are kept at the same level as 2019/20.
- 3.4 That Sheltered Housing Service charges be increased by £2 per week to ensure recovery of the actual cost of service.
- 3.5 That Sheltered Housing utility charges are kept at the same level as 2019/20.
- 3.6 That the budgeted surplus of £298k be transferred to the HRA reserves in 2020/21.

3.7	That in principle, Right to Buy (RTB) 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.
<b>REASON FOR DECISION</b>	
<b>To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils Housing Revenue Account budget before the February Cabinet and recommendations to Council.</b>	

#### **4 KEY INFORMATION**

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

- 4.1 The Councils HRA Business Plan presents a positive financial picture over the longer term (a thirty-year period as required under the self-financing regime)
- The Welfare Reform and Work Act allows rents to be increased by CPI (currently 1.7%) +1% for five years from 2020/21.
  - The removal of the HRA Debt Cap from 29 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code.

#### **5 HRA FINANCIAL POSITION**

- 5.1 The 30-year HRA Business Plan is predicated on an annual rent increase of 2.7% for 2020/21 followed by 4 years annual rent increase of CPI + 1%. The remaining 25 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.
- 5.2 The self-financing regime replaced the old HRA 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.
- 5.3 The new build and acquisitions funding within the Capital Programme 2020 – 2024 totals £26.9m.

5.4 The table below shows the capital expenditure and financing for 2020/21 to 2023/24.

<b>Expenditure</b>	<b>£m</b>
Housing Maintenance Programme	24.3
New Build & Acquisitions	26.9
<b>Total</b>	<b>51.2</b>
<b>Financing</b>	
Capital Receipts, disposals and RTB receipts and HCA grant	11.1
Major Repairs Reserve	14.0
Revenue Contributions	14.4
Borrowing	11.7
<b>Total</b>	<b>51.2</b>

5.5 The Corporate Plan sets out clearly the Council's aligned corporate outcomes. The key housing projects supporting delivery of the priorities are outlined in the HRA Business Plan.

5.6 New homes have delivered New Homes Bonus for the Council, additional rent and Council Tax and local businesses will also benefit. All these factors will bring growth to our local economy. Recent analysis by the Local Government Association and Capital Economics has found;

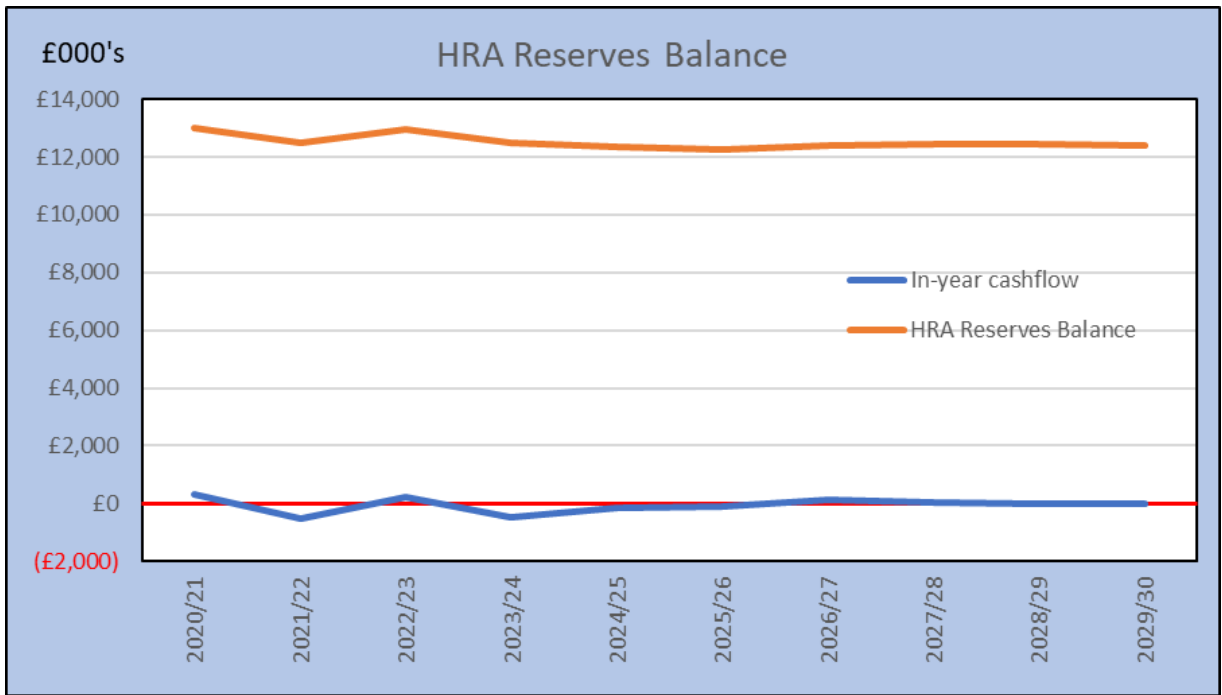
- Every £1 invested in a new social home generates £2.84 in the wider economy.
- Every new social home would generate a saving of £780 per year in Housing Benefit.
- Every new social home would generate a fiscal surplus through rental income.

## **6 HRA POTENTIAL RESOURCES AVAILABLE FOR INVESTMENT**

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

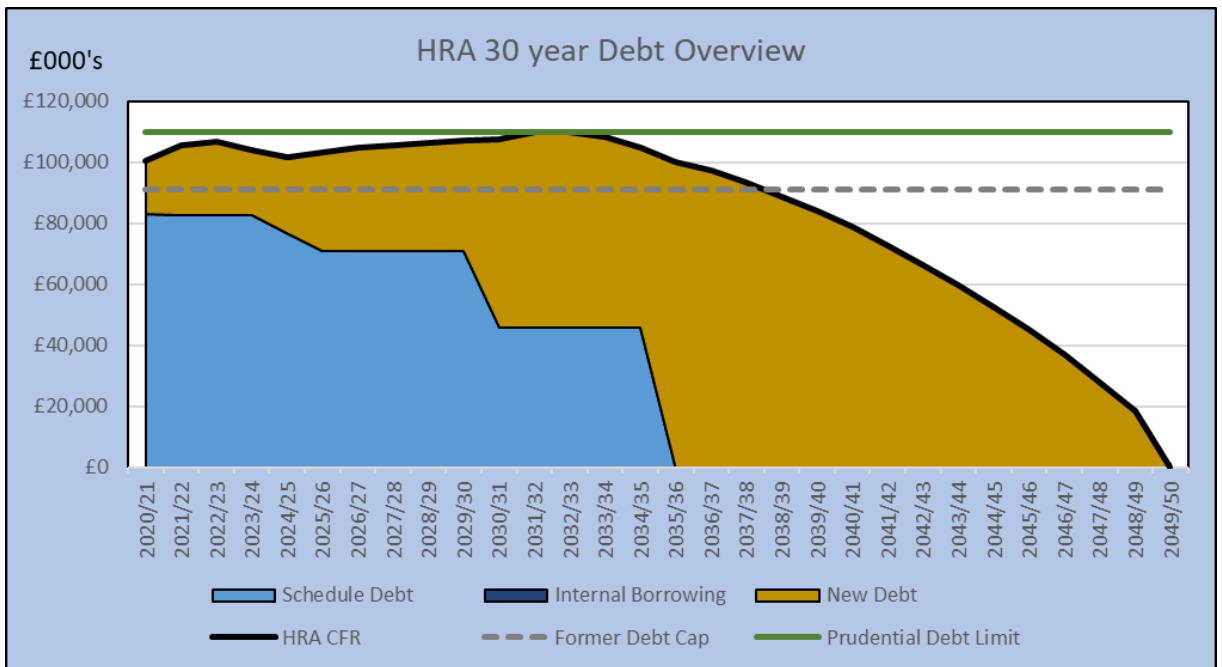
### Graph A - Reserve balances from 2020/21 for 10 years

6.2 This graph shows reserve balances within the HRA decreasing to approximately £12.2m by Year 10 (2029/30) due to the Strategic Priorities Reserve being required to fund a total deficit of £0.28m over this period. The New HRA Business Model allocates the revenue contribution to capital (RCCO) to increasing reserve balances, when it is not required to fund the capital programme. This change has been implemented from 2024/25 onwards and is to demonstrate that the Council can afford to repay any new debt as required by the CIPFA Prudential Code.



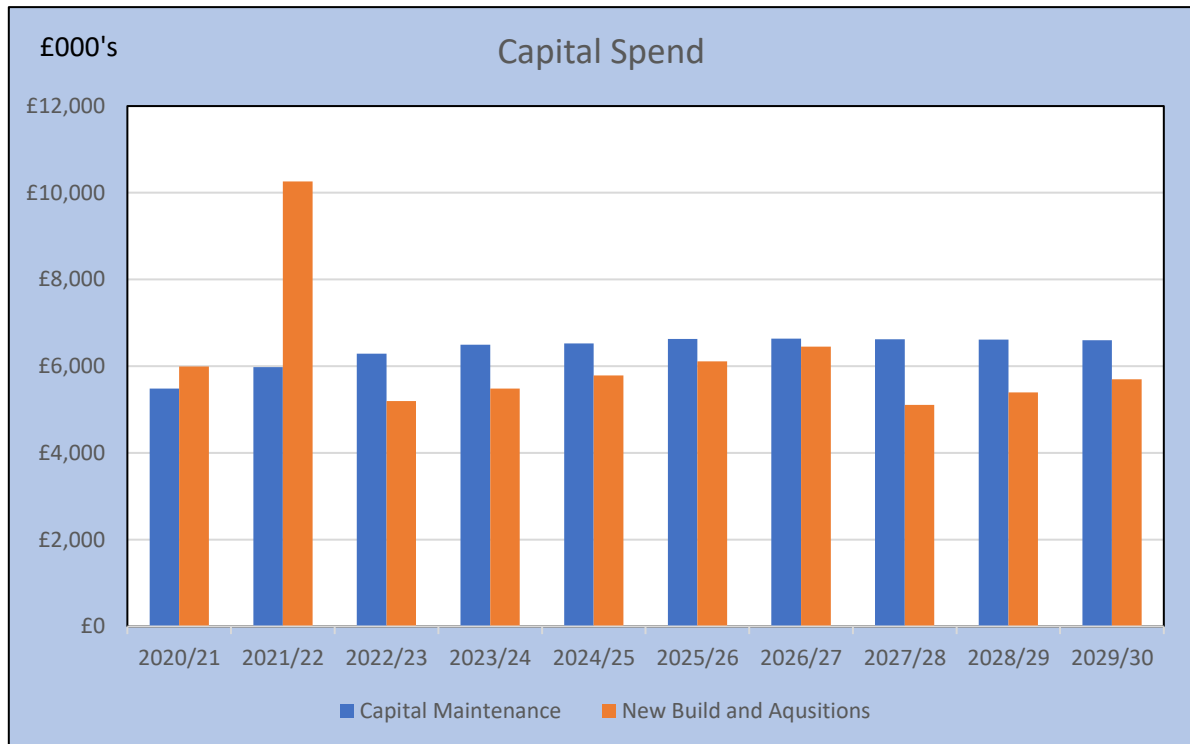
Graph B – HRA Debt Overview from 2020/21 for 30 years

6.3 This shows the different types of debt held by the HRA over the next 30 years. All debt is to be repaid by 2049/50. Although the debt cap has been removed it also provides an indication of when the debt cap would have been breached had it remained.



### Graph C - Capital Programme from 2020/21 for 10 years

6.4 This graph shows proposed capital programme expenditure within the HRA Business Plan up to Year 10 (2020/21 to 2029/30). The spend is split between capital maintenance on council dwellings and new build and acquisitions.



## 7 HRA KEY ACHIEVEMENTS

7.1 A surplus position is forecast for 2020/21 of £298k which is a significant improvement on the 2019/20 position (deficit of £193k). This has been achieved by reducing both revenue and capital budgets (see table in 10.1). A fundamental review of the housing service has been undertaken during 2019/20 to identify savings, efficiencies and income generation opportunities to achieve a sustainable business plan into the future. The review covered:

- New build programme and retention of Right to Buy receipts. The appointment of Icenii to look into development opportunities has enabled us to provide a 3-year development programme of new build and acquisitions.
- Introduction of locality-based working within the Building Service to reduce travel times, save fuel costs and improve service delivery.
- A review of the Travis Perkins materials contract which has delivered savings and efficiencies as well as improvement in customer service.
- Introduction of the Homes and Housing Strategy (2019-2024) and Homelessness Reduction and Rough Sleeping Strategies (2019-2024)
- Introduction of policies including a Mobility Scooter, Income Management and Regulatory Reform Order.

- Void performance being maintained at an average of 16 days.
- Introduction of pre-court and pre-eviction panels to reduce levels of debt and evictions due to the non-payment of rent.
- Tenant Board conducted their first Scrutiny review of the repairs service.
- Housing Conference held for all Housing staff.

## **8 HRA INCOME AND SAVINGS OPPORTUNITIES**

- 8.1 The Councils 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 across the 3 years 2019-2022.
- 8.2 During the past year the Housing Revenue Account has identified and made savings to its Revenue budgets including
- Increasing leaseholder service/management charges by £9k
  - Reduction in ICT project costs of £18k
  - Removal of decorating vouchers for new tenants saving £3k
  - Reducing reserves by £20k previously carried forward to support financial inclusion
  - Removal of decorating grants for tenants that have had their home rewired saving £5k
- 8.3 Next year will see a focus on all contracts (more than £50k) to review the terms of each of these and to identify savings opportunities, as well as decision on the long-term future of Building Services via a joint venture with Flagship Housing. A review of the HRA Business Plan will also be undertaken.
- 8.4 Sheltered housing – to ensure recovery of the actual cost, the 2020/21 charges are to be increased by £2 per week. It is proposed that utility charges are kept at the same level as the current year.
- 8.5 Garage rents – A project to reduce the number of void garages was undertaken during 2019/20. Further work will continue in 2020/21 to identify alternative use of long term/unviable garage sites. It is proposed that garage rents are kept at the same level as the current year.
- 8.6 A project was undertaken by Corporate Managers in 2018/19 to identify where income could be increased, or savings made, for the next four years. Income increases or savings continue to be reflected in the budget and will be monitored during the year.

## 9 RETENTION OF RIGHT TO BUY RECEIPTS

- 9.1 Right to Buy (RTB) sales for Babergh were lower than those projected in the business plan. In 2018/19 Babergh sold 15 against an original projection of 27 sales.
- 9.2 The money received from RTB sales can only be used a 30% contribution 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 must 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.

## 10 HRA BUDGET 2020/21

- 10.1 The table below sets out the HRA budget for 2020/21, based on a 2.7% rent increase and highlights the movement from the 2019/20 budget.

	Budget 2019/20 £000	Budget 2020/21 £000	Movement Adverse/ (Favourable) £000	Comments
Dwelling Rents	(16,147)	(16,008)	139	Although rents have increased by 2.7% for 2020/21 generating £428k, a cost pressure of £304k has resulted due to 2019/20 being 53 rent weeks, compared to 52 weeks in 2020/21. Also delays in anticipated new build developments budgeted for in 2019/20 have impacted the anticipated income by £263k.
Service Charges	(561)	(575)	(14)	Reflects £2 increase per week £27k, which has been offset by £13k reduction in leaseholder service charges following a review of expected income (based on last 3 years).
Non-Dwelling Income	(232)	(183)	49	Assumed increase in rental of void garages did not materialise. This will be reviewed during 2020/21.
Other Income	(11)	(10)	1	
Interest Received	(10)	(10)	0	
<b>Income</b>	<b>(16,961)</b>	<b>(16,786)</b>	<b>175</b>	
General Management	2,276	2,513	237	£165k due to staffing cost changes which includes pay award/increments of £23k. IT maintenance costs of £40k due to the budget moving from the central ICT budget within the General Fund to the HRA. Overheads have increased by £15k due to additional customer services costs (% increased), utilities cost pressure of £7k on de-sheltered properties and other minor variances totalling a cost pressure of £10k.

	Budget 2019/20 £000	Budget 2020/21 £000	Movement Adverse/ (Favourable) £000	Comments
Special Management	841	817	(24)	Reduction in community alarms due to de-sheltering of schemes £28k, partly offset by increment and pay award staffing costs £4k.
Repairs and Maintenance	1,951	2,007	56	Salary savings of £111k from service restructure (net of pay award/increments £39k), £28k increase in recharge income, £24k saving on vehicle fuel based on 3-year average costs, £4k minor adverse cost pressure. Increase in voids repairs £120k, and an increase of £95k for general repairs based on 3-year trend.
Property Services	1,136	1,204	68	Planned heating maintenance £50k saving, planned maintenance on painting increase of £158k due to backlog of work, asbestos survey £33k saving due to the Trades team now monitoring the arrangements, disabled facilities work £7k saving based on a 3-year trend.
Depreciation	3,313	3,313	0	
Interest payable	3,117	3,161	44	Increase due to higher borrowing costs
Debt Repayment	500	500	0	
Revenue Contribution to Capital	3,922	2,875	(1,047)	Revised capital programme therefore funding required in year is reduced
Bad Debt Provision	98	98	0	
<b>Deficit / (Surplus) for Year</b>	<b>193</b>	<b>(298)</b>	<b>(491)</b>	

10.2 A revised and updated HRA Business Plan is attached at Appendix B, based on an annual rent increase of 2.7% in 2020/21 then increasing by CPI +1% from 2021/22 for four years. It also reflects;

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

10.3 HRA Business Plan is currently viable over the 30-year business plan with treasury debt forecast to be reduced to zero by year 30.

## 11 HRA CAPITAL INVESTMENT PROGRAMME

11.1 The Capital Programme summary is attached at Appendix A.

11.2 The engagement of Icenl to work with the Council to look into development sites for new homes has led to a proposed Capital Programme for 2020-2023 of 229 affordable homes and 15 shared ownership homes.

11.3 The major areas being developed over the next three years include sites in Shotley and Angel Court in Hadleigh.



## 12 LINKS TO THE CORPORATE PLAN

- 12.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan. Specific links are to financially sustainable Councils, managing our corporate assets effectively, and property investment to generate income.

## 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 Council's Significant Risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Other key risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
If we do not consider the ongoing impacts of the Welfare and Funding Reforms, then it could lead to unpreparedness for further changes.	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.
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.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
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.
If Brexit has a negative impact on the Economy, then interest rates/inflation/house prices and demand/jobs could be impacted.	Probable - 3	Bad - 3	Understanding and acting on intelligence from the Local Government Association (LGA) and 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 An equality impact assessment will be undertaken with each Assistant Director for any changes within the budget proposals.

## **18 ENVIRONMENTAL IMPLICATIONS**

- 18.1 Assistant Directors, Corporate Managers and other Budget Managers will consider the environmental impact of any savings proposals and throughout the year as they manage their budgets.

## **19 APPENDICES**

<b>Title</b>	<b>Location</b>
Appendix A – Capital Programmes	Attached
Appendix B – updated HRA Business Plan	Attached

## **20 BACKGROUND DOCUMENTS**

Housing Revenue Account Financial Monitoring Reports 2019/20

**CAPITAL PROGRAMME FOR 2020/21 to 2023/24**

BABERGH	Expenditure					Financing					
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	TOTAL BUDGET (Over 4 years) £000	External Grants & Contributions £000	Capital Receipts £000	Borrowing £000	Major Repairs Reserve £000	Revenue Contributions £000	Total Financing (Over 4 years) £000
<b>CAPITAL PROGRAMME 2020/21 - 2023/24</b>											
<b>HOUSING REVENUE ACCOUNT</b>											
Housing Maintenance											
Planned maintenance	4,558	5,079	5,394	5,599	20,630	-	-	-	13,990	6,640	20,630
ICT Projects	200	200	200	200	800	-	-	-	-	800	800
Environmental Improvements	500	500	500	500	2,000	-	-	-	-	2,000	2,000
Disabled Facilities Work	200	200	200	200	800	-	-	-	-	800	800
Horticulture and play equipment	30	-	-	-	30	-	-	-	-	30	30
New build incl acquisitions	5,996	10,259	5,195	5,485	26,935	2,801	8,286	11,704	-	4,144	26,935
<b>Total HRA Capital</b>	<b>11,484</b>	<b>16,238</b>	<b>11,489</b>	<b>11,984</b>	<b>51,195</b>	<b>2,801</b>	<b>8,286</b>	<b>11,704</b>	<b>13,990</b>	<b>14,414</b>	<b>51,195</b>

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

HRA Business Plan updated 2020/21 – 2029/30

Appendix B

Year	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
£'000	1	2	3	4	5	6	7	8	9	10
<b>INCOME:</b>										
Rental Income	(16,008)	(17,125)	(17,985)	(18,553)	(19,414)	(19,348)	(19,660)	(19,976)	(20,297)	(20,623)
Service Charges	(575)	(595)	(604)	(616)	(629)	(641)	(654)	(667)	(680)	(694)
Non-Dwelling Income	(183)	(183)	(183)	(187)	(190)	(194)	(198)	(202)	(206)	(210)
Grants & Other Income	(10)	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)
<b>Total Income</b>	<b>(16,776)</b>	<b>(17,913)</b>	<b>(18,782)</b>	<b>(19,366)</b>	<b>(20,243)</b>	<b>(20,194)</b>	<b>(20,523)</b>	<b>(20,856)</b>	<b>(21,195)</b>	<b>(21,538)</b>
<b>EXPENDITURE:</b>										
General Management	2,511	2,503	2,578	2,658	2,719	2,783	2,842	2,900	2,956	3,012
Special Management	817	827	837	854	871	888	906	924	943	961
Other Management	0	0	0	0	0	0	0	0	0	0
Bad Debt Provision	97	139	139	143	150	149	152	154	157	159
Responsive & Cyclical Repairs	3,211	3,061	3,081	3,297	3,436	3,587	3,716	3,837	3,940	4,046
<b>Total Revenue Expenditure</b>	<b>6,637</b>	<b>6,530</b>	<b>6,635</b>	<b>6,952</b>	<b>7,176</b>	<b>7,407</b>	<b>7,616</b>	<b>7,816</b>	<b>7,995</b>	<b>8,179</b>
Interest Paid	3,161	3,271	3,190	3,823	3,839	3,918	3,947	4,007	4,030	4,066
Interest Received	(10)	(13)	(18)	(17)	(14)	(12)	(11)	(11)	(11)	(11)
Depreciation	3,313	3,559	3,559	3,559	3,565	3,657	3,751	3,847	3,946	4,047
<b>Net Operating Income</b>	<b>(3,674)</b>	<b>(4,566)</b>	<b>(5,416)</b>	<b>(5,049)</b>	<b>(5,677)</b>	<b>(5,224)</b>	<b>(5,221)</b>	<b>(5,198)</b>	<b>(5,235)</b>	<b>(5,259)</b>
<b>APPROPRIATIONS:</b>										
Revenue Provision (HRACFR)	500	500	902	2,586	3,322	2,806	2,596	2,674	2,737	5,262
Revenue Contribution to Capital	2,875	4,596	4,003	2,940	2,500	2,500	2,500	2,500	2,500	0
<b>Total Appropriations</b>	<b>3,375</b>	<b>5,096</b>	<b>4,905</b>	<b>5,526</b>	<b>5,822</b>	<b>5,306</b>	<b>5,096</b>	<b>5,174</b>	<b>5,237</b>	<b>5,262</b>
<b>ANNUAL CASHFLOW</b>	<b>(299)</b>	<b>530</b>	<b>(511)</b>	<b>478</b>	<b>145</b>	<b>82</b>	<b>(124)</b>	<b>(25)</b>	<b>2</b>	<b>3</b>
Reserves Opening Balance	(12,428)	(12,727)	(12,197)	(12,708)	(12,230)	(12,086)	(12,004)	(12,128)	(12,153)	(12,151)
<b>Reserves Closing Balance</b>	<b>(12,727)</b>	<b>(12,197)</b>	<b>(12,708)</b>	<b>(12,230)</b>	<b>(12,086)</b>	<b>(12,004)</b>	<b>(12,128)</b>	<b>(12,153)</b>	<b>(12,151)</b>	<b>(12,148)</b>