

For Publication

Housing Revenue Account (HRA) – Budget 2019/20 to 2023/24

Meeting:	Council
Date:	27 February, 2019
Cabinet Portfolio:	Cabinet Member for Homes & Customers
Report by:	Director of Finance & Resources

For publication

1.0 Purpose of Report

- 1.1 To consider the probable outturn for the current financial year.
- 1.2 To consider the draft budget for 2019/20.

2.0 Recommendations

- 2.1 That the probable outturn for the current financial year be considered.
- 2.2 That the draft estimates for 2019/20 and future years be considered.
- 2.3 That the “Growth Item” at Annexe 6 be approved.

3.0 Background

- 3.1 The Council is required to keep a separate account for its activities as a housing landlord. This is called the Housing Revenue Account (HRA). The HRA is closely governed by the Local Government and Housing Act 1989 and by Determinations made under this Act by DCLG.
- 3.2 As a result of the introduction of self-financing in April 2012 the council is required to produce a 30 year HRA Business Plan that is financially viable, that delivers reasonable standards for tenants and maintains at least the minimum Decent Homes Standard.
- 3.3 Self-financing has, in the main, improved the financial position of the HRA. We can determine our own financial future and can also borrow to finance improvements within the constraints imposed by the Government (e.g. the £156 million debt ceiling). In essence all financial risk in respect of the HRA has been transferred to the council from Central Government.
- 3.4 However, despite this self-financing settlement agreement, in March 2016 the "Welfare Reform and Work Act 2016" introduced rent policy within legislation for the first time. The main policy required the Council to reduce housing rents by 1% annually for a 4 year period commencing on 4th April 2016. The final reduction being in April 2019.
- 3.5 From April 2020 and for the following 4 financial years (until March 2025), social housing rents will increase by CPI plus 1%, as set out in the Housing Green Paper of August 2018.
- 3.6 On 15th January 2019, Cabinet considered the rent and service charge levels for 2019/20 and agreed a rent reduction of 1% (based on the latest Government policy highlighted above) and various service charge increases. These changes have been built into the 2019/20 budget forecast.

3.7 This report is due to be considered by Cabinet at its meeting on 26th February, 2019.

4.0 Information Included

4.1 The following information is attached:

- Annexe 1 Statutory HRA Operating Account (Summarised)
- Annexe 2 Detailed estimates for supervision & management and General Fund contributions.
- Annexe 3 Subjective Analysis.
- Annexe 4 Variances – This year’s original estimate to revised.
- Annexe 5 Variances – This year’s original to next year’s original.
- Annexe 6 Growth Request.

4.2 The following budget assumptions, as approved by Cabinet on 23rd October as part of the Council’s financial strategy, have been used to produce the draft Housing Revenue Account budgets.

- Pay award varies with grade in 2019/20 and then 2.5% for each of the years 2020/21 to 2023/24.
- Rates 3.2% increase in 2019/20, and then 3.5% thereafter.
- Retail Price Index 3.2% in 2019/20 and then 3.5% thereafter.
- Consumer Price Index 2.5% in 2019/20 and in each following year.
- Rental income is increased annually by CPI plus 1% from April 2020 (after the final 1% reduction in 2019/20).

5.0 Financial Position at Year End 2018/19

5.1 On the basis of existing policy and the assumptions already outlined HRA balances for this year are estimated as follows;

HRA Balances

	Original Estimate	Revised Estimate
	£000	£000
Balance at 1.4.18 - Surplus	(24,193)	(27,417)

Decrease/(Increase) in HRA balance for year	5,560	6,412
Estimated Balance 31.3.18	(18,633)	(21,005)

5.2 The probable outturn includes the following approved additions to the 2018/19 estimate.

5.3 Carry Forward from 2017/18

	Amount (£)
Information Technology – Balance of Approved Growth	29,740
Replacement of Allocations System	80,000
Tenant Handbook	35,000
IT for Mobile Working for Asset Management Officers	10,000
Training for Contract Management Team	10,100
Information Technology – Northgate Leaseholder Module	2,850
Total	167,690

5.4 All variations are detailed in Annexe 4 of **Appendix A**, which shows a change from the original budget, which forecast a reduction in the HRA balance of £5,560,200, to the revised budget which shows a reduction in the HRA balance of £6,412,640. This is a difference of £852,440. The majority of the variation relates to the capital programme, where the need for direct revenue funding has increased by £3,055,190 due to the bringing forward of new build work (to ensure that the retained 1-4-1 right to buy receipts are spent) and external wall insulation work. This has been offset by a reduction in the amount allowed for bad debts (due to the later than anticipated full implementation of Universal Credit).

6.0 Financial Strategy 2019/20

6.1 The financial strategy for the HRA is to deliver a balanced and sustainable budget which is self-financing in the longer term and

which reflects both the requirements of tenants and the strategic vision and priorities of the council.

6.2 The HRA cannot run at an overall deficit and risks will continue to be identified and managed effectively. On 3rd May 2016 Cabinet approved a series of strategy and policy changes to mitigate the impact of national housing policy on the long term viability of the HRA, including the 1% rent reduction for a 4 year period commencing in April 2016. These changes significantly improved the financial viability of the HRA. They included reductions to the responsive repairs budget, a reduced and rephased capital programme, moving rent collection to a 52 week basis to mirror the payment of Universal Credit to claimants and taking action to reduce income lost through bad debts (rent arrears) and having properties stood empty (voids).

6.3 It is important to note that the budget projections shown in this report assume that the range of measures previously agreed (the main ones are highlighted in paragraph 6.2 above) continue to achieve the planned savings. Therefore, there is the risk that the HRA balances may be lower than forecast if any of these actions fail to produce the planned savings (for example if void losses or rent arrears increased). The HRA Summary Operating Account at Annexe 1 shows that the HRA balance is anticipated to fall to £7,826,842 in 2019/20 but by 2023/24 has recovered to £13,466,002 mainly due to the cumulative impact of rental income changing to CPI plus 1% from April 2020.

7.0 Initial Budget Forecast 2019/20

7.1 The table below summarises the financial position for 2019/20.

HRA Balances

	Original Estimate
	£000
Balance at 1.4.19 - Surplus	(21,005)
Decrease/(Increase) in HRA balance for year	13,178
Estimated Balance 31.3.20	(7,827)

7.2 All variations are detailed in Annexe 5 of **Appendix A**, which shows a change from the original 2018/19 budget, which forecast a reduction in the HRA balance of £5,560,200, to the original 2019/20 budget which shows a decrease in the HRA balance of £13,177,860. This is a difference of £7,617,660. The majority of the variation relates to the increased requirement for direct revenue support for the capital programme (£7,471,490) plus the 1% reduction in rental income (£467,490), offset by a reduction in the bad debt provision.

8.0 Risk Management

8.1 There are a number of significant risks inherent in any budget forecasting exercise and the risk increases as the period covered increases. The key budget risks for the HRA are detailed below:

- The impact of Universal Credit on bad debts.
- Ability to deliver the re-phased Capital Programme and maintain decency.
- That retained 1-4-1 RTB receipts may have to be repaid to the Treasury if the new build programme within the HRA is not completed as planned.
- Any future limits on rent increases.
- Maintain a minimum working balance of £3 million.
- Future economic changes (e.g. interest and inflation rates plus the impact of Brexit).

9.0 Growth Requests

9.1 Attached at Annexe 6 are details of a priority growth request, with a value of £7,080 in 2019/20 and in each year thereafter. There are sufficient revenue resources to fund this item.

10.0 Equalities Impact Assessment (EIA)

10.1 The budget process and forecasts produced do not require an EIA but any decisions to vary budgets and service provision may require EIA's specific to those options.

11.0 Resource Implications

11.1 In writing this report, the standard corporate issue of revenue financial implications has been considered at Sections 6 to 9 above.

12.0 Recommendations

12.1 That the probable outturn for the current financial year be considered.

12.2 That the draft estimates for 2019/20 and future years be considered.

12.3 That the "Growth Item" at Annexe 6 be approved.

13.0 Reasons for Recommendations

13.1 To enable the council to set the HRA budget for 2019/20.

13.2 To continue with the financial strategy contained in the Housing Revenue Account Business Plan and self-financing debt settlement arrangements.

Glossary of Terms	
HRA	Housing Revenue Account
DCLG	Department for Communities & Local Government
CPI	Consumer Price Index

Decision information

Key decision number	863
Wards affected	All
Links to Council Plan priorities	To improve the quality of life for local people and to provide value for money services.

Document information

Report author	Contact number/email
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Background documents	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
None.	
Annexes to the report	
Annexe 1	Statutory HRA Operating Account
Annexe 2	Detailed estimates for supervision & management
Annexe 3	Subjective analysis
Annexe 4	Variances – this year’s original estimate to revised
Annexe 5	Variances – this year’s original estimate to next year’s
Annexe 6	Growth Request