

## For Publication

### Housing Revenue Account (HRA) – Budget 2020/21 to 2024/25

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Meeting:	Council
Date:	26th February 2020
Cabinet Portfolio:	Cabinet Member for Housing
Report by:	Acting Chief Finance Officer Assistant Director - Housing

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### **For publication**

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#### **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 2020/21.

#### **2.0 Recommendations**

- 2.1 That the probable outturn for the current financial year be noted.
- 2.2 That the draft estimates for 2020/21 and future years 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 MHCLG. This account is ring-fenced and does not receive any subsidy from the Government, or from Council Tax, and nor is it allowed to subsidise the General Fund.
- 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. Initially the level of borrowing was limited by the Government (the £156 million debt ceiling for Chesterfield). However, the borrowing cap was removed by the Government in October 2018 to encourage councils to build new homes. Any extra borrowing must be affordable within the HRA 30 Year Business Plan.
- 3.4 However, despite the 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 4<sup>th</sup> April 2016. The final reduction was 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 14th January 2020, Cabinet considered the rent and service charge levels for 2020/21 and agreed a rent increase of 2.7% (based on the latest Government policy highlighted above) and various service charge increases. These changes have been built into the 2020/21 budget forecast.
- 3.7 This report is due to be considered by Cabinet at its meeting on 25 February, 2020.

#### **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.

4.2 The following budget assumptions, as approved by Cabinet on 22nd October as part of the Council’s financial strategy, have been used to produce the draft Housing Revenue Account budgets.

- Pay awards at 2.5% per annum.
- Rates 1.7% increase in 2019/20, and then 2.5% thereafter.
- Consumer Price Index 2.5% in 2020/21 and in each following year.
- Energy inflation as advised by the Facilities Maintenance Manager.
- Rental income is increased annually by CPI plus 1% from April 2020.

## 5.0 Financial Position at Year End 2019/20

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 1.4.19 - Surplus	(21,005)	(29,237)
Decrease/(Increase) in HRA balance for year	13,185	10,703
Estimated Balance 31.3.20	(7,820)	(18,534)

5.2 The probable outturn includes the following approved additions to the 2019/20 estimate.

5.3 Carry Forward from 2018/19

	Amount (£)
Information Technology – Balance of Approved Growth (Keystone)	15,230
Replacement of Allocations System	74,890
HRA Contribution to site surveys etc at Linacre	34,350
IT for Mobile Working for Asset Management Officers	10,000
Information Technology – Northgate Leaseholder Module	2,250
Total	136,720

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 £13,184,940, to the revised budget which shows a reduction in the HRA balance of £10,702,520. This is a difference of £2,482,420. The main reasons for the variation are a reduction in revenue funding for the capital programme

(£1,132,480) due to delays in commencing some schemes and a reduction in the bad debts provision (£1,147,070).

## **6.0 Financial Strategy 2020/21**

- 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. Cabinet approved a series of strategy and policy changes in May 2016 to mitigate the impact of 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 loss of rental income through bad debts (rent arrears written off) and void (empty) properties continues to be minimised through robust management procedures. Should these losses increase above the assumptions contained in the budget there is the real risk that HRA balances will be lower than forecast.
- 6.4 The HRA Summary Operating Account at Annexe 1 shows that the HRA balance is anticipated to fall to £8,190,763 in 2020/21, then continue to fall until 2022/23 when the balance is £3,863,533. This is due to the impact of increased capital spend. Full details are contained in the HRA capital programme budget report elsewhere

on the agenda. After this date balances begin to steadily climb and are £7,539,453 by 2024/25.

## 7.0 Initial Budget Forecast 2020/21

7.1 The table below summarises the financial position for 2020/21.

### HRA Balances

	Original Estimate
	£000
Balance at 1.4.20 - Surplus	(18,534)
Decrease/(Increase) in HRA balance for year	10,343
Estimated Balance 31.3.21	(8,191)

All variations are detailed in Annexe 5 of **Appendix A**, which shows a change from the original 2019/20 budget, which forecast a reduction in the HRA balance of £13,184,940, to the original 2020/21 budget which shows a decrease in the HRA balance of £10,343,590. This is a difference of £2,841,350. The majority of the variation relates to a reduced requirement for direct revenue support for the capital programme (£1,812,300) due to an anticipated increase in capital receipts, plus a reduction in the bad debts provision (£1,144,070).

## 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 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).
- Any possibility of claims arising from the former agreement with Severn Trent Water.

## **9.0 Equalities Impact Assessment (EIA)**

9.1 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.

## **10.0 Resource Implications**

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

## **11.0 Recommendations**

11.1 That the probable outturn for the current financial year be noted.

11.2 That the draft estimates for 2020/21 and future years be approved.

## **12.0 Reasons for Recommendations**

12.1 To enable the council to set the HRA budget for 2020/21.

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

<b>Glossary of Terms</b>	
HRA	Housing Revenue Account
MHCLG	Ministry of Housing, Communities & Local Government
CPI	Consumer Price Index

### **Decision information**

<b>Key decision number</b>	<b>916</b>
<b>Wards affected</b>	<b>All</b>
<b>Links to Council Plan priorities</b>	To improve the quality of life for local people and to provide value for money services.

### **Document information**

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<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
None.	
<b>Annexes to the report</b>	
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