

For publication

Housing Revenue Account (HRA) – Budget 2021/22 to 2025/26

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| Meeting: | Cabinet Council |
| Date: | 23 rd February 2021 24 th February 2021 |
| Cabinet portfolio: | Cabinet Member for Housing |
| Directorate: | Finance Housing |

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 2021/22.

2.0 Recommendations

Cabinet recommends to Council:

- 2.1 That the probable outturn for the current financial year be noted.
- 2.2 That the draft estimates for 2021/22 and future years be approved.
- 2.3 That the development of a detailed programme and funding strategy for Organisational Development be noted.

3.0 Reasons for recommendations

- 3.1 To keep Members informed about the council's current financial standing for the Housing Revenue Account and the budget estimates for 2021/22.

4.0 Report Details

- 4.1 Background

- 4.1.1 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.
- 4.1.2 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.
- 4.1.3 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.
- 4.1.4 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 4th April 2016. The final reduction was in April 2019.
- 4.1.5 For 2021/22 and for the following 3 financial years (until March 2025), social housing rents will increase by CPI plus 1%, as set out in the Government’s National Social Rent Policy which came into effect from 1st April 2020.
- 4.1.6 On 12th January 2021, Cabinet considered the rent and service charge levels for 2021/22 and agreed a rent increase of 1.5% (based on the latest Government policy highlighted above) and various service charge increases. These changes have been built into the 2021/22 budget forecast.
- 4.1.7 Rent increases are necessary to ensure that the objectives as set out in the Council Plan can be achieved. These objectives include building new Council homes, ensuring that 100% of Council homes will meet Decent Homes Standard and carrying out major improvements to Council homes such as new kitchens, bathrooms, heating systems and windows.

4.2 Information Included

4.2.1 The following information is attached:

- Annexe 1 - Statutory HRA Operating Account (Summarised)

4.2.2 The following budget assumptions, as approved by Cabinet on 10th November as part of the Council's financial strategy, have been used to produce the draft Housing Revenue Account budgets.

- Rates 0.6% increase in 2021/22, and then 2.0% thereafter.
- Consumer Price Index 1.0% in 2021/22 and then 2% thereafter.
- Energy inflation as advised by the Facilities Maintenance Manager.
- Rental income is increased annually by CPI plus 1% from April 2021.

The budget assumptions agreed at Cabinet in November included provision for pay awards of 2.5% across all years. As a result of recent announcements relating to a public sector pay freeze, these assumptions have been revised downwards and the budget has been prepared assuming a 1% pay award for 2021/22 and 2% for all future years.

4.2.3 Due to Covid-19 there is a high level of uncertainty around the estimated programme of repairs for the 2021/22 financial year. As a result, the repairs budget for 21/22 has been calculated based on the original 20/21 repairs budget plus CPI of 1%. The repairs programme will be reviewed regularly during the course of the financial year and any amendments will be built into the revised budgets.

4.3 Financial Position at Year End 2020/21

4.3.1 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 1.4.20 - Surplus | (18,534) | (24,734) |
| Decrease/(Increase) in HRA balance for year | 10,343 | 15,448 |
| Estimated Balance 31.3.21 | (8,191) | (9,286) |

- 4.3.2 The probable outturn includes the following approved additions to the 2020/21 estimate:

Carry Forward from 2019/20

| | Amount (£) |
|---|------------|
| HRA Contribution to site surveys etc at Linacre | 27,760 |
| Total | 27,760 |

- 4.3.3 The original 2020/21 budget forecast a reduction in the HRA balance of £10,343,590. The revised 2020/21 budget shows a reduction in the HRA balance of £15,447,910, a difference of £5,104,320. The main reasons for the variation are an increase in revenue funding for the capital programme (£4,046,860) due to an increased capital programme and a reduction in available capital receipts, and an increase in the bad debts provision (£605,000).
- 4.3.4 As approved as part of the Council's financial strategy (Cabinet, 10th November 2020), in September 2020 OSD moved to a cost recovery model where the HRA meets in full the costs of providing the service rather than payments being made in accordance with the current schedule of rates. Although there has been a reduction in the number of repairs made during the year to date, any repairs budget savings have been offset by the additional costs being incurred in working in a Covid19 secure way.

4.4 Financial Strategy 2021/22

- 4.4.1 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.
- 4.4.2 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).

4.4.3 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.

4.4.4 The HRA Summary Operating Account at Annexe 1 shows that the HRA balance is anticipated to fall to £3,405,359 in 2021/22 due to the impact of increased capital spend. Full details are contained in the HRA capital programme budget report elsewhere on the agenda. Balances then begin to increase slightly year-on-year and are £3,768,939 by 2025/26.

4.5 Initial Budget Forecast 2021/22

4.5.1 The table below summarises the financial position for 2021/22.

HRA Balances

| | Original Estimate |
|---|-------------------|
| | £000 |
| Balance at 1.4.21 - Surplus | (9,285) |
| Decrease/(Increase) in HRA balance for year | 5,880 |
| Estimated Balance 31.3.22 | (3,405) |

The original 2020/21 budget forecast a reduction in the HRA balance of £10,343,590. The original 2021/22 budget shows a decrease in the HRA balance of £5,880,270, a difference of £4,463,320. The majority of the variation relates to a reduction in direct revenue support for the capital programme (£5,221,750) due to an anticipated increase in capital receipts.

4.6 Organisational Development Framework & Future Savings

4.6.1 As an ambitious council there is a need to continue to strive to make improvements in the way that the council is managed, services are operated and value for money achieved, within the overall budget envelope available to the Council.

4.6.2 An organisational development (OD) approach and framework has been adopted with the aim of achieving 'A joined-up approach to aligning

resources, working practices and performance with our strategic ambitions; shaping capability and culture to enable resilient delivery of our priorities’.

This approach will provide a framework in which to operate and collaborate, as One Council, to continue to improve performance and drive value for money for the communities in Chesterfield. Work is progressing to set out the OD strategy in more detail with a programme of activity to support significant transformation requirements, which are by nature Council wide and corporately led.

- 4.6.3 As part of the approval of the new corporate leadership structure in October 2020, it was recognised that in order to achieve the objectives of that restructure, revisions to service portfolios would require restructuring of the tiers below. The service directors will be considering capacity, capability and service alignment, and this work will form a key project within the OD programme.
- 4.6.4 It is proposed that an invest to save approach is used to enable the council to fund the development and support of the OD framework. This funding would support upfront investment in resources to deliver the OD programme, including any changes to the organisational structure required to support this approach; the OD programme development would then lead to the identification of future savings to fund any recurring costs, as well as seeking to repay the initial investment over time.
- 4.6.5 The detailed programme and funding strategy are currently in development. The aim is to set out the OD strategy and programme in a report to Joint Cabinet and Employment and General Committee and then to full Council in April.

5 Alternative options

- 5.1 There are no alternative options to consider.

6 Implications for consideration – Council Plan

- 6.1 To provide quality housing and improve housing conditions across the borough.

7 Implications for consideration – Financial and value for money

- 7.1 Financial and value for money implications are detailed in sections 4 to 8.

8 Implications for consideration – Legal

8.1 This budget is set under the Local Government and Housing Act 1989 and by Determinations made under this Act by MHCLG.

9 Implications for consideration – Human resources

9.1 There are no human resource implications to consider in this report.

10 Implications for consideration – Risk management

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

- The impact of Covid19 on bad debts.
- 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 £3.3 million.
- Future economic changes (e.g. interest and inflation rates plus the impact of Brexit)

11 Implications for consideration – community wellbeing

11.1 There are no community wellbeing implications to consider in this report.

12 Implications for consideration – Economy and skills

12.1 There are no economy and skills implications to consider in this report.

13 Implications for consideration – Climate Change

13.1 Individual climate change impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

14 Implications for consideration – Equality and diversity

- 14.1 Individual equality and diversity impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

Decision information

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|----------------------------|-------------|
| Key decision number | 1008 |
| Wards affected | All |

Document information

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|---|---|
| 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. | |
| <i>This must be made available to the public for up to 4 years.</i> | |
| Annexes to the report | |
| Annexe 1 | Statutory HRA Operating Account |