



Revenue Budget Proposals 2021-22 – Housing Revenue Account (HRA)

Corporate Priority:	Providing high quality council homes and landlord services. Ensuring the right conditions to support delivery.
Relevant Ward Member(s):	All
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

1 Summary

1.1 The purpose of this report is to update on the financial position of the Housing Revenue Account (HRA) and to set the rents of the Council dwellings with an increase of 1.49%, approve the HRA budget estimates for 2021-22 and set the working balance for 2021-22 at £750k.

2 Recommendations

That Cabinet:

2.1 Notes:

2.1.1 The new service charge elements for Health & Safety works and Grounds Maintenance works in line with the Rent and Service Charge Policy.

2.2 Recommends to Council that:

2.2.1 The budget estimates for 2021-22 be approved;

2.2.2 An average rent increase of 1.49% for all Council dwellings for 2021-22 be

approved with effect from 1 April 2021;

2.2.3 The working balance is maintained at the approved minimum balance of £750,000 and any residual amounts be transferred to the Regeneration & Development Reserve as approved in February 2020 for the current year.

3 Reason for Recommendations

3.1 The Local Government and Housing Act 1989 requires the Council to produce and publish an annual budget, including the setting of rents, for the HRA which avoids a deficit. It is a requirement that this be scrutinised prior to its submission which falls within the Cabinet's remit.

4 Background

4.1 The operation of the HRA is governed by the Local Government and Housing Act 1989. Some of the key requirements are detailed below:

- a) The HRA is a ring-fenced landlord account recording certain defined transactions arising from the powers conferred on local housing authorities by part II of the Housing Act 1985 and certain provisions of earlier legislation;
- b) The Council has a duty to keep an HRA in accordance with proper accounting practices;
- c) The Council has a duty to produce and publish an annual budget for the HRA which avoids a deficit;
- d) The Council has a duty to review and if necessary revise that budget from time to time if it appears that the HRA is heading for a deficit, all reasonable and practicable steps must be taken to avoid a deficit at the end of the year.

4.2 Rent income is one of the main components of the HRA and it is the Government's policy to increase rents by up to CPI + 1% for at least 5 years from 1 April 2020.

4.3 A change to the way rents are regulated came into effect in 2020-21, such that the Regulator of Social Housing will apply its rent standard to local authorities, though this is expected to reflect the Government's policy.

5 Main Considerations

5.1 Estimated Year End Position 2020-21:

The estimated year end position for the current financial year 2020-21 is shown below and has been compiled on the basis of the 'best estimate' of income and expenditure for the year provided by budget holders, and is compared to the latest approved budget which includes requests for supplementary estimates that have been approved under the relevant delegation:

	Approved Budget £	2020-21 Estimated Year End Position £	Variance £
Expenditure	7,368,090	6,838,850	-529,240
Income	-7,805,260	-7,624,130	181,130
Net Cost of Services	-437,170	-785,280	-348,110
Net Interest Charges	1,079,960	1,056,960	-23,000
Revenue Contribution to Capital	268,050	297,710	29,660
Contribution to/from(-) Reserves	-336,700	401,470	738,170
Working Balance B/fwd	-1,720,860	-1,720,860	0
Working Balance C/fwd	-1,146,720	-750,000	396,720

At period 8 the Net Cost of Services shows an estimated year end position of £348k underspend, which will be transferred to the reserve in order to maintain the £750k working balance. The underspend is made up of an underspend in expenditure of £529k, partially offset by a reduction in income of £181k.

Expenditure:

Expenditure underspends of over £10k are set out below:

General Management £58k underspend:

£20k expected underspend on employee costs, due to vacant posts, £18k expected underspend on professional fees due to the expected valuation support for the 2019-20 accounts not being utilised, and £20k underspend on Court fees due to the inability to raise court action during the pandemic.

Repairs & Maintenance £448k underspend:

The most significant elements of the £448k underspend are a £269k underspend on asbestos works for the Housing Improvement Plan (these works were significantly impacted by the Covid 19 lockdowns), and £250k for the condition surveys within the HIP. Cabinet will be aware that these surveys are planned to commence in April 2021 and will feed into a full review of the HRA Business Plan during 2021/22. Of these two amounts £464k will be required to be carried forward into 2021-22 to ensure that these works are completed. The underspend in these areas is offset by third party claims settlements for compensation paid out in respect of disrepair legacy claims which are expected to be £80k overspent.

Special Services £68k underspend:

£30k underspend on employee costs due to vacant posts and £28k underspend on food and drink provisions as only the meals for Gretton Court residents are being served due to the pandemic. There is a related income shortfall below.

Rents, Rates & Taxes £36k overspend:

A saving of £12k on our fire insurance costs has been overshadowed by an expected £48k overspend on the Council Tax empty rate for void properties due to higher levels of voids and the removal of the first month's discount. Effective management of void properties is a key area of focus but performance continues to be impacted by the high number of void properties requiring significant capital works to bring back to a lettable standard.

Income:

Shortfalls in income over £10k are set out below:

Sales of Meals £22k income shortfall due to the pandemic and lunch clubs ceasing for several months of the year.

Meal rent debit income £11k shortfall due to the high voids rate at Gretton Court.

Rent Income £58k shortfall due to the higher level of voids noted above.

Health & Safety Charges £76k shortfall due to the removal of the charge for this financial year.

5.2 HRA Estimates and Rent Increase 2021-22:

In terms of the HRA Revenue budgets proposed below, Members will be aware this covers the day-to-day expenditure to deliver services to Council tenants. As such, it pays not only for the staffing costs for the employees that provide housing management (tenancy terminations and sign-ups and other statutory landlord activities, asset management and support, but also the responsive repairs needed to maintain the housing stock to a decent standard. In a typical year, around 160 tenancies are created and around 30 Right to Buy applications received, and in 2019/20, 1449 properties had a responsive repair undertaken. In December 2020, the Council provided its tenants with the first Annual Report; future Annual Reports will provide detailed information for tenants on the value for money of services. A summary of the proposed budget estimates for the HRA is attached at Appendix A.

The table below shows the summary of that appendix. The figures assume that rents will increase by 1.49% compared to 2020-21.

	2021-22 Estimate £
Expenditure	7,571,600
Income	-7,897,990
Net Cost of Services	<u>-326,390</u>
Net Interest Charges	1,107,960
Revenue Contribution to Capital	269,600
Contribution to/from(-) Reserves	<u>-1,051,170</u>
Surplus(-)/Deficit in year	<u>0</u>
Working Balance B/fwd	<u>750,000</u>
Working Balance C/fwd	<u>750,000</u>

The Housing Improvement Plan (HIP) has been included in the expenditure estimates above as far as the costs are known. Any additional costs arising from these compliance works will be considered and supplementary estimates completed in line with the approved delegation as appropriate.

The carried forward working balance is maintained at the targeted working balance of £750k with additional funds taken from the reserve to support the spending in the new year budget as noted above and in Appendix A to this report.

Under the Local Government Act 2003 new borrowing freedoms for Councils to fund their capital programmes if affordable and sustainable were introduced. This is known as prudential borrowing or unsupported borrowing and does not attract any form of Government financial support for the debt repayment. Where unsupported borrowing is undertaken for the HRA it is considered prudent to make a provision for repayment. The debt cap that had been imposed on Councils since self financing was introduced has been removed. The Council's HRA actual borrowing is expected to be around £31m at 1 April 2022, assuming no other borrowing is undertaken by the end of this or the next financial year.

For the self-financing settlement the Government has stated that the repayment of borrowing is not required but the Council can opt to repay the debt rather than build up cash reserves where it considers it to be in the best interests of the Council and the Housing Service. No repayment of debt is proposed in 2021-22.

5.3 New Service Charges

Following the adoption of the Council's Rent and Service Charge Policy the following new charges are proposed to recover those costs in order to support the HRA business plan.

5.4 Grounds Maintenance Charges

These charges have, in some form, previously been included within the accommodation charge which is currently levied on tenants in communal accommodation. The accommodation charge also includes cleaners costs, heating, electricity and lift servicing and maintenance where appropriate in the communal areas.

The proposed separated new grounds maintenance charges are attached at appendix B.

5.5 Health & Safety Charges

In addition to the improved transparency of the related accommodation charge above, it is proposed to recharge tenants for the costs associated with Landlord Health & Safety charges incurred in the communal areas of all purpose built flats in the Borough.

These charges would include the costs incurred during 2019-20 (the last complete financial year) for the Service & Maintenance of communal fire alarms, fire extinguishers, emergency lighting and gas equipment, regular fire check inspections and the testing and remedial works for legionella and EICR certificates. The details of these elements of cost are included in Appendix C and would mean a charge of £1.83 per property per week, and could generate £43,250 per year to the HRA after allowing for void properties.

Costs for Fire risk assessments and surveys, as well as asbestos surveys and any EICRs which have not been completed in 2019-20 will continue to be reviewed in line with the service charge policy for inclusion in 2022-23.

Leaseholders are already charged for any servicing to their block as well as any works done following surveys etc. The new charges would be subject to Housing Benefit for tenants in receipt of that benefit.

5.6 HRA Reserves

In addition to the working balance the HRA has access to four reserves; these are the Major Repairs Reserve, the Regeneration & Development Reserve, the Capital Receipts Reserve and the Water Arrears reserve.

Major Repairs Reserve

This reserve holds amounts set aside as depreciation from the HRA, based on a calculation which includes depreciation and additional revenue to support the HRA capital programme. This programme is substantially used to support the Council's current housing stock.

Regeneration & Development Reserve

This reserve is for specific HRA development and regeneration needs within the HRA ring fence.

Capital Receipts Reserve

Capital receipts received from the sale of Council dwellings set aside for HRA capital expenditure.

Water Arrears Reserve

On the cancellation of the Agency Agreement that the Council had with Severn Trent Water to collect water rates on their behalf, Severn Trent Water agreed to continue to fund future written off amounts of water arrears by means of a one-off payment.

- 5.7** Section 25 of the Local Government Act 2003 imposes a duty on the Chief Finance Officer to report formally to council on the adequacy of the proposed financial reserves and the robustness of the estimates.

Whilst this is specific to the Council Tax calculation, it is good practice to apply this across the board. The Section 151 Officer has confirmed that, based on the information available from budget holders and the assumptions in the interim business plan, there are no concerns at the present time. However, as stock condition surveys are undertaken and the resulting financial implications assessed and fed into the fully updated 30 year business plan, this will have to be reassessed.

The Council does review the level of working balance required based on an assessment of risk which is the minimum revenue reserve required on an annual basis. This year the council is using its reserves to fund a number of items within the HIP, this is being regularly and proactively monitored and the current estimation remains positive, however, due to the outstanding stock condition survey the level of reserves against the future capital requirements remains a risk.

The reserves balances based on the estimates included in this report and estimates from the HIP and capital programme are estimated as follows:

Year	2020-21	2021-22	2022-23	2023-24
	£'000	£'000	£'000	£'000
Major Repairs Reserve	2,054	1,735	1,229	1,171
Regeneration & Development Reserve	4,695	3,644	3,256	2,554
Capital Receipts Reserve	2,631	1,581	324	682
Total HRA Reserve Balances	9,380	6,960	4,809	4,407

5.8 Future Considerations

5.9 The budget proposals for 2021-22 are set based on conditions known at this time. As Cabinet will be aware, Council in November 2019 authorised expenditure in relation to the Housing Improvement Programme (HIP). There was an acknowledgement about the stock condition information (data quality issues and lack of records) and this meant the Council is at present working with an interim HRA Business Plan (HRA BP). The Business Plan ties together forecasts in terms of income (mainly rents) and likely expenditure, not only day-to-day but the capital investment needed to maintain and improve the stock (replacement of boilers, kitchens etc).

5.10 Financial planning remains hamstrung by lack of stock condition information and a long-term up to date HRA Business Plan. There is a considerable legacy issue with the lack of stock condition information that is up-to-date, accurate, and reportable. Work is underway to procure an external contractor to complete stock surveys (all major property components, e.g. bathrooms, kitchens) on 1600 properties, commencing April 2021 and finishing October 2021 – to tie in with the HRA Business Plan review and a complete tenant survey on their homes and aspirations (indicative timetable below).

	Stock condition survey	HRA Business Plan	Tenant Survey
January 21	Procurement of contractor		
April 21	Surveys start – monthly returns	Start procurement of consultant to support HRA Business Plan	
July 21			Start survey of all tenants/leaseholders
August 21		Initial work – 4x months data	Tenant survey complete
Oct 21	Surveys complete	Detailed work on BP	
Jan 22		Consultation on draft BP	
April 2022		HRA BP in place	

- 5.11** The intention is that the Council will have a clear picture from April 2022 on what is needed to maintain the stock. Given the increased requirements for “zero carbon” and the new Decent Homes Standard (referred to in the recent Social Housing White Paper), the Council will be able to develop long-term programmes to meet Priority Two of the Corporate Strategy.

6 Consultation

- 6.1** The Budget Holders and the Director for Housing and Communities carried out the review of estimates with the assistance of the service accountant as required with reference to current budget monitoring protocols.
- 6.2** All affected tenants have been consulted on the new approach to service charges as part of the adoption of the Rent and Service Charge policy.
- 6.3** The Tenants Forum Executive Committee has been consulted on this report 18 January 2021.
- 6.4** This report was considered by Budget Scrutiny Committee on 26 January 2021. A separate report is included elsewhere on this agenda, on the comments made by this Scrutiny Committee.

7 Next Steps – Implementation and Communication

- 7.1** The recommendations arising from this report will be submitted to the Council meeting on 24 February 2021 as appropriate.

8 Financial Implications

- 8.1** All financial and resource implications have been addressed within section 5 and at appendices A, B and C.

Financial Implications reviewed by: Director for Corporate Services

9 Legal and Governance Implications

- 9.1** Under Section 76 of the Local Government and Housing Act 1989, the Council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that on certain stated assumptions, the HRA for that year does not show a debit balance.
- 9.2** Under Section 24 of the Housing Act 1985, the Council can make such reasonable charges as it determines for the tenancy or occupation of its dwellings. The Council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. This is a decision for Council as it forms part of the Council's budget and policy framework.
- 9.3** A decision to adjust rents constitutes a variation of the terms of a tenancy under Section 103 of the Housing Act 1985, in respect of secure tenancies, a note of variation (specifying the variation and the date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.
- 9.4** In considering the recommended rent adjustments and other matters proposed in this report, Cabinet is exercising a public function. It must therefore comply with the duties in Section 149 Equality Act 2010 to have ‘due regard’ to the need to eliminate discrimination, advance equality, and foster good relations between those with a protected characteristic (pregnancy and maternity, age discrimination, disability, gender re-assignment, marriage

and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it.

- 9.5** Cabinet must consider tenant’s human rights, in particular Article 8 of the European Convention on Human Rights (right to respect a person’s home) and Article 1 of the first Protocol (right to peaceful enjoyment of possessions), when considering what recommendations to make to Council. Members will need to consider whether the proposals strike a fair balance between the rights of the individuals who may be adversely affected by them, and the legitimate aims of the Council, setting a balanced budget, targeting social housing at those who are most in need and generating income that can be invested back into social housing so that more people in need can benefit from it.

Legal Implications reviewed by: Monitoring Officer

10 Equality and Safeguarding Implications

- 10.1** An equalities impact assessment has been deemed as not appropriate as rent increases are defined by the Rent Standard in line with Government Policy
- 10.2** An equalities Impact assessment was completed for the Council’s Rent and Service Charge Policy, within which all new service charges are implemented.

11 Community Safety Implications

- 11.1** There are no community safety issues arising from these recommendations.

12 Environmental and Climate Change Implications

- 12.1** There are no environmental or climate change implications arising from these recommendations.

13 Risk & Mitigation

- 13.1** The HRA is a high risk service account that the Council has a duty under the Local Government and Housing Act 1989 to ensure avoids being in a deficit situation. This requires that effective budget monitoring procedures are set in place to monitor HRA expenditure and income against the budget and careful consideration is given to determining the level of working balance.
- 13.2** Self-financing puts pressure on the council to continue to provide decent housing for its tenants outside of the subsidy system, with only our own resources available to fund our priorities. The requirement to profile spending to need may mean that large short-term balances within the HRA are built up and it is imperative that these balances are saved for future spending.

Risk No	Risk Description	Likelihood	Impact	Risk
1	Interest rate fluctuation on short and long term borrowing undermines the business plan	Very Low	Critical	Low Risk
2	Proportion of RTB receipts not retained within the HRA due to pressures on other funds	Very Low	Critical	Low Risk
3	Long-term ability to fund stock to ensure kept within decent homes standard	Significant	Critical	Medium Risk

4	Maintenance of stock within budget constraints	Significant	Critical	Medium Risk
5	Affordability of the outcome of the stock condition survey	Low	Critical	Medium Risk
6	Economic climate, Covid-19 and welfare reform changes cause hardship on tenants causing higher levels of rent arrears and reduced collection performance	High	Critical	High Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High			6	
	4 Significant			3,4	
	3 Low			5	
	2 Very Low			1,2	
	1 Almost impossible				

Risk No	Mitigation
1	Beyond the Council's immediate control, this risk is mitigated through a robust HRA Business Plan, developed taking into account reasonable and prudent assumptions regarding interest rate changes
2	Mitigated through clear plans related to the use of RTB receipts, tying in with the restructure agreed in November 2020, creating resource to deliver
3	Mitigated through up-to-date stock condition surveys and appropriate capital programmes
4	As risk 3 above
5	The review of the HRA Business Plan in 2021/22 will provide clear evidence of the likelihood of this risk
6	Provision of support to tenants to offset the impact of Welfare Reform, coupled with clear income collection policies embedding financial sustainability of tenants as a key theme

14 Background Papers

None

15 Appendices

15.1 Appendix A – HRA Estimates

15.2 Appendix B – Proposed Grounds Maintenance Charge

15.3 Appendix C – Proposed Health & Safety Charge

Report Author:	Carol King , Senior Technical Accountant
Report Author Contact Details:	01664 502446 cking@melton.gov.uk
Chief Officer Responsible:	Andrew Cotton , Director for Housing and Communities
Chief Officer Contact Details:	01664 504322 acotton@melton.gov.uk

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