



Melton
Borough
Council

Cabinet

12 February 2020

Report of:

Portfolio Holder Housing and
Communities

REVENUE BUDGET PROPOSALS 2020-21 - HOUSING REVENUE ACCOUNT (HRA)

1.0 Corporate Priority:	Decision Type:
1.1 OG3 Becoming a more agile and commercial Council; securing our financial future	Key Decision

2.0 Summary:
2.1 To set the rents of Council dwellings, approve the HRA estimates for 2020-21 and set the working balance for 2020-21.

3.0 Recommendations
[Redacted content]

4.0 Reason for Recommendation:

4.1 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 Cabinet's remit.

5.0 Alternate Options Considered

5.1 None

6.0 Report Detail

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

- 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;
- The Council has a duty to keep an HRA in accordance with proper accounting practices;
- The Council has a duty to produce and publish an annual budget for the HRA which avoids a deficit;
- 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.

Rent Income is one of the main components of the HRA and the Government's policy is to increase rents by CPI + 1% for at least five years starting from 1 April 2020. This follows four years of 1% rent reductions which has had a cumulative effect on the existing 30 year business plan of approx. £31m.

A change in the way that rents are regulated comes into effect in 2020-21. The Minister for Housing, Communities & Local Government previously set a limit rent for each Council to apply to its housing stock and where rents were set above this amount rent rebate subsidy limitation would apply. From 2020 the Regulator of Social Housing will apply its rent standard to local authorities instead, though this is expected to reflect the government's policy. This is because the previous arrangements for limiting the welfare costs associated with local rents will not operate alongside Universal Credit.

6.2 Estimated Year End Position 2019-20:

The estimated year end position for the current financial year 2019-20 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 includes requests for supplementary estimates that have been approved under the relevant delegation.

	Original Budget	2019-20 Estimated Year-end Position	Latest Approved Budget
	£	£	£
Surplus/Deficit (-) for year	-414,750	-911,800 - 511,800	-672,590
Working Balance B/fwd	1,389,829	1,897,050	1,897,050

Working Balance C/fwd	975,079	985,250 <u>1,385,250</u>	1,224,460
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~~The estimated year end position shows an increase to the original budget of £497,050. Of this £257,840 relates to supplementary estimates completed in relation to the Housing Improvement Plan (HIP) of the remaining £239,210 items over £10k are set out below. The latest approved estimate shows a lower amount as there remains a number of areas where the forecast spend is still to be formalised through supplementary estimates.~~

The estimated year end position shows an increase to the original budget of £97,050. Of this £257,840 relates to supplementary estimates completed in relation to the Housing Improvement Plan (HIP), this is reduced by savings of £160,790 over the approved budget, items over £10k are set out below.

Expenditure

Special Services £20k underspend:

Vacant posts and staff not in pension scheme are contributing to this underspend, as well as reduced equipment repairs spending, which is partially offset by an overspend on energy costs.

General Management £30k underspend:

A vacant post and the overestimate for 6 months of planning review support are contributing to this underspend, however the planning review support amount will need to be carried forward into 2020-21.

Repairs & Maintenance ~~£277k overspend~~ £123k underspend:

- Agency fees are expected to exceed the savings from vacant posts within the repairs & maintenance team by around £35k by the end of the year due to the higher cost of resourcing external staff. This is partially offset by the saving in staff mileage allowances.
- ~~There has been a significant rise in responsive repairs and voids costs in the year, and this is currently expected to overspend by around £250k in the year.~~
- While there has been a significant rise in responsive repairs and voids costs in the year, the underspend on planned maintenance which allowed £450k to be transferred into the responsive repairs budget in December has continued and the need for the additional £450k now more likely to reduce to £300k, resulting in an estimated £150k underspend.

Income

Income Shortfall £25k:

- £24k of this is the potential extrapolation of the rental income shortfall at the end of the period, and assumes that the current void rate continues. However, we have commenced the review of the void processes and through a robust contract management process we will be working with the Councils contractor to reduce the number of voids moving forward.

This lower estimated year end position will reduce the availability of funds for transfer to the Regeneration & Development reserve for this and future years in order to ensure that the £750k working balance is maintained.

6.3 HRA Estimates & Rent Increase 2020-21:

A summary of the estimates for the HRA is attached at Appendix A.

The table below shows the projected surplus and the estimated year-end position of the HRA working balance. The 2020-21 figures assume that rents will increase by 2.69%, compared to 2019-20.

	2019-20		2020-21
	Original Budget £	Latest Approved Budget £	Budget £
Surplus/Deficit (-) for year	-414,750	-672,590	474,460
Working Balance B/fwd	1,389,829	1,897,050	1,224,460
Working Balance C/fwd	975,079	1,224,460	750,000

An anomaly with the Council's Affordable Rent Policy has resulted in 2 properties rents being increased 54p above the £20 over formula rent limit, while still using CPI+1%. We are looking for this increase at this time and the policy to be updated for next year to address this.

The Housing Improvement Plan (HIP) which has recently been approved by Council has been included in the 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. Any further supplementary estimates approved will reduce the availability of funds to be transferred into the Regeneration & Development Reserve to ensure the £750k working balance is maintained.

The updated interim HRA business plan was presented to Cabinet on 22 January 2020 and has been included in these estimates.

The carried forward working balance is maintained at the targeted working balance of £750,000 with any residual amounts transferred into the Regeneration & Development Reserve which can be then accessed to support the Housing Asset Management Plan (HAMP) and HRA Business Plan.

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 has been removed. The actual borrowing is expected to be around £31m at 1 April 2021, 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 2020-21.

6.4 **New Health & Safety Service Charge to purpose built flats**

Tenants in communal accommodation currently pay service charges for the following elements of maintenance:

- Elements of grounds maintenance
- Cleaners costs
- Costs for heating and electricity.
- Lift servicing and maintenance

In addition to these existing charges, from 1 April 2020 it is proposed to recharge to tenants the costs associated with health & safety and fire risk works in the communal areas of all purpose built flats in the Borough. These charges would be in addition to any accommodation charges already recharged to tenants.

These works consist of:

- Fire Risk Assessments (annual),
- Asbestos Surveys (reviewed annually),
- Electrical Surveys (reviewed every 5 years)
- Regular testing and servicing of Fire Extinguishers, Water Tanks, Fire Alarms and Emergency Lighting.
- Legionella Test (Rutland House only)

Details of these elements of costs are contained in appendix B and totals £3.10 per flat per week.

The new service charge would generate £72,610 per year to the HRA after allowing for void properties. Leaseholders to these properties are already charged for any servicing to their blocks as well as any works done following surveys etc. The charge would be subject to housing benefit for tenants. This amount has been included in the working balance at recommendation 3.3.

It is recognised that there are additional opportunities to recover the costs through the potential to extend the current charges above and introduce charges related to the following additional elements of Health and Safety work:

1. Fire risk remedial work
2. Communal decoration
3. Asbestos remedial work
4. Communal lighting
5. Emergency Lighting maintenance
6. Legionella Testing

Accordingly it is proposed to undertake a comprehensive review of all services charges over the next few months with a view to developing a new policy to be considered by Cabinet in the Autumn 2020. The new policy will give consideration to the views expressed by the Scrutiny Committee and good practice from elsewhere and will incorporate all elements of service charges for tenants, including the maximising of existing charges. Any new charges which arise from this process will be implemented following the relevant consultation periods, on 1 April 2021.

The reason for this charge is to support the business plan by recovering costs.

6.5 New recharge of electricity to new mobility scooter pods

Mobility scooters in the communal areas have been a cause for concern in recent years with them blocking access routes through the buildings. Mobility scooter pods are due to be built at St John's Court with the possibility of more to come in other blocks.

If they are built then it is proposed to charge the users of these pods for the electricity used for recharging their scooters. The cost is estimated at £68 per year per scooter which would be invoiced to users annually separate to their rent. This charge would not be subject to Housing benefit.

6.6 Additional HRA Support Allocation of Costs

With the movement to Universal Credit, more of our most vulnerable tenants on Housing Benefit will see a change to the way their benefit is paid. The possible increase in arrears from the move to Universal Credit could be critical to the business plan as around 43% of our tenants are claiming housing benefit (as at 31 October 2019). As an illustration 43% of 4 weeks rental income is estimated to be around £234k.

In the period from 1 May to 1 November 2019 the number of tenants in receipt of Universal Credit in arrears increased from 194 to 235. The two main factors in this are; increased waiting periods – the majority of new rent accounts on UC do not receive a payment until week 4 at the earliest; and the increased amount of payments made direct to tenants rather than direct to the Council which has led to tenants struggling to effectively manage their finances.

Therefore, included in these estimates is a continuing contribution of £80k in 2020-21, to the General Fund from the HRA to support this via the Me & My Learning scheme. This approach is consistent with a number of Housing Associations across the Country who are working to try and improve the skills of tenants to manage their money better or to be better able to attract higher paid work.

6.7 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 in regard to 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.

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 presented alongside the interim Business Plan in January are estimated as follows:

Year	2019-20	2020-21	2021-22	2021-23
	£'000	£'000	£'000	£'000
Major Repairs Reserve	2,621	2,198	1,911	1,645
Regeneration & Development Reserve	4,024	3,845	3,963	3,918
Capital Receipts reserve	4,063	2,113	808	0
Total HRA Reserve Balances	10,708	8,156	6,682	5,563

6.8 Future Considerations

The budget proposals for 2020-21 are set based on conditions known at this time. Outcomes from the HIP are likely to impact on this account as priorities are developed to enhance the housing stock. The completion of a full stock condition survey as part of the HIP will continue to influence the development of resources going forward with the current focus on compliance beginning to mitigate against emergency or urgent outcomes.

The increased national prominence of compliance and safety concerns may mean increasing requirements being placed upon Councils and Landlords with funding having to be found from within existing resources.

The car parking charges are currently being consulted on, any increase in charges will affect the HRA income through its share of the Chapel Street car parking spaces and so the working balance is subject to this outcome.

7.0 Consultation and Feedback (including Scrutiny Committee)

7.1 The Budget Holders, Deputy Chief Executive and the Director for Growth & Regeneration carried out the review of estimates with the assistance of the Service Accountant as

required with reference to current budget monitoring protocols.

7.2 The Tenants' Forum Executive Committee has been consulted on this report on 21 January 2020.

7.3 This report was considered by the Budget Scrutiny Committee on 21 January 2020 and the new charges considered by the Scrutiny Committee on 7 January 2020 also. A separate report is included elsewhere on this agenda, on the comments made by the Scrutiny Committee.

8.0 Next Steps

8.1 The recommendations arising from this report will be submitted to the Council meeting on 26 February 2020 as appropriate.

9.0 Financial Implications

9.1 All financial and resource implications have been addressed within section 6 and at Appendix A & B.

10.0 Legal and Governance Implications:

10.1 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.

10.2 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 houses. 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.

10.3 A decision to adjust rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and 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

10.4 In considering the recommended rent adjustments and other matters proposed in this report, the 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 reassignment, marriage and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it.

10.5 Cabinet must consider tenants' human rights, in particular Article 8 of the European Convention on Human Rights (right to respect for 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.

11.0 Equality and Safeguarding Implications:

11.1 An Equalities Impact Assessment has been deemed as not appropriate as rent increases are defined by Government Policy. All tenants have an assessment of need and the Council has support measures in place to identify people with vulnerabilities.

11.2 The new Health and Safety service charges for communal accommodation blocks have also been considered for equality impact. The new charges are fully covered by Housing Benefit, and additional support is provided to all tenants in such blocks. Person centred assessments have also been undertaken, and the Council is aware of any additional support needs of tenants.

12.0 Community Safety Implications:

12.1 There are no community safety issues arising from the recommendation.

13.0 Other Implications

13.1 None

14.0 Risk & Mitigation:

14.1 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 the working balance.

14.2 Self-financing puts pressure on the Council to continue to provide decent housing for it's 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.

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A	Very High				
B	High				
C	Significant			3,4,6	
D	Low			5	
E	Very Low			1,2	
F	Almost Impossible				
		Negligible 1	Marginal 2	Critical 3	Catastrophic 4

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Risk No	Risk Description
1	Interest rate fluctuation on short and long term borrowing undermines the business plan
2	Proportion of RTB receipts not retained within the HRA due to pressures on other funds
3	Long term ability to fund stock to ensure kept within decent homes standard
4	Maintenance of stock within budget constraints
5	Affordability of the outcome of the stock condition survey
6	Increase in arrears following introduction of Universal Credit and the inability of tenants to manage their funds and prioritise rent payment

Background Papers:

None

Appendices


Appendix A – HRA Estimates

Appendix B – Health & Safety Costs

Report Timeline:	Date of sign-off:
Equalities Check & Challenge	N/A
SLT Sign off	N/A
Previously Considered by Cabinet	N/A
Legal Sign Off	09.01.20
Director Approval	11.12.19
Chief Finance Officer Sign Off	24.12.19
Monitoring Officer Sign Off	10.01.20
Chief Executive Officer Sign-off	31.01.20

Exempt Reports
N/A

Date of Review to make public
N/A

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