EXECUTIVE – 22 NOVEMBER 2018

DRAFT HOUSING REVENUE ACCOUNT BUDGET UPDATE 2019-20

Executive Summary

This report represents an interim stage of the Business Planning process of the Council.

Social landlords were required to reduce housing rents by 1% a year for four years from 2016/17. This is a move away from the former guidance of increasing rents by CPI + 1%. 2019/20 will be the final year of this four year period and this 1% reduction requirement has been incorporated into the 2019/20 budget. As discussed later in the report the Government have announced this rent reduction period will end in 2020 and rent increases will return to CPI + 1%.

As detailed in the report the HRA Borrowing Cap has been removed from 2018/19 onwards. This provides the flexibility to carry out new build housing developments through the HRA at a social rent. As these social rents are 40% to 60% of market levels most developments will be provided at a net cost to the HRA. The cost pressures of; the new developments, the final year of the rent reduction, and the future impact of the Sheerwater Regeneration Project need to be considered when setting the 2019/20 budget. The combination of the cost pressures detailed in this report will mean a reserves contribution is likely to be required to maintain the HRA surplus in the early years of the Sheerwater Redevelopment.

The working balance per property is forecast to be £150 at 31 March 2020. £100-£150 balance per property is considered to be necessary for prudent financial management.

Recommendations

The Executive is requested to:

RESOLVE That

the draft Housing Revenue Account budgets for 2019/20, as set out in Appendix 1 to the report, be agreed for consultation with the Corporate Management Group and Portfolio Holder.

Reasons for Decision

Consideration of these proposals will enable the preparation of the Council's Housing Revenue Account budgets for 2018/19 to proceed.

The Executive has the authority to determine the recommendation set out above.

Background Papers:	None.
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1.0 Introduction

1.1 This paper sets out the Council's draft Housing Revenue Account (HRA) budgets (Appendix 1) for 2019/20.

1.2 Detailed explanations of the changes and pressures within the different elements of the budget are set out in the sections below. The Revenue Contribution to Capital Outlay (RCCO) has been reduced by £500,000 as detailed in the HRA Medium Term Financial Strategy Report which went to the October Executive. The next financial year is a 53 week rent year and the HRA will therefore receive an estimated £339,000 one off additional income. With this one off income the HRA is forecast to make an estimated surplus of £192,000.

1.3 A working balance per property of £150 is maintained for 2019/20. The balance per property is at the top end of the range of £100 to £150 per property considered prudent.

2.0 Forecast Outturn

2.1 Adjustments to the revised estimates for 2018/19 have been made to reflect variations as reported in the October Green Book.

2.2 When HRA properties within the Sheerwater Red Line become void they are being held as vacant to facilitate the commencement of the Sheerwater Project. The estimated full year effect of these properties remaining vacant to the financial year end is £336,360.

2.3 New Vision Homes are forecasting an estimated under spend of £50,000 on responsive repair costs. Capital investment in the stock over recent years has allowed repairs\enhancements to be carried out on a planned rather than reactive basis. A review of the schedule of rates applied under the contract has also contributed to this under spend. However responsive repairs expenditure can be seasonal and may increase over the winter period.

3.0 Approach to Budget Setting 2019/20

<u>Assumptions</u>

3.1 The draft budgets in this paper should be considered alongside the draft Housing Investment Programme report elsewhere on the agenda which will influence the overall budget position.

<u>Management and Administration</u>

3.2 Salary and other central costs have been allocated to the HRA in accordance with normal accounting rules to show the full cost of the service. The budgets are set and monitored in a pre-allocated format to make it possible to see the overall impact rather than just a proportion of the overall cost/variance which may be allocated to an individual service. This allocation will be reviewed for the final budget to ensure the apportionment reflects the current structure.

4.0 Rents and Other Charges

4.1 In May 2014 the DCLG published amended guidance on rents for social housing from April 2015. This guidance recommended annual rent increases of CPI + 1% and the Government indicated this rent policy would apply for ten years from 2015/16. However the Welfare Reform and Work Act prescribed that rents in social housing be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-21. We will be entering into the final year of this four year period and rents will be reduced by 1% with effect from 1st

April 2019. Applying the 1% reduction results in an estimated average weekly rent of £101.01.

4.2 On the 4th October 2017, the Department For Communities And Local Government (DCLG) and the Prime Minister's Office, announced that social housing rents will be increased by Consumer Price Index (CPI) plus 1% for 5 years from 2020. This provides assurance that the duration of the 1% rent reduction period will only be four years as originally envisaged. Rent increases will then return to the level prescribed prior the rent reduction. However these will still be less than those calculated under the self-financing settlement under which the Council was required to pay the Government £98 million to buy itself out of the housing subsidy system.

4.3 2019/20 will be a 53 week rent year. This additional week will generate approximately £339k in extra income (in 2019/20 only).

4.4 In 2013 the Government increased the discount under the Right to Buy to £75,000. Take up of the Right to Buy is popular in Woking and it is estimated 20 properties per annum will be disposed of. The estimated lost net rental income due to these disposals is approximately £60,000 per annum.

Recovery Of Charges

4.5 Service charges, including energy charges, are based on the cost of the service being provided. Council resolved on 10 December 2009 that authority be delegated to the Chief Finance Officer to vary service charges in line with external factors.

4.6 Energy charges are levied on a per block basis based on cost. This allows energy costs to be recharged to tenants on a more detailed basis. Energy charges will be reviewed to incorporate fluctuations in energy prices.

Implementation Date

4.7 The new rents will be applied from the first Monday in April (i.e. 1 April 2019) and the service charge uplift with effect from 5 August 2019.

5.0 Prudential Borrowing

5.1 The HRA requires certainty and accuracy of costs wherever possible especially following government policy changes, rent reductions, and the potential impact of the Sheerwater regeneration project. HRA interest charges for pre 2016/17 borrowing are fixed at the Council's average borrowing rate at 31 March 2016. Future HRA borrowing will be charged at the annual average 50 year borrowing rate. This ensures that General Fund investment decisions made by the Council do not impact the HRA.

5.2 These HRA interest costs are forecast to be £4,807,724 in 2018/19 and £5,168,741 in 2019/20. These costs include the borrowing taken on to fund the new build development schemes discussed later in the report. £24,387,000 additional borrowing is forecast over 2018/19 and 2019/20.

5.3 The 2019/20 Draft Budget makes no allowance for repayment of the debt taken on for Self-Financing or for the repayment of the borrowing relating to the new build developments.

6.0 Robustness of the Budget and Risks

6.1 It is important to consider the robustness of the budget and the adequacy of reserves for the purpose of maintaining the financial health of the Housing Revenue Account. The key risks are set out in the following paragraphs.

Welfare Reform

6.2 Welfare Reform continues to increase the risk of bad debt within the HRA. The benefit cap, introduced under the act, was reduced from 7 November 2016 placing further pressure on tenant's household income. No increase in the bad debt provision has been built into the draft budget but income collection will be closely monitored by WBC Officers with New Vision Homes.

HRA Borrowing Cap

6.3 The introduction of self-financing for the HRA in April 2012 was accompanied by a limit on the amount of housing debt that each authority could hold. This cap has restricted local authorities from providing additional housing and Woking had no headroom within this cap when it was first introduced. However on 3 October 2018, Theresa May announced at the Conservative Party Conference that "solving the housing crisis is the biggest domestic policy challenge of our generation" and that "it doesn't make sense to stop councils from playing their part in solving it". To reflect this, she announced the scrapping of the Government cap. The Chancellor subsequently removed the cap in the budget on the 29 October. As detailed in the sections below this will give WBC the ability to carry out further new build development through the HRA.

Retained One For One Replacement Receipts

6.4 Local Authorities can retain an element of Right To Buy receipts locally to be used on one for one replacement housing. These receipts can currently be used to fund up to 30% of the cost of the replacement housing and must be used within 3 years or passed to the Government with interest charged at 4% above the base rate. A consultation proposing to alter these arrangements was issued on 14th August 2018. The proposals maintain the principle of the receipts only being able to part finance a scheme as well as the requirement to use the receipts within a certain amount of time.

6.5 As Woking previously had no headroom within the HRA borrowing cap Council determined on the 6 April 2017 that going forward these receipts should be passed back to the Government rather than being retained locally. However the removal of the borrowing cap now gives the HRA the flexibility to finance the remaining 70% of the replacement housing spend and earlier this year the Chief Finance Officer determined to 'switch on' receiving receipts with effect from 1st April 2018.

6.6 The developments detailed in the section below will utilise all of the existing retained one for one receipts balance and there is a risk the HRA will not be able to build up enough receipts to fully finance 30% of the scheduled developments at the time of construction. Officers will need to discuss with the MHCLG whether any shortfall can be funded by WBC on an interim basis and future retained receipts replace this interim financing once received. Officers will also discuss whether the receipts passed back to the Government in 2017/18 can be reclaimed.

HRA New Build Developments

6.7 As detailed in the Affordable Housing Expenditure Update report, which went to the October Executive, Officers have reviewed the land assets held by the authority, and other potential development sites around the Borough, to identify suitable new build affordable housing sites in order to utilise the retained one for one receipts and increase the local affordable housing supply.

6.8 The Draft Housing Investment Programme Report elsewhere on the agenda lists these new build development schemes. The Draft Budget has been prepared on the basis that the Rydens Way Development will complete in 2018/19 and the Hawthorne Road, Old Woking Independent Living Scheme, Eden grove Road, Lockwood Path, Bonsey Lane, and Rydens Way\Sundridge Road schemes will complete mid way through 2019/20.

6.9 If this timing slips then the rental income from the new properties will be deferred. This should not impact on the 2019/20 budget as the interest relating to the borrowing to finance the construction cost would be capitalised against the project.

6.10 It is proposed that the new units will be let at social rent in order to assist those with housing need as much as possible. Social rents are estimated to be 40% to 60% of market rents and the additional rental income generated is unlikely to cover the management, maintenance, and interest costs attributable to the dwellings. The net cost of these developments will therefore be subsidised by HRA surpluses. The table below summarises the estimated net cost of these schemes (the rents are at the top end of the social rent level).

Development	Weekly Rent	Rent Per Annum less 1% Voids	Mgt & Maintenance	Surplus Per Unit	No Of Units	Surplus	Borrowing Cost	Net Surplus(+) / Cost (-)
Rydens Way	£151.83	£7,816	-£2,334	£5,482	7	£38,377	-£55,478	-£17,101
Hawthorne Road	£159.82	£8,228	-£2,334	£5,894	5	£29,469	-£40,198	-£10,729
OWSHS	£135.85	£6,994	-£2,334	£4,660	57	£265,610	-£415,587	-£149,977
Monument Way	£135.85	£6,994	-£2,334	£4,660	54	£251,631	-£341,140	-£89,509
Eden Grove Road	£151.83	£7,816	-£2,334	£5,482	2	£10,965	-£13,798	-£2,833
Lockwood Path	£159.82	£8,228	-£2,334	£5,894	4	£23,575	-£25,043	-£1,468
Bonsey Lane	£139.85	£7,199	-£2,334	£4,866	14	£68,121	-£77,952	-£9,831
Total					143	£ 687,749	-£969,198	-£281,449

6.11 The borrowing costs and net rental income for these developments is included in the draft budget. The net rental income from the schemes completed over the current and next financial year is estimated to be £249,000 in 2019/20 excluding borrowing costs. This additional net income has been included in the Gross Rents & Service Charges item on the HRA Operating Account (Appendix 1).

6.12 The support costs for the High Street Old Woking Scheme need to be determined when the final details of the scheme are known. The budget assumes additional support costs will be rechargeable to tenants however consideration will need to be given to ensure the overall rental charge is affordable.

<u>Housing Related Support</u>

6.13 Up to 31st March 2018 Surrey County Council fully subsidised the Housing Related Support charges for council tenants in receipt of a means tested benefit. This £130,000 funding ceased in 2017/18. However since this date the service has continued with the cost being met from the HRA. The 2019/20 Draft Budget has been prepared on the basis that the current arrangements will continue. Officers are investigating options to extend the scope of this service making it available across all tenures.

Major Repairs Contribution

6.14 The Major Repairs Contribution transfers £4,045,000 to the Major Repairs Reserve for capital investment in the stock. This contribution has been calculated based on the Major Repairs Allowance advised by central government in the self-financing determination. This figure has been uplifted by CPI (September CPI of 2.4%) and adjusted to reflect changes in the number of dwellings held. This results in an increase of £62,815 on the 2018/19 contribution.

As per the 1 April 2017 Item 8 Determination, depreciation is to be charged to the HRA with effect from 1st April 2017 in accordance with proper accounting practices. The depreciation replaces the Major Repairs Contribution and is transferred to the Major Repairs Reserve to be used on capital works to the stock or repaying debt. HRA depreciation is calculated by dividing the total asset value of Council Dwellings by their average useful economic life. Based on the 31st March 2018 asset value the depreciation amount is estimated to be £233,000 lower than the Major Repairs Contribution. However this asset value is likely to change in 2018/19. To be prudent, and in order to determine the movement on the HRA Position, the MRA has been maintained for the draft budget. The overall Council Dwelling asset value will be reviewed for the final budget presented to the Executive in February. Any saving due to this change will effectively be transferred from the MRA to the Revenue Contribution To Capital Outlay (RCCO) discussed in the Reserves and Balances section below.

Repairs, Maintenance, and Management

6.15 As reported in the October Green Book a £50,000 under spend is forecast on responsive repairs in 2018/19. This trend is expected to continue into 2019/20 and the budget has been reduced by this amount. This is offset by a £28,500 increase on repairs carried out outside of the New Vision Homes contract.

6.16 To reflect best practice NVH are carrying out statutory inspections over a 5 year programme rather than 10 years. For 2018/19 these additional inspections have been treated as a revenue project and are included under the Renovations and Improvements section of the Housing Investment Programme. The ongoing annual expenditure from 2019/20 has now been incorporated into the HRA Operating Account at an additional cost of £153,000 in the next financial year. Due to the profiling of the inspections the level of spend varies from year to year and this spend will increase by a further £66,000 in 2020/21.

NVH Contractual Inflation

6.17 The New Vision Homes contract is inflated each year by a combination of the CPI and BCIS Maintenance indices less a 1% savings target. A 2.4% rate has been assumed for the draft budget.

Sheerwater Regeneration Scheme

6.18 On the 5th April 2018 Council authorised a loan facility of £26m, on terms previously approved by Council, to enable Thameswey Developments Limited (TDL) to implement the approved Leisure and Recreational facilities as a first stage of the full regeneration of Sheerwater. However the final phasing of the full project is not yet finalised and no implications relating to the Sheerwater Project are accounted for in the 2019/20 Budget.

6.19 Under the Sheerwater Regeneration approximately 406 HRA dwellings will be demolished. The vacant land will be transferred to Thameswey Developments Ltd and the replacement affordable housing dwellings transferred to Thameswey Housing Ltd. The HRA will therefore lose the rental income from these 406 dwellings. This will place pressure on the HRA and an annual transfer from reserves may be required in order to sustain the HRA in the earlier years of the regeneration (as discussed in the HRA Medium Term Financial Strategy which went to the October Executive).

Reserves and Balances

6.20 The HRA is budgeted to make an additional Revenue Contribution To Capital Outlay (RCCO) of £1,120,000 in 2018/19. This RCCO is optional and is essentially using the HRA surplus for the year on additional investment in the stock. As shown in the HRA Operating Account (Appendix 1) this will need to be reduced by £500,000 in 2019/20 in order to mitigate cost pressures such as the rent reduction. Under the Sheerwater project the RCCO will be reduced to nil in order for the HRA to mitigate the lost income from the demolition of the dwellings. For the final budget the RCCO will need to be reviewed to determine the impact of reducing it further in order to build up reserves ahead of the commencement of the regeneration.

7.0 Conclusion

7.1 In the final year of the rent reduction period the HRA is forecast to make a surplus of £192,000 which includes the additional one off income from the 53 week rent year. The Government have confirmed that rent increases of CPI + 1% will be applied from 2020/21 onwards which will help alleviate the pressure on the annual surplus. However the financial pressures of the net cost of the new build developments, the lost rent from the demolition of the red line dwellings and the right to buy, and increased service costs are likely to require a contribution from reserves to maintain the HRA surplus in the early years of the Sheerwater Redevelopment.

7.2 It is estimated that the HRA will make an RCCO of £620,000 in 2019/20. The working balance per property will remain at £150 as at 31 March 2019. A working balance per property of £100 to £150 is considered necessary for prudent financial management.

8.0 Implications

Financial

8.1 The financial implications are explicit in the report.

Human Resource/Training and Development

8.2 There are no additional human resources or training development implications arising as a direct result of this report.

Community Safety

8.3 No community safety implications noted.

Risk Management

8.4 Risks to budgets have been identified throughout the year and reported in the Performance and Financial Monitoring Information booklet (the "Green Book"). Draft budgets have been adjusted in appropriate cases. Specific risks have been set out in the report.

Sustainability

8.5 No sustainability implications noted.

Equalities

8.6 No equalities implications noted.

Safeguarding

8.7 No safeguarding implications noted.

9.0 Consultations

No public consultations have been undertaken in preparing this report. Business Managers and Portfolio Holders have been consulted in the preparation of the draft budget.

REPORT ENDS