EXECUTIVE – 21 NOVEMBER 2019

DRAFT HOUSING REVENUE ACCOUNT BUDGET UPDATE 2020-21

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 was a move away from the former guidance of increasing rents by CPI + 1% and 2019/20 was the final year of this four year period. The Government have confirmed this rent reduction period will end and rent increases will return to CPI + 1% with effect from April 2020. Nevertheless this rent reduction has had a significant impact on the financial position of the HRA with it receiving an estimated £6m less income over the 4 years.

Under the Sheerwater Regeneration the HRA will lose the rental income from the 397 dwellings within the regeneration red line. Following the introduction of Self-financing in 2012/13 the HRA has made an additional surplus which has been used to fund a Revenue Contribution to Capital Outlay (RCCO) to carry out additional investment in the stock. This additional surplus has been earmarked to be taken as a saving to offset the lost rental income referred to above. As discussed later in the report, many dwellings within the Regeneration Red Line are now being held as vacant if they become void. This is necessary to minimise moving tenants and will allow the regeneration to be carried out efficiently. However the HRA is foregoing the rental income from these dwellings and the financial implications arising from the Regeneration are taking effect.

As detailed in this report (and referred to in previous budget reports) a contribution from reserves is required in order to maintain the HRA surplus in the early years of the Sheerwater Redevelopment.

The working balance per property is forecast to be £100 at 31 March 2021. £100-£150 balance per property is considered to be necessary for prudent financial management.

Recommendations

The Executive is requested to:

RESOLVE That

(i) the draft Housing Revenue Account budgets for 2020/21, as set out in Appendix 1 to the report, be agreed; and

(ii) Managers, Corporate Management Group and Portfolio Holders continue detailed budget preparation for consideration by the Executive in February 2020.

Reasons for Decision

Reason: Consideration of these proposals will enable the preparation of the Council's Housing Revenue Account budgets for 2020/21 to proceed.

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

EXE19-024

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 (Appendix1) for 2020/21.

1.2 Detailed explanations of the changes and pressures within the different elements of the budget are set out in the sections below. Following the commencement of the Sheerwater Regeneration the Revenue Contribution to Capital Outlay (RCCO) has been removed for 2020/21. The HRA is forecast to make an estimated deficit of £307,000 with a £140,000 contribution from reserves being required to maintain a working balance per property of £100. A range of £100 to £150 per property is considered prudent.

2.0 Forecast Outturn

2.1 Adjustments to the revised estimates for 2019/20 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 £662,000.

2.3 HRA interest costs are forecast to be £5,046,000 in 2019/20, against a budget of £5,148,000 providing an estimated saving of £102,000. This is due to PWLB rates being lower than forecast for half the year and expenditure on new build developments being slower than forecast.

3.0 Approach to Budget Setting 2020/21

Assumptions

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

Management and Administration

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 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 ending the four year rent reduction period.

4.2 This was affirmed in the Secretary of State for Housing, Communities and Local Government's Direction on the Rent Standard published in February 2019 and the resulting Rent Standard Consultation published in May 2019 by the Regulator of Social Housing (RSH). As well as confirming rent increases of CPI + 1% these announced that the RSH will now regulate rents charged by social housing stock-owning local authorities aligning the regulation of council rents with that of private registered providers. The arrangements around this regulation are to be confirmed and a rent increase of 2.7% (September CPI of 1.7% plus 1%) has been incorporated into the draft estimates.

Recovery of Charges

4.3 Service charges, including energy charges, are based on the cost of the service being provided. The Chief Finance Officer has delegated authority to vary service charges in line with external factors.

4.4 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.

4.5 Housing Related Support charges have been reviewed and the new charges will take effect from April 2020 for new tenants. 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 under the new arrangements tenants in receipt of means tested benefit will continue to receive the service free of charge. The new charges are set out below:

	Sheltered Schemes (Compulsory)	**Community Support Monthly Visit**	**Community Support Weekly Visit or more frequent**	**Pop in**	**Careline only**
HRA	£11.80/£0 Plus careline £4.27/£3.15	£4.00/£0	£11.80/£0	£18 per occasion	£4.27/£3.15

Implementation Date

4.6 The new rents will be applied from the first Monday in April (i.e. 6 April 2020) and the service charge uplift with effect from 3 August 2020.

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 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 £5,046,038 in 2019/20 and £5,426,684 in 2020/21. These costs include the borrowing taken on to fund the new build development schemes detailed in the Housing Investment Programme elsewhere on the agenda. £21,723,200 additional borrowing is forecast over 2019/20 and 2020/21.

5.3 The 2020/21 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. The borrowing relates to long life assets which are fully maintained.

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.

HRA New Build Developments

6.2 As detailed in the Affordable Housing Expenditure Update report, which went to the October 2018 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 retained one for one receipts and increase the local affordable housing supply.

6.3 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 Lockwood Path and existing stock conversions project will complete in 2020/21.

6.4 Historically HRA dwellings have been let at Social rent levels. Social rents are calculated using a prescribed complex formula which takes 70% of the national average rent and adjusts it based on how the property value and local earnings (using the relative county earnings) compare to the national average. Both the property value and relative county earnings are at 1999 levels and the outcome can only be adjusted by 5 or 10%. This formula is applied nationally and makes no further allowance for local circumstances. Therefore there is little flexibility within this formula to set a rent which is suitable for the relevant part of the borough, suitable for the type of accommodation, and ensures the financial sustainability of the HRA and affordability to tenants.

6.5 The additional rental income generated by the new build units is unlikely to cover the management, maintenance, and interest costs attributable to the new build dwellings. The net cost of these developments will therefore be subsidised by HRA surpluses. Under the Kingsmoor Park Development, a level of social rent which is suitable for Woking was determined. To ensure the HRA is able to provide these new build dwellings it is proposed that the new units will be let at or just below Kingsmoor Park rent levels which are shown below. To enable this new build units will be grouped into an Affordable (up to 80% of market rents inclusive of service charge) Rent Category within the HRA. This will provide flexibility to set suitable rents.

6.6 The 2019/20 Kingsmoor Park rent levels are;

2019/20 Kingsmoor Park Rents	
Unit Type	**£**
Rents £ pw	
1 bed flat	**£121.71**
2 bed flat	**£139.12**
2 bed house	**£148.91**
3 bed house	**£171.50**
4 bed house	**£180.51**

Retained One for One Replacement Receipts

6.7 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 proposed arrangements

may provide flexibilities around holding the receipts for a longer period and passing them to a group company. However no further announcements have been made.

6.8 The HRA developments detailed in the Housing Investment Programme 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. If there is a short fall in retained receipts the HRA will have to borrow to fund 100% of the development until sufficient receipts have been received. Officers are working with Homes England to investigate other funding streams which could be used to provide new affordable housing.

Repairs, Maintenance, and Management & Contractual Inflation

6.9 In September 2019 a new repairs contractor (Breyer Group) was appointed by New Vision Homes in order to make improvements to the repairs service. The level of repairs activity under the new contractor is still to be measured and it is uncertain what impact this will have on the budget. The repairs budgets are being maintained at the same level in the draft budget as 2019/20 and this will be reviewed as part of the final estimates process. A saving of £42,000 has been achieved under the planned maintenance schedules of the contract. Contractual inflation on the other contract schedules is included in the draft budget.

6.10 In order to ensure efficient management of the NVH contract, and to prepare for the end of the 10 year contract in 2022/23, the client-side consultancy budget has been increased by £40,000 to £80,000.

Major Repairs Contribution

6.11 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 2019 asset value the depreciation amount is estimated to be £3,885,397 in 2020/21.

Sheerwater Regeneration Scheme

6.12 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. On the 4 April 2019 the Council approved a further short-term loan facility of £42m to TDL, on terms previously approved, to enable the first residential phase (Purple).

6.13 Under the Sheerwater Regeneration approximately 397 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 397 dwellings. This places pressure on the HRA and an annual transfer from reserves is forecast to be required in order to sustain the HRA in the earlier years of the regeneration. The financial impact of the regeneration is already significant as dwellings which become void within the red line are being held as vacant. The HRA therefore loses the rental income from these dwellings but there is no offsetting saving on management costs or Depreciation etc. or a contribution from the project for the units being transferred.

6.14 Currently there are 151 void HRA dwellings within the red line. As the phasing of the project is finalised some of these units will be re-let as temporary accommodation. However it is likely any re-letting of properties will be offset by new voids in areas which are in the earlier

phases on the scheme. Based on the existing void rate there will be £662,000 lost rental income from these units in 2019/20. The 2020/21 budget assumes that any dwellings currently void will not be re-let in future. It also assumes that there will be no income from dwellings due to be demolished within the first 24 months of the regeneration project and with no offsetting savings until 2021/22. This removes an estimated £883,000 income from the HRA Operating Account in 2020/21. This will increase if more properties within the red line become void and are not offset by additional re-lets.

6.15 In order to mitigate the impact of this lost rental income the £732,000 RCCO budgeted for 2019/20 has been removed from the 2020/21 estimates.

Reserves and Balances

6.16 With the removal of the RCCO the total contribution to the Asset Management Programme reduces from £4,664,000 in 2019/20 to £3,885,000 in 2020/21 with £779,000 less available for investment in the stock.

6.17 The balance on the HIP Reserve is forecast to be £1,600,000 as at 31 March 2019. It is likely that the remaining balance will need to be ring-fenced to be used to maintain an HRA Surplus during the construction phase of the Sheerwater Regeneration. In order to protect the HIP Reserve balance it is proposed that borrowing will be used to replace the RCCO in the current year.

7.0 Conclusion

7.1 The 4 year rent reduction period has had a significant impact on the financial position of the HRA. While the return to rent increases of CPI + 1% is welcomed the rental income over the HRA 30 Year Business Plan will be considerably less than that calculated under Self-financing.

7.2 The regeneration of Sheerwater has started meaning the HRA will forego the rental income on void and demolished dwellings within the red line. As detailed in the report it is estimated that the HRA will use reserves of £140,000 to maintain the working balance per property of £100 in 2020/21.

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 and 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”). 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

9.1 No public consultations have been undertaken in preparing this report.

REPORT ENDS