Part I – Release to Press

Agenda item: ##

**Meeting** **EXECUTIVE**

**Portfolio Area** Resources/Housing

**Date** **23 JANUARY 2019**


**FINAL HRA RENT SETTING AND BUDGET REPORT**

**KEY DECISION**

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## 1 PURPOSE

1.1 To update Members on the final proposals on the HRA budgets and rent setting for 2019/20, to be considered by Council on 30 January 2019.

1.2 To propose the HRA rents for 2019/20.

1.3 To propose the HRA service charges for 2019/20.

1.4 To update Members on the 2018/19 and 2019/20 HRA budget, incorporating the Financial Security options and fees and charges included in the November Financial Security report, together with any revised income and expenditure assumptions identified since that report.

## 2 RECOMMENDATIONS

2.1 That Council be recommended to approve HRA dwelling rents not subject to the 1% rent reduction (currently Low Start Shared Ownership LSSOs) be increased, week commencing 1 April 2019 by 3.4% i.e. £3.86 per week which has been calculated using the existing rent formula, CPI +1% in line with the Rent and Service Charge Policy approved at the January 2018 Council.

2.2 That it be noted that HRA dwelling rents, (other than those outlined in 2.1) are subject to the 1% rent reduction from week commencing 1 April 2019 or

£0.96 and £1.60 per week for social and affordable rents respectively, as outlined in the Government's Welfare Reform and Work Act 2016.

2.3 That Council be recommended to approve the 2019/20 HRA budget, as set out in Appendix A.

2.4 That Executive approve the revised 2018/19 HRA budget as set out in Appendix A.

2.5 That Council be recommended to approve the HRA Fees and Charges as outlined in Appendix C.

2.6 That Council be recommended to approve the 2019/20 service charges.

2.7 That Council be recommended to approve the minimum level of reserves for 2019/20 as shown in Appendix D to this report.

2.8 That the contingency sum of £250,000 within which the Executive can approve supplementary estimates, be approved for 2019/20 (unchanged from 2018/19.

2.9 That Council notes the comments from the overview and Scrutiny Committee as set out in the report.

## 3 BACKGROUND

3.1 In November 2018, the Executive approved a revised HRA Business Plan which is updated annually. Business Plan projections have needed to undergo a number of reiterations, due to the impacts of Government policy as set out in the 2018 Business Plan update, (November 2018 Executive). The most significant negative financial impact on the HRA has been the four year 1% rent reduction in the Welfare Reform and Work Act 2016. This has resulted in an estimated £225Million loss of income over a 30 year period. Next year (2019/20) represents year four or the final year of the rent reduction policy. The Government has announced from 2020 social housing providers can increase rents by CPI+1% for a five year period.

3.2 With regard to other government policies such as the Higher Value Voids levy (HVV), the Government has confirmed (as part of the social green paper) that this will not be introduced, the HRA business plan had assumed a £29Million cost over a 30 year period. The Social Housing Green Paper has also now stated that the Government will not restrict lifetime tenancies, at the present time.

3.3 The Government's recent 'Use of RTB Receipts' paper consulted on increased flexibilities on the use of 1.4.1 receipts and allowing currently held receipts to be held for five years. These flexibilities would allow councils to use more receipts per new build and keeping them for longer. However, what isn't clear is Government future policy regarding RTB discounts which have more than doubled since 2011/12 from £34,000 to £80,900 in 2018/19. Any increase in the discount rate could influence the level of RTB sales, which again impacts on HRA available resources to fund any improvements or management costs. The Government has not published any outcomes of this consultation and the current rules still apply.

3.4 Although the Government has announced its policy on rent increases from 2020, this still causes difficulties in forecasting HRA finances. The HRA BP is a 30 year view of debt and borrowing costs and the length of payback period for building new social housing is well beyond a five year view, with rent being the major source of income for the HRA and the ability to fund new homes and the life cycle of components of a council home..

3.5 In summary current rent regulations in force require the Council to set a 1% rent reduction for social and affordable rents, the exception being low start shared ownership (LSSOs). There are 87 LSSO properties which equate to 82.15 full house equivalents. Any service charges can be charged at cost and sit outside the rent reduction regulations.

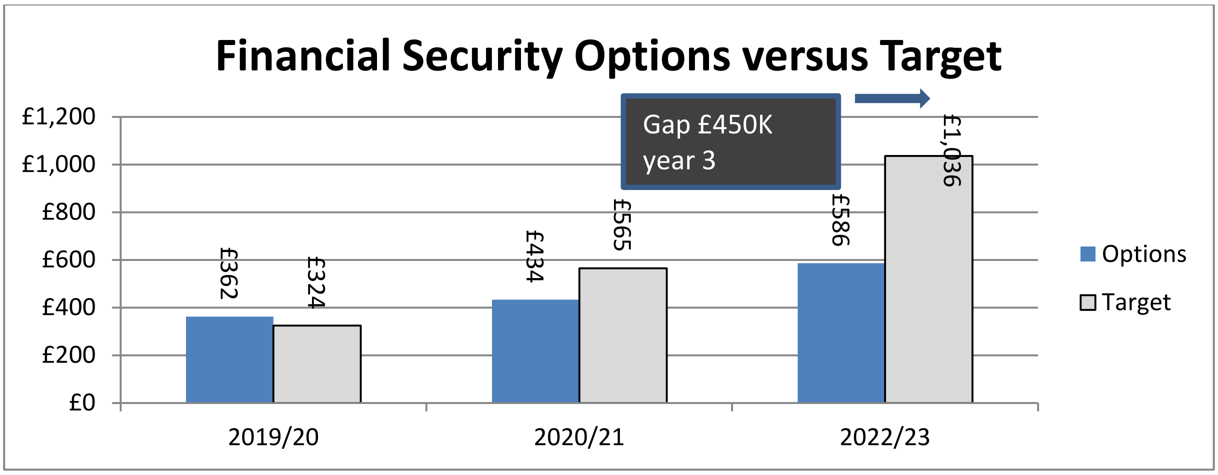
3.6 The total number of HRA homes in management at 30 September 2018 is summarised in the table below. The average rents for 2019/20 are based on this housing stock, however any right to buys or new schemes, subsequent to the 30 September, may change the average rent per property type.

| Stock Numbers at 30/9/2018 | Social | Affordable | Sheltered | LSSO | Homeless | Total |
|---|---|---|---|---|---|---|
| Number of Properties at 30/9/2018 | 6,835 | 18 | 845 | 87 | 129 | 7,914 |

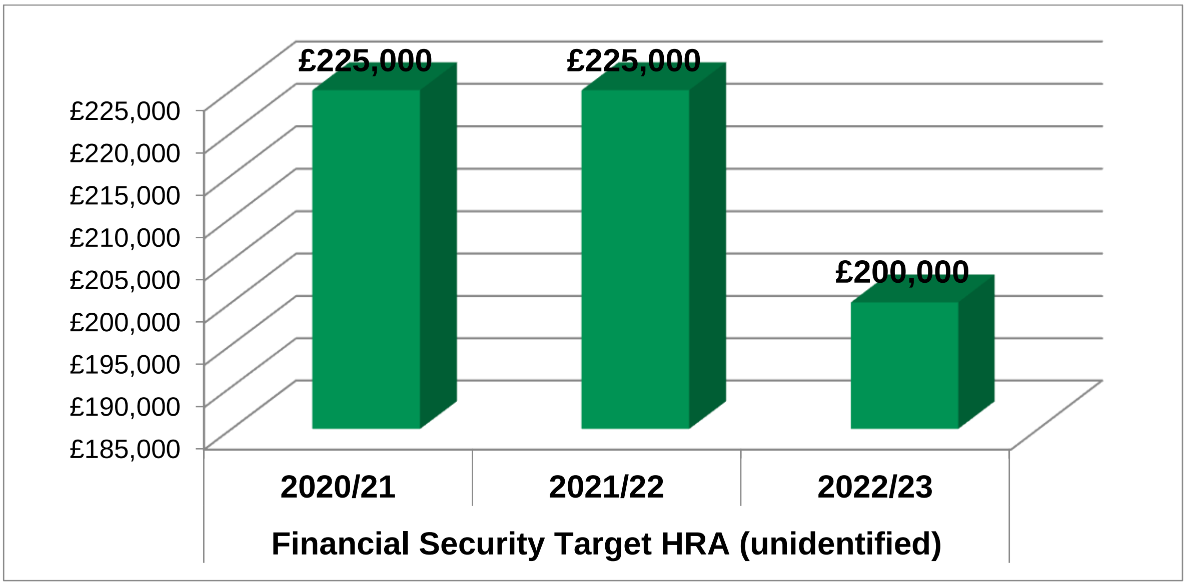
3.7 The HRA Business Plan presented to the November Executive has been adjusted for changes including the Financial Security Options and Fees and Charges approved at the November Executive. A summary of the assumptions for the budget are shown in the table below.

| Financial Assumptions included in the HRA BP and November FS report | 2018/19 | 2019/20 |
|---|---|---|
| **Rent & Service Charge Increases** | 1% rent reduction for general stock and 1%+CPI (3.4%) for LSSOs and relets to formula rent | |
| **New Build** | 50% Affordable 50% Social | |
| **Right-to-Buys** | 50 | 35 |
| **Bad debt rates** | 0.60% | 0.60% |
| **2019/20 Financial Security options** | £0 | £354,630 |
| **2019/20 Growth bids** | £0 | £190,000 |
| **New Build - Number of Units (HRA BP)** | 37 | 66 |
| **Repayment of Debt** | 1,241,760 | 0 |
| **New loans** | 3,800,000 | 4,756,508 |
| **Capital Deficit in the Business Plan** | 0 | 0 |

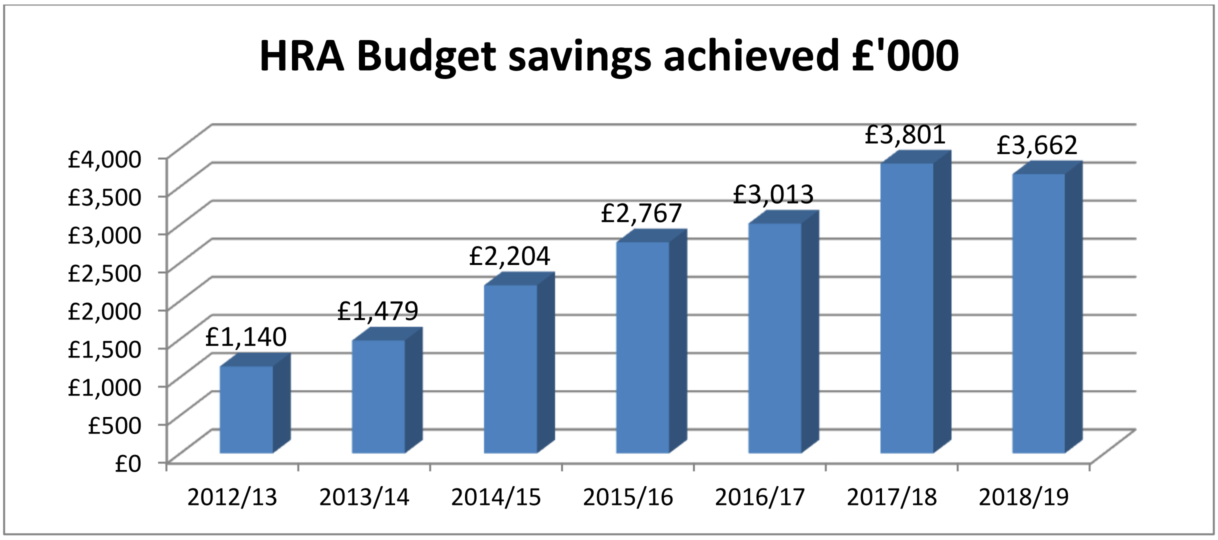
3.8 The November Financial Security report identified that even with the savings presented to the Executive there was a significant financial shortfall by year three or 2022/23.




3.9 This resulted in a revision to the Financial Security work stream and future targets as set out below and approved by Members as part of the Financial Security report to the November Executive.

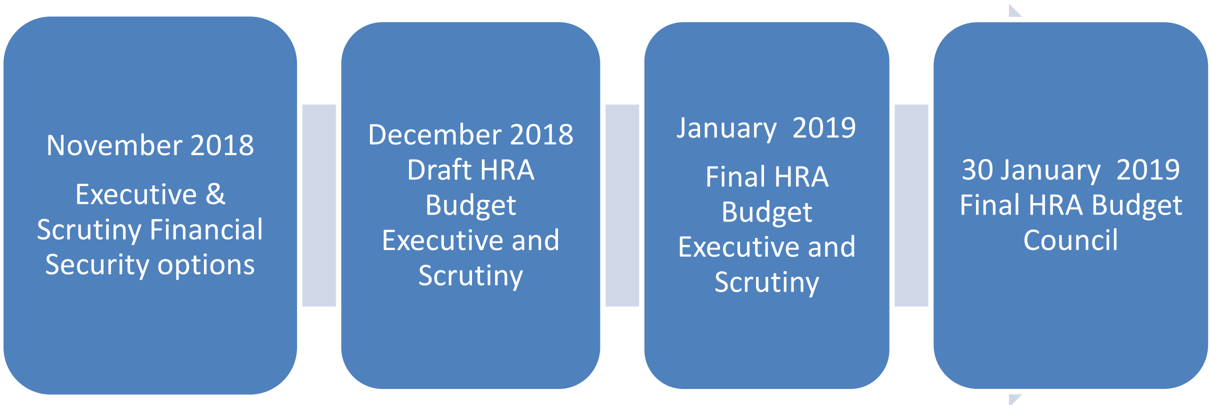



3.10 The HRA has needed to find budget reductions as a result of impacts of government policy on rents (moving to CPI+1%, then 1% rent reduction 2016/17-2019/20), Right to Buy (increase in discounts) and other government policy changes such as apprenticeship levy, national insurance changes and service pressures from welfare reforms. The total identified savings implemented since 2012/13 is summarised in the chart below.




3.11 At the November 2018 meeting, the Executive approved a package of Financial Security budget options and fee increases to be included in the 2019/20 Budget and these are detailed in Appendix B & C to this report.

3.12 The Budget and Policy Framework Procedure Rules in the Constitution prescribe the Budget setting process, which includes a minimum consultation period of three weeks. Under Article 4 of the Constitution, the Budget also includes: the allocation of financial resources to different services and projects; proposed contingency funds; setting the rents; decisions relating to the control of the Council's borrowing requirement; the control of its capital expenditure; and the setting of virement limits. The timescale required to implement this process is outlined below.




## 4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

### 4.1 Rents

4.1.1 The continuing impact of the 1% rent reduction on an average rent is illustrated in the table below. Over the four year period a CPI+1% increase is estimated to be a 10.68% increase in average rents, compared to a 3.94% loss of a 1% rent reduction for four years. This gives an overall difference between the two rents of 14.62% and an estimated rent loss per year by year four of £5.9Million and in total £12.6Million. The impact over a 30 year period has been estimated at £225Million.

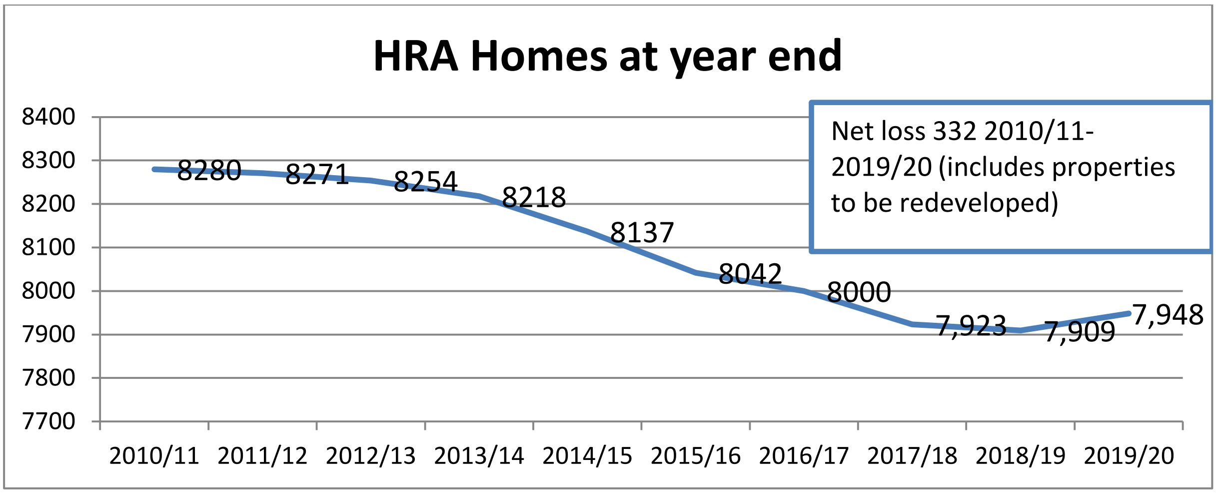
| Impact of 1% rent reduction (starting rent £98.59) | 2016/17 | 2017/18 | 2018/19 | 2019/20 | Incr.(decr.) after 4 years £ | Incr./(decr.) after 4 years |
|---|---|---|---|---|---|---|
| **Rent based on CPI+1%** | £99.48 | £101.47 | £105.53 | £109.11 | | |
| **Increase per year** | £0.89 | £1.99 | £4.06 | £3.59 | £10.53 | 10.68% |
| **Rent with 1% rent reduction** | £97.60 | £96.62 | £95.66 | £94.70 | | |
| **Decrease per year** | -£0.99 | -£0.98 | -£0.97 | -£0.96 | -£3.88 | -3.94% |
| **Overall loss per average property** | £1.88 | £4.84 | £9.87 | £14.41 | £31.00 | 14.62% |
| **Rent loss in £'000** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **Incr.(decr.) after 4 years £** | **Incr./(decr.) after 4 years** |
| **Estimated rent loss per year £'000** | £771 | £1,975 | £4,005 | £5,852 | £12,604 | |

4.1.2 The exceptions to the 1% rent reduction for Stevenage Borough Council,are Low Start Shared Ownership properties (LSSOs). The Council has 87 LSSO properties and owns 82.15 full house equivalents. This report recommends that these rents are set in line with the rent policy CPI+1% or a 3.4% increase for 2019/20, (2018/19 increase 4%).

4.1.3 The proposed average rents for 2019/20 are set out in the table below, there are currently 10 affordable rented properties (ranging from 4 bedroom-2 bedroom houses and flats).

| Average Rents 2019/20 | LSSO | Incr./ (decr.) % | social | Increase/ (decrease) % | Affordable | Incr./ (decr.) % |
|---|---|---|---|---|---|---|
| Average Rent 2018/19 | £113.55 | | £95.75 | | £160.21 | |
| Add rent impact 2019/20 | £3.86 | 3.40% | (£0.96) | (1.00%) | (£1.60) | (1.00%) |
| **Total 52 week Rent 2019/20** | **£117.41** | | **£94.79** | | **£158.61** | |

4.1.4 The net rental income decrease for 2019/20 is estimated to be £295,580 (Draft HRA budget £291,280), which includes the impacts of the rent reduction and estimated right to buys, offset by estimated new properties and properties taken out of management (awaiting redevelopment). The total number of properties in management is estimated to have reduced by 332 (draft HRA budget 323 homes), between 2010/11 and 2019/20, the 2018/19 & 2019/20 numbers have been temporarily impacted by sheltered properties out of management ready for scheme redevelopment.

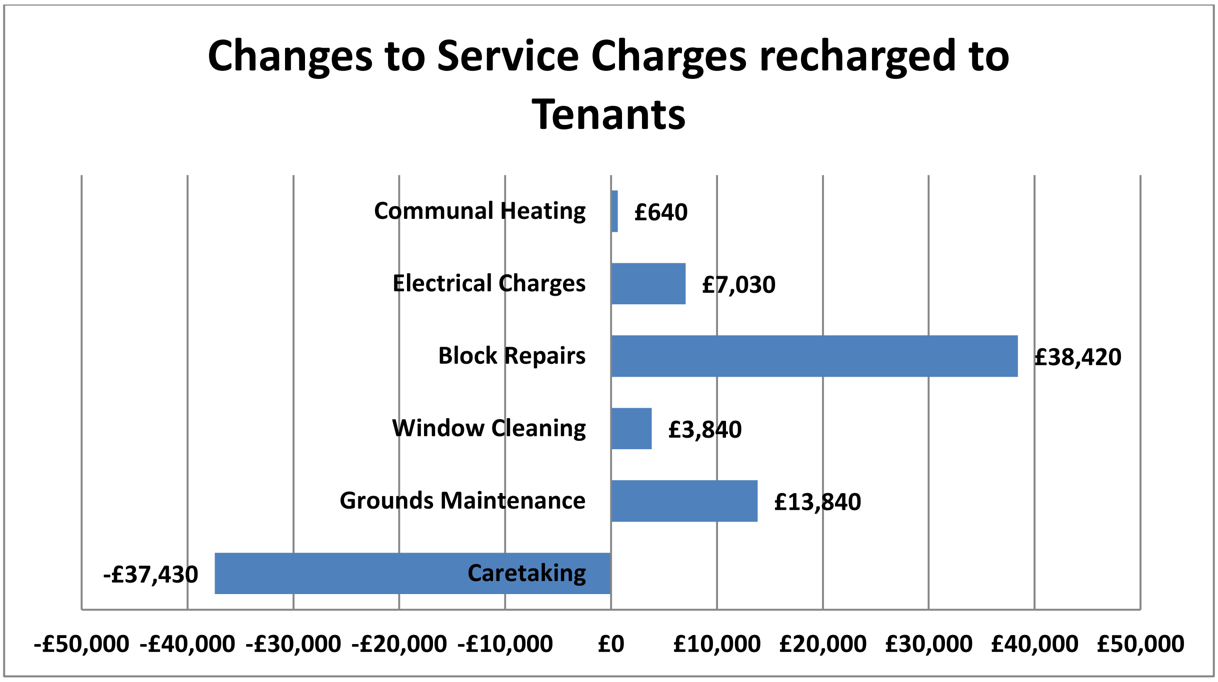



### 4.2 Service Charges

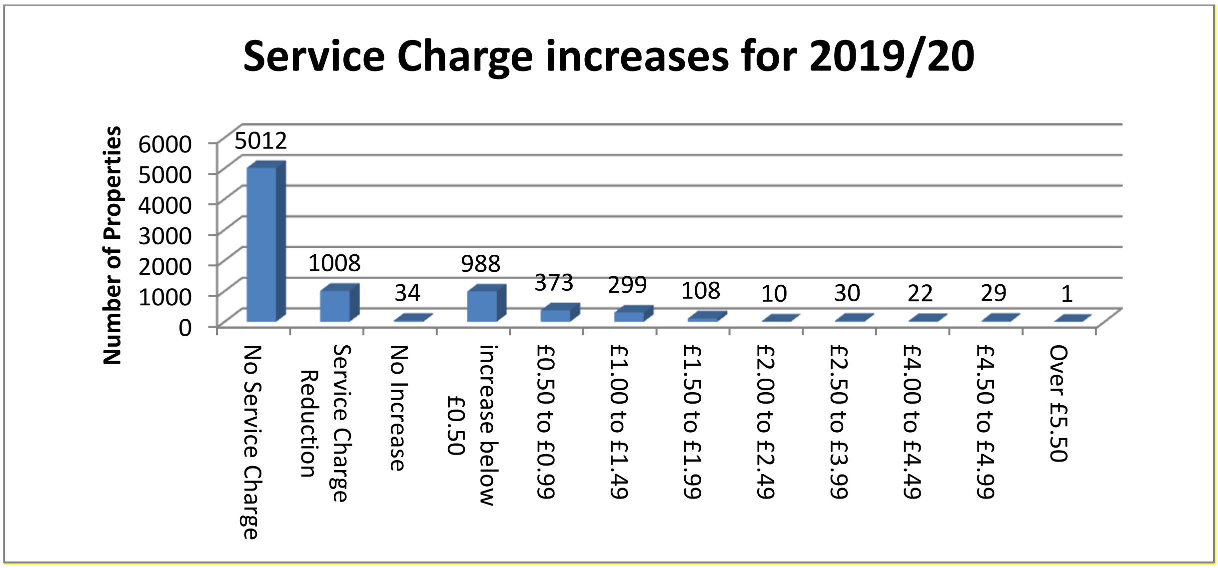
4.2.1 Service charges are calculated for each block individually for 2,902 properties, (2017/18 2,925) or 37% of current SBC tenanted properties. A review of service charges has been started but not concluded in time for the 2019/20 rent setting and still requires further work followed by tenant and Member consultation. Service charges currently provided, (eligible for housing benefit) are shown below.

| Service Charges: |
|---|
| Caretaking |
| Grounds maintenance |
| Window cleaning |
| Block repairs (including pest control) |
| Electrical charges |
| Communal heating |

4.2.2 Service charges are not subject to the 1% rent reduction regulations, but are based on cost recovery. For 2019/20, service charge costs will increase with inflationary pressures and changes in usage. The chart below identifies the changes between 2018/19 and 2019/20 for service charges. The increase in grounds maintenance and block repairs has impacted on a number of tenants as identified in paragraph 4.2.3.

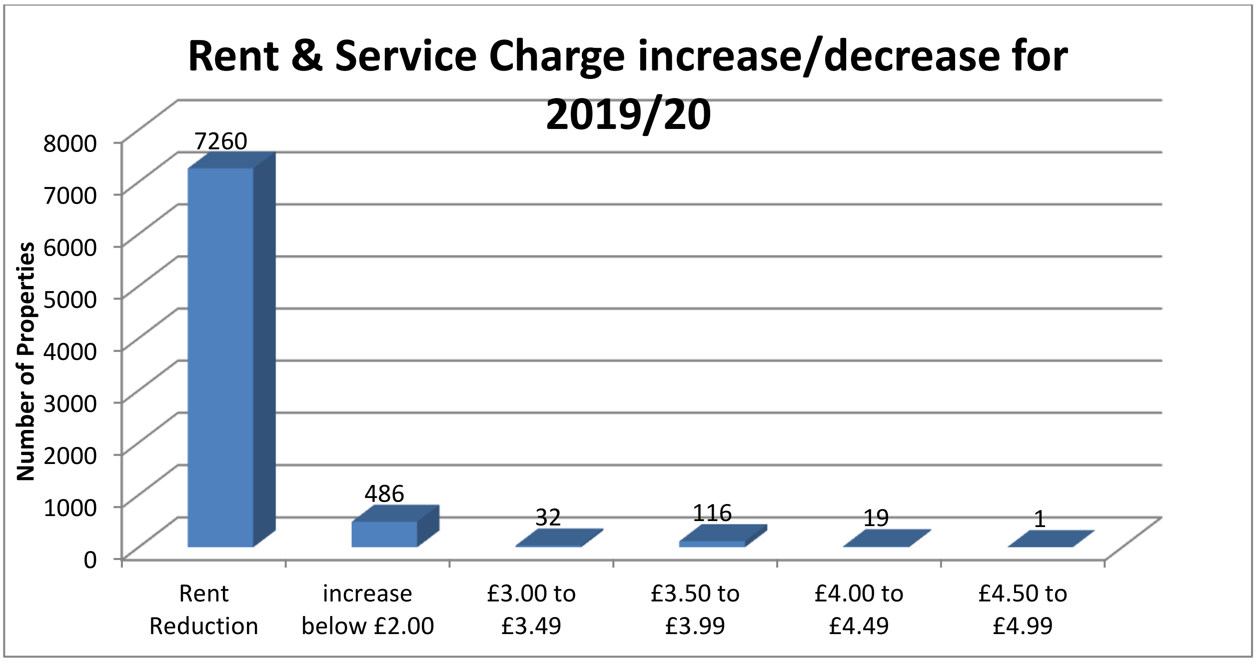



4.2.3 The spread of service charge increases (for current homes) for 2019/20. The impact of the changes in service charges (including caretaking), means 1,008 or 35% of homes (who get a service charge) will receive a service charge reduction, even though service charges have fluctuated between individual services as shown above. There are 30 properties with an increase above £4.50, of which one home has an increase over £5.50 due to in part increased costs for block repairs.A summary is shown in the chart below

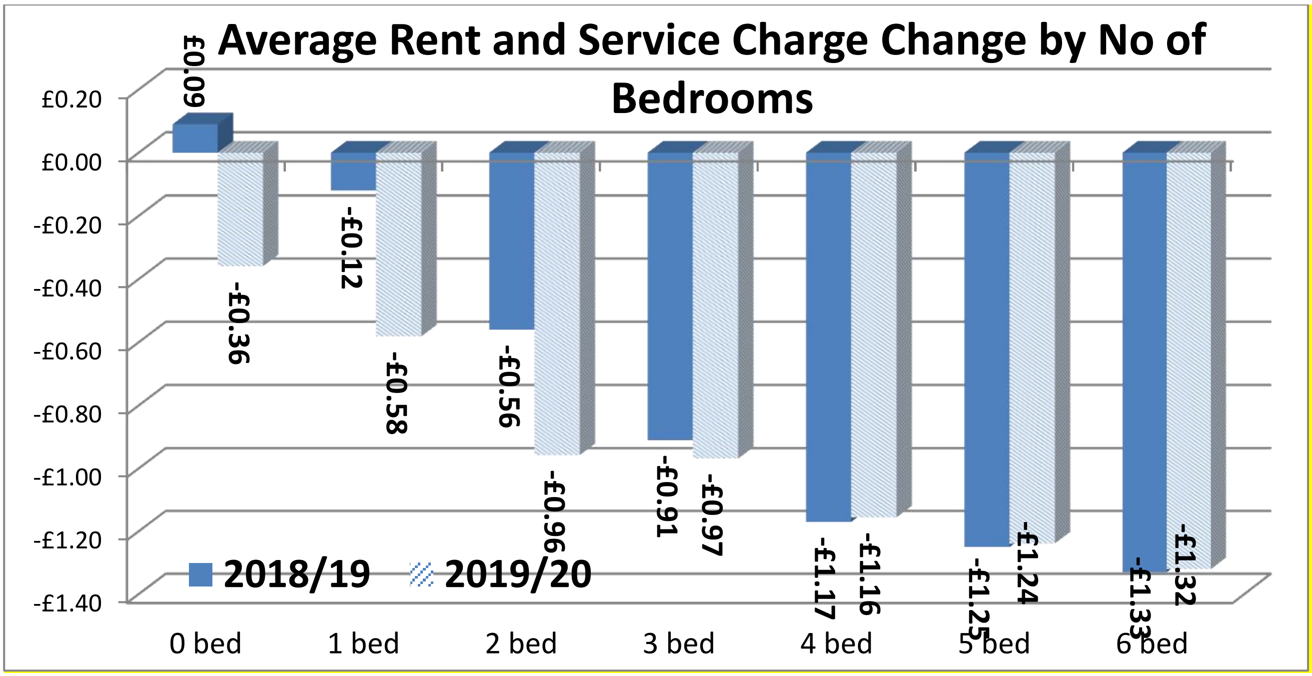



## 4.3 Rents and Service Charges

4.3.1 The 2019/20 rent reduction and service charges impact is that 7,260 (or 92% of council tenants) compared to 84.6% in 2018/19 receive a rent and service charge reduction. There are 136 properties with an increase of more than £3.50 with one home having an increase of between £4.50-£4.99. The spread of the 2019/20 rent and service charge changes are summarised in the chart below.




4.3.2 The average rent and service charge increase/(decrease) by bedroom size has also been calculated and summarised in the chart below and compared to the 2018/19 data and remains unchanged from the December Draft 2019/20 HRA budget .




4.3.3 The comparison between HRA property rents per week and private sector rents per week for one to four bedroom properties is shown in the chart below. A three bedroom private sector rental property costs an additional 140%, (2017/18,138%) more per week than a SBC council home and 40% more than the affordable let properties,(2017/18 38%).

| | SBC Social Rent | SBC Affordable Rent | Median Private Rent | Local Housing Allowance (LHA) 2018/19 | Median % v SBC Social | Median % v SBC Affordable |
|---|---|---|---|---|---|---|
| 1 Bed Property | £80.96 | £126.06 | £160.00 | £129.81 | 98% | 27% |
| 2 Bed Property | £94.32 | £154.59 | £213.00 | £160.03 | 126% | 38% |
| 3 Bed Property | £105.33 | £180.92 | £253.00 | £197.81 | 140% | 40% |
| 4 Bed Property | £116.07 | £223.56 | £322.00 | £253.34 | 177% | 44% |

*Private rent Data from Home track housing intelligence system re Oct-17 to Nov-18 (Updated Nov 2018). SBC rents are 2019/20 and the private rents are 2018/19 rents*

4.3.4 **The Local Housing Allowance (LHA)** shown in the table above is the maximum amount of housing benefit payable by property size for private rented properties.

**4.4 Borrowing**

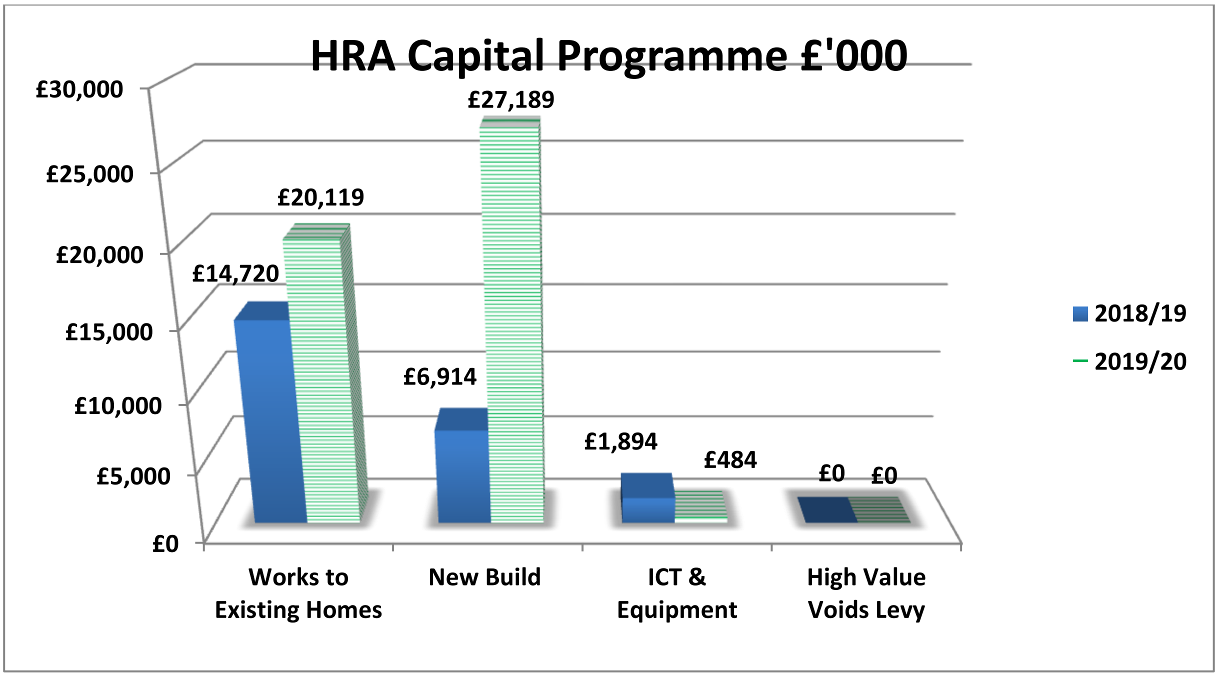
4.4.1 The HRA Business Plan's (HRA BP) existing loans have an average interest rate of 3.37% based on £205.614Million of borrowing. The revised budgets for 2018/19 and 2019/20 makes allowance for new loans totalling £3,800,000 in 2018/19 and £4,756,508 in 2019/20. The decision when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing PWLB rates. The interest payable in 2018/19 and 2019/20 is estimated to be £6,867,010 and £6,960,390 respectively.

4.4.2 The HRA Business Plan update to the November 2018 Executive identified that in light of the lifting of the HRA borrowing cap by the Chancellor, the HRA would not be constrained by the £217.685Million borrowing cap set as part of the self-financing settlement. The HRA Business Plan needed to look at a revised approach to borrowing, versus using revenue contributions to capital. This will be based on the HRAs need to borrow and affordability as identified in the action plan, (Appendix A to the November Executive report).

**4.5 Contributions to Capital Expenditure**

4.5.1 A large part of the capital programme has been funded from HRA revenue resources and the HRA BP has identified a further £105Million over the next 15 years. As stated in 4.4.2 above the HRA action plan will review revenue contributions to capital and this will be brought back to Members in 2019/20. The level of revenue contribution for 2018/19 and 2019/20 are £7,675,440 (unchanged from the working budget) and £13,946,930 respectively. The 2019/20 revenue contribution has reduced by £1,180 compared to the December draft budget report.

4.5.2 The 2019/20 budgeted depreciation allowance to be transferred to the Major Repairs Reserve (MRR) to fund the capital programme is £12,156,450, (unchanged from the December report). A summary of the 2018/19-2019/20 capital programme is shown in the chart below




4.5.3 Over the next 15 years of the Business Plan the HRA is projected to use £105Million of revenue receipts because prior to the lifting of the debt cap the HRA had very little room to borrow. However, with the subsequent lifting of the cap there is scope to convert this to borrowing to increase the size of the capital programme based on identified need but this must be also based on affordability. This review will come back to Members during 2019/20.

4.5.4 The Capital programme for 2019/20 onwards includes two schemes which were submitted to the Government prior to the lifting of the debt cap and this borrowing totals £9.05Million and was also included in the HRA Business Plan to the November Executive.

## 4.6 Use of One for One Receipts

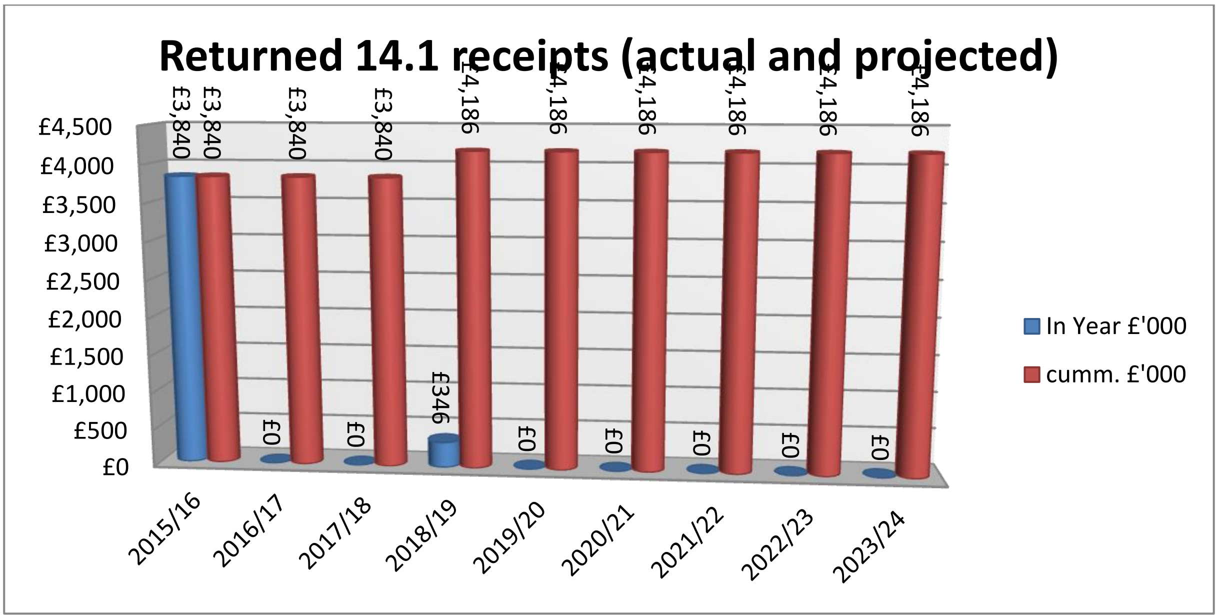
4.6.1 The new build programme was introduced in 2012/13 alongside HRA self-financing and the 2018 Business Plan projects to spend £581Million with an estimated 2,132 new council homes (including 107 replacement properties) over a 30 year period.

4.6.2 Despite having an ambitious new build programme, the value of 1.4.1 receipts has continued to increase with house prices and the number of RTBs increased in previous years, peaking at 106 in 2015/16, with 2018/19 projected to be 25 sales (19 sales as at January). To date only £3.9Million of receipts have been returned to the Government to avoid the punitive interest rate penalties (4% above the Bank of England base rate).

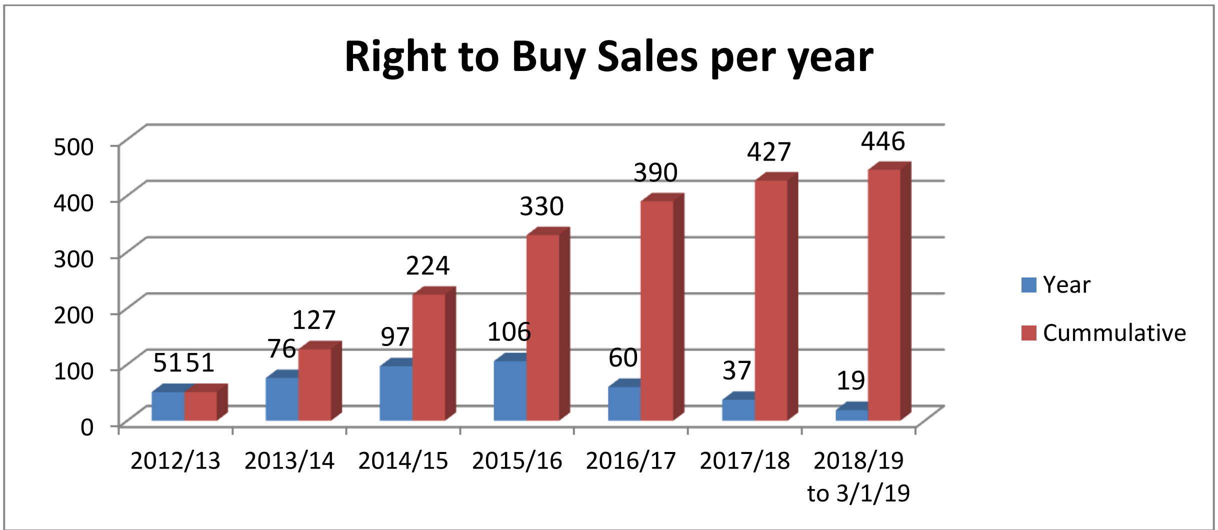
4.6.3 Members have been previously advised that receipts may need to be returned in 2018/19 and this is now estimated to be £346,232 for April- December 2018. There are estimated interest payments of £55,383 to be paid which can be funded from the debt receipt portion of RTB receipts. The projection for the remainder of the year is that if all spend is incurred as profiled no further receipts need to be returned for 2018/19.

4.6.4 The government did indicate in their consultation on RTB receipts that existing receipts may be able to be kept for five years and that interest may not be chargeable on existing returned receipts, however no announcement on the governments intentions have yet been made.

4.6.5 The chart below identifies that receipts returned/ need to be returned.

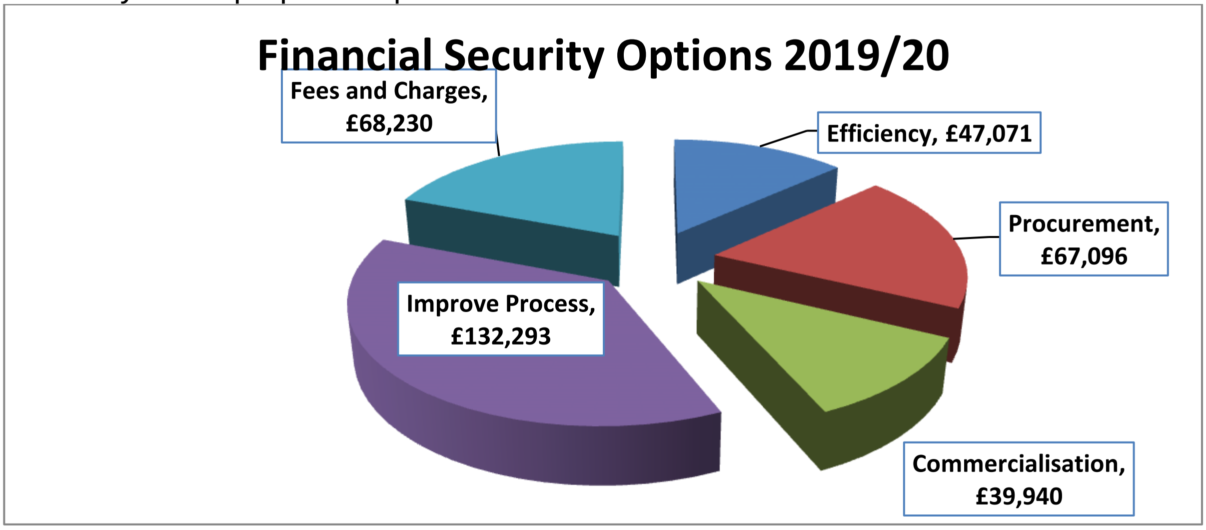



4.6.6 Future projections on returned receipts are based on future estimated sale receipts, officers will keep this under review to minimise the cost to the HRA, however the level of 1.4.1 receipts projected to be returned has reduced as the level of RTB sales have reduced as shown in the table below.



## 4.7 Financial Security Options

4.7.1 At the November Executive, Members approved Housing Revenue Options of £354,630 (including fees and charges), detailed in Appendix B and C. A summary of the proposed options is shown below.




4.7.2 Officers together with the Leaders Financial Security Group (LFSG) will be working towards achieving the unidentified Financial Security target as summarised in paragraph 3.9 which totals £650K.

## 4.8 Final Budget Proposals

4.8.1 The Final 2019/20 HRA budget is estimated to be a net expenditure of £9,076,320, which is an increase of £186,870 over that reported in the draft December HRA budget report. The main increase relates to the inclusion of a repair budget to help address damp and mould issues identified in the housing stock. The reasons for the changes are summarised in the table below.

| **Summary of 2019/20 budget movements** | | |
|---|---|---|
| Draft HRA Budget | | **£8,889,450** |
| **Increases in Income/Reductions in Expenditure:** | | |
| NEW: Reduction in Revenue Contribution to Capital | (£1,180) | |
| NEW: Reduction in Financial Security options-cost of implementation, budget required in 2018/19 | (£15,580) | |
| **Decreases in Income/Increases in Expenditure:** | | |
| NEW: Reduction in projected rental income | £4,300 | |
| NEW: Increased inflation pressures- salaries | £31,470 | |
| NEW: Increase in recharges from the General Fund | £7,520 | |
| NEW: Repair budget to deal with damp and mould issues in the housing stock | £150,000 | |
| NEW: Other | £10,340 | |
| **Total Changes:** | | **£186,870** |
| **Draft HRA 2019-20 budget** | | **£9,076,320** |

4.8.2 A budget has been requested for 2019/20 to fund the cost of dealing with damp and mould cases in the housing stock. A budget of £100K was identified from the repairs budget in the current year, however this is not considered to be sufficient in 2019/20. Members are asked to approve the additional expenditure which has not been scrutinised as part of the savings and growth process.

4.8.3 The **2018/19 HRA projected working budget** is estimated to be £4,060,920 (draft HRA budget report £3,967,090) an increase of £93,830 over that reported in the December Executive report and £331,000 lower than the working budget approved as part of the November BP update. A summary of the changes are summarised in the table below.

| **Summary of 2018/19 budget movements** | | |
|---|---|---|
| Working Budget | | **£4,391,920** |
| **Increases in Income/Reductions in Expenditure:** | | |
| change in profile of decant costs (reported in Draft December report) | -£423,890 | |
| Other | -£940 | |
| **Decreases in Income/Increases in Expenditure:** | | |
| NEW: Cost of treating infestation at Brent Court | £50,000 | |
| NEW: Equipment required to set up temporary accommodation units (replaces £100K capital bid in the HRA Business Plan report to the November Executive) | £20,000 | |
| NEW: Microsoft licence costs (3 months) | £8,250 | |
| NEW Financial Security options-cost of implementation required in 2018/19 (there is a compensating reduction in 2019/20 budget) | £15,580 | |
| **Total Changes:** | | **-£331,000** |
| **Revised 2018/19 HRA budget** | | **£4,060,920** |

4.8.4 The 2019/20 HRA projected year-end balance is now projected to be £10,997,428, the summary of balances is shown in the table below. HRA balances in excess of the minimum balances (held for assessed risks in year), are required to fund the HRA 30 year capital programme, subject to any review as outlined in 4.4.2.

| **HRA Balances:** | **2018/19 £** | **2019/20 £** |
|---|---|---|
| **HRA Balance 1 April** | (24,114,668) | (20,053,748) |
| **Use of balances in Year** | 4,060,920 | 9,076,320 |
| **HRA Balance 31 March** | **(20,053,748)** | **(10,977,428)** |

4.8.5 The Assistant Director (Finance and Estates) has completed a risk assessment of the level of balances required in 2019/20 for the HRA. The total required for the assessment of in year risks is £1,945,972 and is summarised in Appendix D to this report. Remaining balances are required to fund the capital programme in future years however this is due for review as outlined earlier in the report and is based on using revenue contributions to capital rather than borrowing.

4.8.6 The amount of HRA expenditure that the Executive can approve over and above the amounts set out in this report without referring back to Council for approval is recommended to be unchanged from the previous limit set at £250,000.

**4.9 Consultation –review and update as per HRA BP**

4.9.1 The Council remains committed to working in partnership with council tenants and leaseholders to shape, strengthen and improve council housing services and sets out a range of options to enable housing customers to be involved. The Business Unit review in Communities and Neighbourhoods will seek to further develop the offer of engagement to the wider community.

4.9.2 The Housing Management Advisory Board (HMAB) acts as an advisory body to the Executive for council housing-related matters, including participation in the HRA budget-setting process and the development of the HRA Business Plan. HMAB currently includes one leaseholder and five tenant representatives in addition to Member and officer representation. The Board receives quarterly reports on progress in delivering HRA Business Plan commitments. Feedback from resident and STAR surveys (see below) is also considered by HMAB to give a broader context. On 16th August and 25th October 2018, HMAB received presentations on the HRA Business Plan and MTFS update.

4.9.3 The draft HRA budget and rent setting proposals contained in this report are scheduled to be presented to HMB at their meeting on 17 January 2019 and their comments will be fed back to the Executive prior to the final budget report being recommended to the Council.

4.9.4 Targeted consultation will be carried out with staff, customers and stakeholders directly affected by the financial security options agreed by the Executive in November 2018. All tenants will be notified of changes to their rent and service charges in February/March 2019.

4.9.5 There are plans to review service charges ahead of implementing a new and more transparent service charge model in 2020/21. This review will include consideration of both service charges and support charges and will involve consultation with tenants and leaseholders

4.9.6 The Council periodically seeks the views of housing customers through a postal survey. This ‘STAR’ survey is used across the housing sector and enables the council to assess levels of customer satisfaction and to identify customer priorities. The most recent STAR survey was undertaken in early 2018 and for the first time included leaseholders and sheltered housing tenants in addition to general needs tenants.

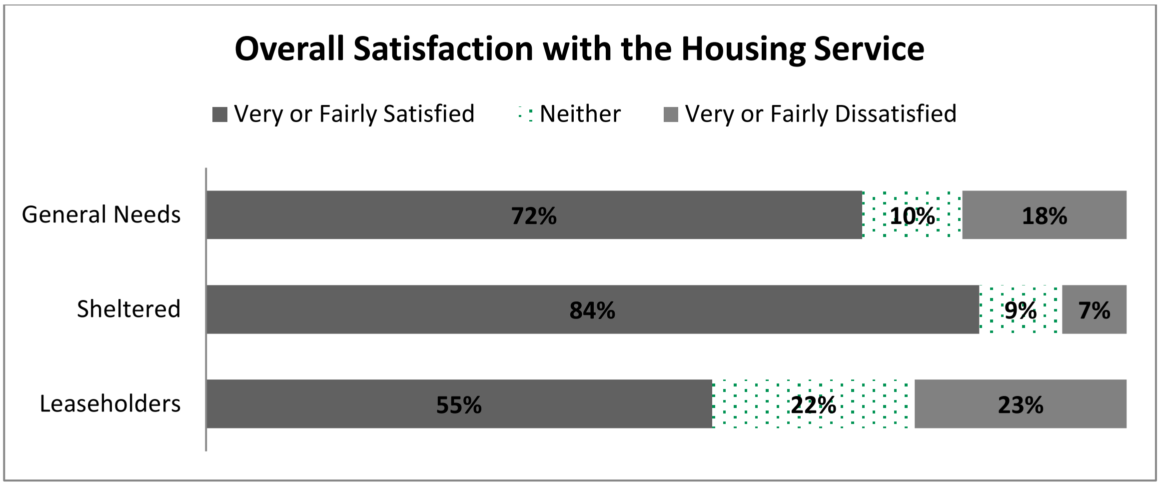
4.9.7 Respondents were asked to say what was most important to them from a list of options. The top five priorities for each group of customers are shown in the table below:

**STAR Survey respondents' top five priorities**

| Priority* | General Needs Tenants | Sheltered Tenants | Leaseholders |
|---|---|---|---|
| **1** | Repairs & maintenance (87%) | Repairs & maintenance (60%) | Repairs & maintenance (74%) |
| **2** | Overall quality of your home (61%) | Emergency call system (50%) | Value for money for service charges (64%) |
| **3** | Value for money for rent and charges (35%) | Supported housing manager (34%) | Overall quality of your block of flats (58%) |
| **4** | Neighbourhood as a place to live (26%) | Overall quality of your home (33%) | Dealing with ASB (39%) |
| **5** | Keeping residents informed (25%) | Keeping residents informed (33%) | Keeping residents informed (23%) |

* 1= most important

4.9.8 Overall satisfaction with the housing service is summarised in the following chart and the survey also drilled down into satisfaction with specific areas of the service.




4.9.9 Satisfaction levels with value for money for rent, service charges and support charges were as follows:

- 68% of general needs tenants and 83% of sheltered tenants were satisfied that their rent provides value for money
- 55% of general needs tenants, 72% of sheltered tenants and 33% of leaseholders were satisfied that their service charges provide value for money
- 76% of sheltered tenants were satisfied that their support charges provide value for money

4.9.10 Officers have drawn up action plans in response to the survey outcomes, much of which is closely aligned to the investment and improvement plans associated with the HRA Business Plan and MTFS.

## 4.10 Overview and Scrutiny Consultation

4.10.1 The Overview and Scrutiny committee considered the draft HRA rent and service charge proposals and budget at their meeting of the 13 December 2018. The Assistant Director (Finance & Estates) introduced the report and Members raised a number of questions concerning service charges and were advised that the a review of service charges was to be undertaken in 2019 and this would potentially increase choice and lead to greater transparency of charges.

## 4.11 Leaders Financial Security Group

4.11.1 The LFSG chaired by the portfolio holder for Resources on behalf of the Leader and with cross party representation met in October and the group;

- Reviewed the HRA assumptions regarding the 2019/20 onwards saving target
- Review of the HRA 2019/20 Financial Security package
- Reviewed the HRA 2019/20 Fees and charges

4.11.2 The LFSG considered the options above and scored the Financial Security options and fees and charges for inclusion in the HRA budget.

## 4.12 Chief Finance Officer's Commentary

4.12.1 The Chief Finance Officer is the Council's principal financial advisor and has statutory responsibilities in relation to the administration of the Council's financial affairs (Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988). This commentary is given in light of these statutory responsibilities.

4.12.2 The Council has evolved its budget strategy to meet the ongoing challenging economic conditions because of funding cuts, welfare reforms or inflationary increases. The Financial Strategy to deal with this is the 'Financial Security' strand of 'Future Town Future Council'.

4.12.3 Officers regularly update the MTFS to ensure that a clear financial position for the Council can be demonstrated over the next five years. This medium term view of the budget gives a mechanism by which future 'budget gaps' can be identified allowing for a measured rather than reactive approach to reducing net expenditure. The Financial Security year round approach to identifying budget options means that work is on-going throughout the year to bridge the gap.

4.12.4 In addition officers regularly update the 30 year HRA Business Plan which is approved by Members annually and is the period over which the self-financing borrowing was initially taken. The last approved version of the business plan (November 2018) had a de-minimus £4.9Million deficit over the 30 year plan . The November update contained an action plan to consider the implications of lifting the HRA borrowing cap and the ability to use borrowing rather than revenue contributions to capital. This would be on an affordability basis and reported back to Members during 2019.

4.12.5 The Council has taken significant steps over recent years to re-balance the HRA as a result of significant changes in government policy relating to RTB discounts and rent decreases. One of the principle aims of the MTFS is 'Provide funding to build 2000+ new homes over 30 years, new social and affordable rented homes that contribute to meeting local housing demand and the needs of an ageing population. This is still projected to be achieved however Financial Security targets have been added each year to the HRA business plan and there have been revisions to capital works to the existing stock.

4.12 6 The HRA is also moving into large scale housing developments, ( a top council and resident priority) and this priority will come with the risk of potentially needing to invest more resources.

4.12.7 The HRA MTFS has been updated along with the HRA business plan and will be kept under regular review in 2019/20.

## 5. IMPLICATIONS

### 5.1 Financial Implications

5.1.1 Financial implications are included in the body of the report

### 5.2 Legal Implications

5.2.2 Legal implications are included in the body of the report

### 5.3 Staffing Implications

5.3.1 The unions are being consulted on the options approved at the November Executive on 19 December 2018. Human Resources staff are co-ordinating centrally the implementation of any staff related savings. However there are no compulsory redundancies within the options for the HRA

### 5.4 Risk Implications

5.4.1 There is considerable risk in setting HRA spend as there have been so many Government policy changes concerning rent and welfare reforms, making medium to long term planning difficult. Between 2014/15-2020/21 there will have been four different rent policies, with an estimated loss of £225Million from the four year 1% rent reduction between 2016/17-2019/20. The HRA has one main income source and changes in Government policy can have a significant impact on the affordability of revenue and capital plans, particularly if there is a move to convert revenue resources into borrowing

5.4.2 There is the impact of Universal Credit (UC) and other welfare reforms on tenants, currently 54% or £20Million of benefit is paid to the HRA from the benefits system rather than to tenants and experience has shown that for other local authorities, arrears have increased significantly with the roll out of UC.

5.4.3 There is a potential adverse financial impact on the HRA as a result of high inflationary pressures, when rents are supressed. If inflation rises above that assumed in the business plan, as a result of BREXIT, further reductions in spend may need to be made.

5.4.4 Since 2012/13 the RTB discount has increased from £34,000 to £80,900 in 2018/19. Reducing the cost of purchase for a property has a double negative effect on the HRA, not only does it lose the rental supporting the capital programme, it also cannot afford to replace the property with the resulting receipt.

5.4.6 As a result of the number of risks outlined above the authority did not borrow up to the now removed debt cap. With the change in focus on using borrowing rather than using revenue receipts, revenue headroom will be required to be retained for unforeseen events as opposed to borrowing headroom.

5.4.7 The HRA has an unidentified Financial Security target to achieve, which for 2020/21-2021/22 is £225,000 and £200,000 thereafter.

5.4.8 The Major Works Contract completes works to leasehold as well as tenanted flats and the HRA capital programme relies on the recovery of those service charges.

5.4.9 There may be further changes in regulations as a result of the Hackett report which could increase the cost of works to tower blocks. The council in advance of the recommendations has already approved the retrofitting of sprinklers to the high rise blocks.

**5.5 Equalities and Diversity Implications**

5.5.1 In carrying out or changing its functions (including those relating to the provision of services and the employment of staff) the Council must comply with the Equality Act 2010 and in particular section 149 which is the Public Sector Equality Duty. The Act replaced three previous equality legislations – the Race Relations Act (section 71), the Sex Discrimination Act (section 76A) and the Disability Discrimination Act (section 49A). The Council has a statutory obligation to comply with the requirements of the Act, demonstrating that as part of the decision-making process, due regard has been given to the needs described in the legislation. These duties are non-delegable and must be considered by Council when setting the budget in January 2019.

5.5.2 To inform the decisions about the Budget 2019/20 officers have undertaken Brief Equality Impact Assessments (EqIAs) for service-related budget savings proposals. Where there is a potentially negative impact, officers have identified further action needed to inform a final decision and to mitigate the impact where this is possible. These EqIA are included at Appendix E to this report together with an EQIA for the rent and service charges increase for the January Executive.

## BACKGROUND DOCUMENTS

BD1 Housing Revenue Account Business Plan and Medium Term Financial Strategy (2018/19-2022/23) - November Executive

BD2 Draft HRA Rent Setting and budget report – December Executive

## APPENDICES

Appendix A - Final HRA Summary

Appendix B – Financial Security Options

Appendix C – Fees and Charges

Appendix D – Risk Assessment of Balances

Appendix E – EQIA for HRA and General Fund Services