

**Meeting** EXECUTIVE  
**Portfolio Area** Resources/Housing  
**Date** 22 JANUARY 2020



## FINAL HRA RENT SETTING AND BUDGET REPORT

### KEY DECISION

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### 1. PURPOSE

- 1.1 To update Members on the draft proposals on the Housing Revenue Account (HRA) budgets and rent setting for 2020/21, to be considered by Council on 29 January 2020.
- 1.2 To update Members on any changes to the Rent Policy.
- 1.3 To propose the HRA rents for 2020/21.
- 1.4 To propose the HRA service charges for 2020/21.
- 1.5 To update Members on the 2019/20 and 2020/21 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 HRA dwellings be increased, week commencing 1 April 2020 by 2.7% an average increase of £2.56 for social rents £4.17 for affordable rents and £3.16 for Low Start Shared Ownership homes per week. This has been calculated using the rent formula, CPI +1% in line with the governments rent policy as set out in paragraph 4.1.1.

- 2.2 That the rent policy update to reflect the rent increase guidance of CPI+1%, (revised from a minus 1% rent reduction excluding LSSO properties) agreed at the December Executive, is confirmed.
- 2.3 That Council be recommended to approve the 2020/21 HRA budget, as set out in Appendix A.
- 2.4 That Executive approve the revised 2019/20 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 2020/21 service charges.
- 2.7 That Council be recommended to approve the minimum level of reserves for 2020/21 as shown in Appendix E to this report.
- 2.8 That the contingency sum of £250,000 within which the Executive can approve supplementary estimates, be approved for 2020/21 (unchanged from 2019/20).
- 2.9 That Council notes the comments from the overview and Scrutiny Committee as set out in the report.

### **3. BACKGROUND**

- 3.1 The HRA Business Plan (BP), presented to the December Executive, sets out the 30 year income and expenditure projections for the HRA. The BP has been revised to include more external debt, taking advantage of the lifting of the HRA borrowing cap and also the adverse financial impact of the increase in Public Works Loan Board (PWLB) lending rates of 1%. This report sets out the budget for 2020/21 and revisions to the 2019/20 working budget.
- 3.2 The 2020/21 budget includes a rent increase for all council homes for the first time in four years. For the period 2016/17-2019/20 all but the Council's Low Start Shared Ownership (LSSO) homes had been subject to a 1% rent reduction in the Welfare Reform and Work Act 2016. The financial impact on the HRA is an estimated £225Million loss of rental income over a 30 year period.
- 3.3 The Government has announced from 2020, social housing providers can increase rents by CPI+1% for a five year period. However the difficulty for projecting HRA finances is that taking borrowing and investment decisions require a 30 year view. Particularly due to the payback period for building new social housing, with the rent being the major source of income for the HRA and the ability to fund the life cycle of components of a council home.
- 3.4 The impact of other potential legislation such as the Social Housing Green Paper is not yet fully understood, however assumptions have been made in the HRA BP and consequently in the HRA draft budget report regarding the possible financial impacts.
- 3.5 The outcome of the Government's consultation on 'Use of Right to Buy (RTB) Receipts' which allowed for increased flexibilities on the use of

1.4.1 receipts and holding existing receipts for five years is still not yet known and therefore no assumptions have been made in this report concerning this.

- 3.6 It is also not clear about Government future policy regarding RTB discounts which have more than doubled since 2011/12 from £34,000 to £82,800 in 2019/20. Any increase in the discount rate could influence the level of RTB sales, which again impacts on HRA available resources to fund improvements, new homes, or management costs.
- 3.7 The total number of HRA homes in management at 2 December 2019 is summarised in the table below. The average rents for 2020/21 are based on this housing stock, any right to buys or new schemes subsequent to this date may change the average rent per property type.

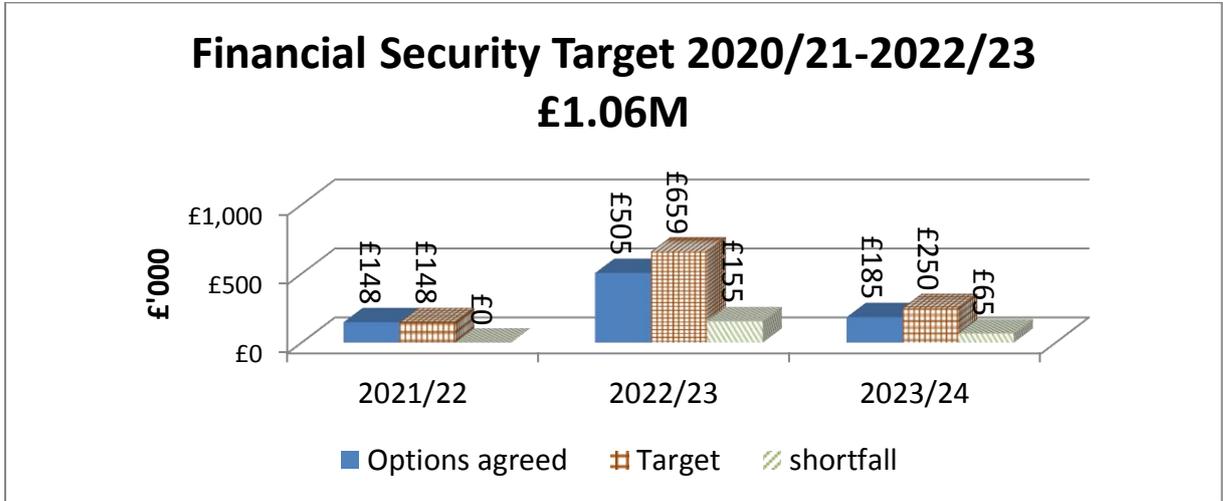
Stock Numbers	Social	Affordable	Sheltered	LSSO	Homeless	Total
Number of Properties at 2/12/2019	6,823*	35	844	85	137	7,924

*\*amended for two RTB's since draft HRA report*

- 3.8 The HRA Business Plan also presented to this Executive includes the Financial Security Options and Fees and Charges approved at the November Executive. A summary of the assumptions for the 2020/21 budget (included in the BP), are shown in the table below.

Financial Assumptions included in the HRA BP and November FS report	2019/20	2020/21
<b>Rent &amp; Service Charge Increases</b>	1% rent reduction for general stock and 1%+CPI (3.4%) for LSSOs and relets to formula rent	CPI+1% or 2.7%
<b>New Build</b>	50% Affordable 50% Social	
<b>Right-to-Buys</b>	35	35
<b>Bad debt rates</b>	0.60%	0.52%
<b>2020/21 Financial Security options</b>	£354,630	205,909
<b>2020/21 Growth bids</b>	£190,000	£53,110
<b>2020/21 Business Plan revenue growth</b>	£0	£950,000
<b>New Build - Number of Units (HRA BP)</b>	66	9
<b>Repayment of Debt</b>	0	0
<b>New loans</b>	8,556,508	23,802,670
<b>Capital Deficit in the Business Plan</b>	0	0

3.9 The savings targets included in the current MTFs and Business Plan are shown below. The future target includes a 2% efficiency on repair costs as a result of capital and planned maintenance planned works.



3.10 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

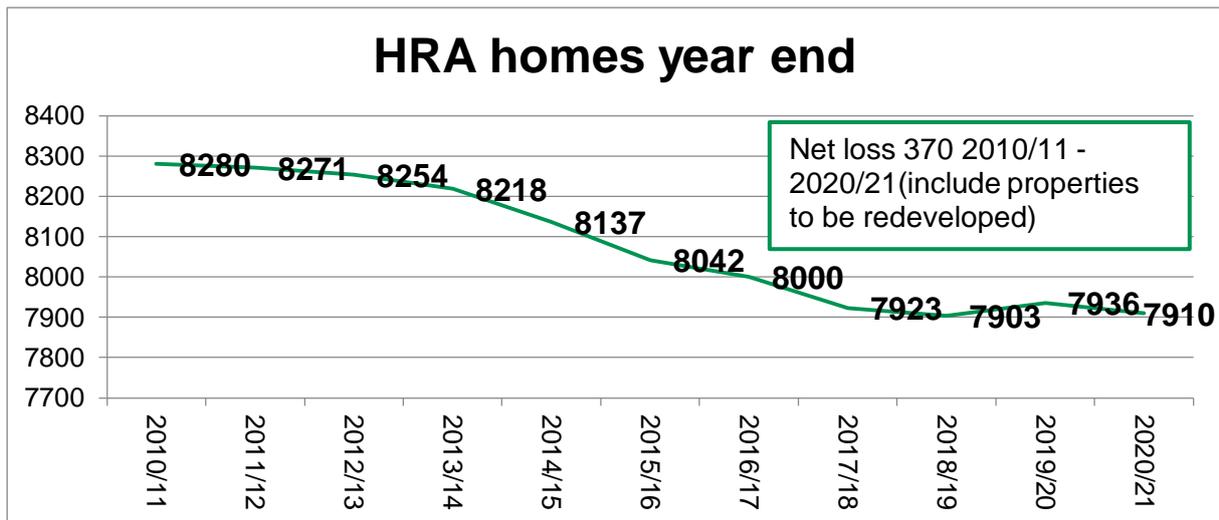
4.1.1 As stated in paragraph 3.2, 2020/21 will be the first year since 2016/17 that all HRA properties have a rental increase. The new rent standard announced by the government and social housing regulator is a CPI+1% increase for 2020/21. The CPI inflation increase is based on the September index which was 1.7%, this means the increase for 2020/21 for the council's housing stock is 2.7%.

4.1.2 The proposed average rents for 2020/21 are set out in the table below, there are currently 35 affordable rented properties (ranging from 4 bedroom-2 bedroom houses and flats).

Average Rents 2020/21	LSSO	Incr./ (decr.) %	social	Increase/ (decrease) %	Affordable	Incr./ (decr.) %
Average Rent 2019/20	£116.91		£94.98		£154.37	
Add rent impact 2020/21	£3.16	2.70%	£2.56	2.70%	£4.17	2.70%
<b>Total 52 week Rent 2020/21</b>	<b>£120.07</b>		<b>£97.54</b>		<b>£158.54</b>	

4.1.3 The net rental income increase for 2020/21 is estimated to be £1,026,200, which includes the impacts of estimated right to buys estimated new properties and properties taken out of management (awaiting redevelopment). This is unchanged from the draft budget to the December Executive.

4.1.4 The total number of properties in management is estimated to have reduced by 370 homes between 2010/11 and 2020/21. The forecast numbers for 2020/21 reflect the latest development timetable for the Kenilworth scheme and the expected lower level of open market purchases next year, while this scheme is being built.



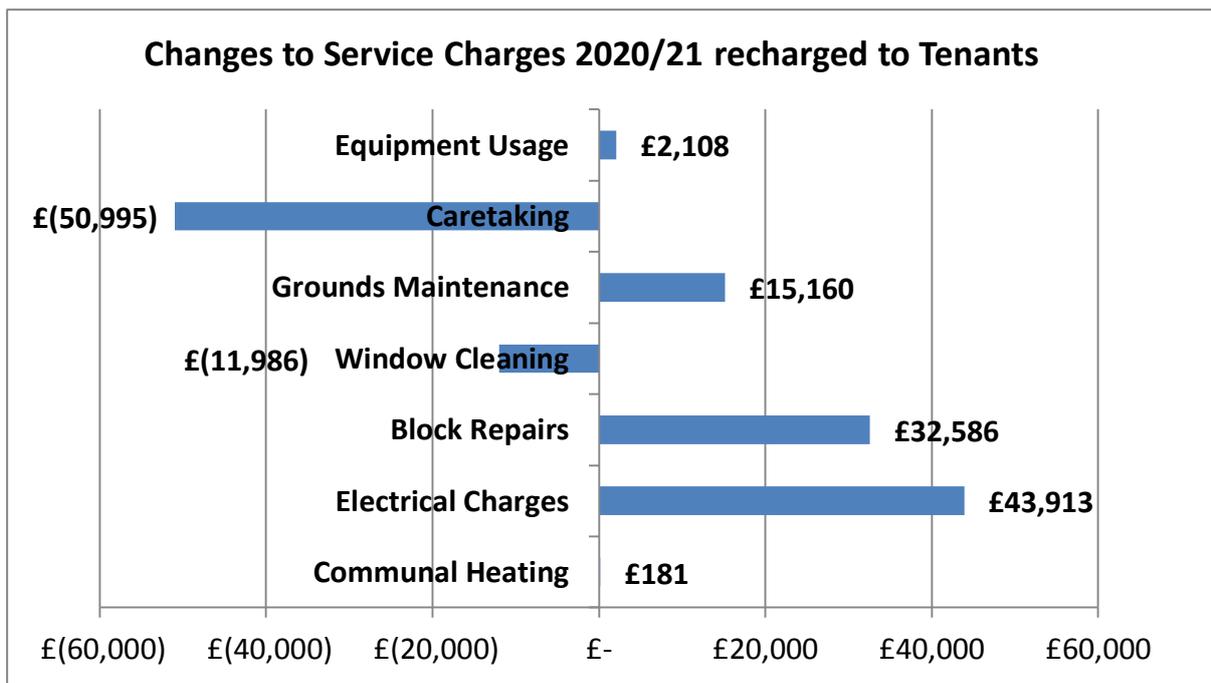
4.1.5 It was agreed at the December Executive to change the rent policy to reflect the latest rent standard issued by the Government. The revised policy includes the provision that *‘Stevenage Borough Council will increase HRA dwelling rents by CPI + 1% each year from April 2020, for a period of at least five years taking into account any future statutory guidance at that time’*.

## 4.2 Service Charges

4.2.1 Service charges are calculated for each block individually for 2,939 properties, (2019/20 2,902) or 37% of current SBC tenanted properties. A review of service charges has not concluded in time for the 2020/21 rent setting and still requires tenant and Member consultation. Service charges currently provided, (eligible for housing benefit) are shown below.

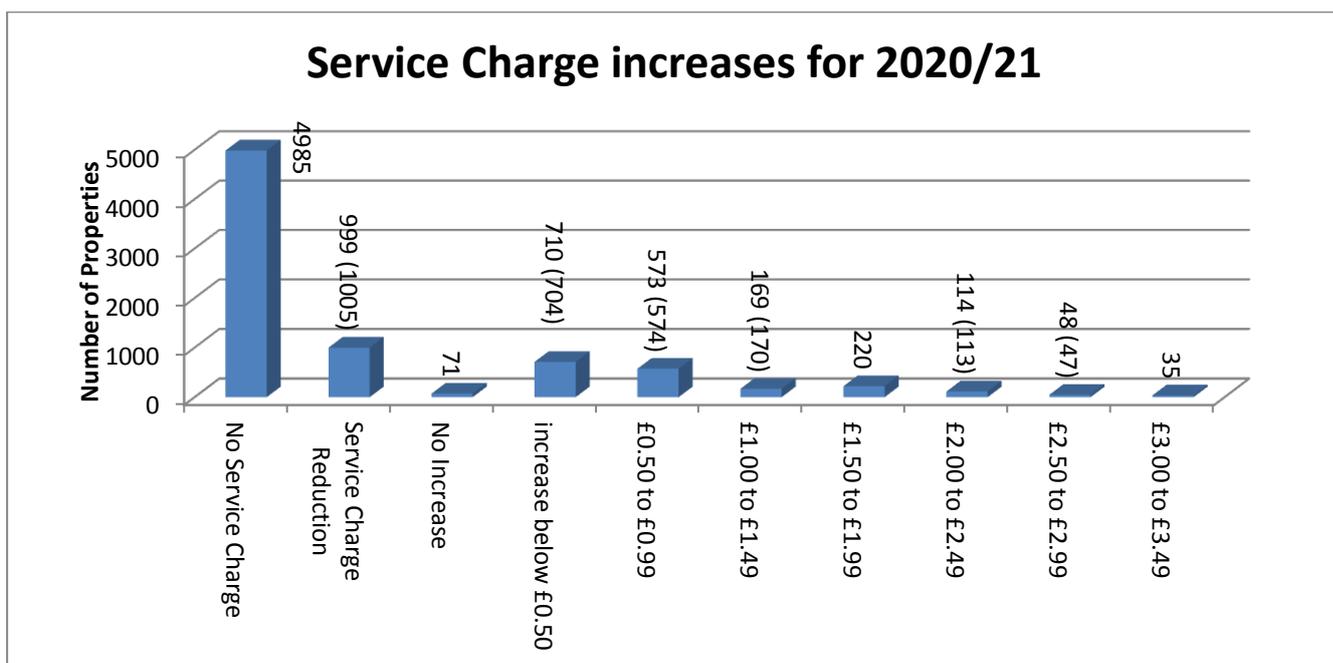
Service Charges:
Caretaking
Grounds maintenance
Window cleaning
Block repairs (including pest control)
Electrical charges
Communal heating

4.2.2 Service charges are not subject to the rental increase of 2.7%, but are based on cost recovery. For 2020/21, service charge costs will increase with inflationary pressures and changes in usage. Some figures have changed from the draft report, due to continuing data verification in the rent setting process and the draft figures are shown in brackets on the graphs. The chart below identifies the changes between 2019/20 and 2020/21 for service charges, the 2020/21 estimates are based on the projected budgeted costs for 2020/21 with the exception of block repairs which is ‘smoothed’ over a five year period to eliminate individual in year spikes in repairs spend.



*\*figures slightly amended since draft report for one property removed from service charges*

4.2.3 The spread of service charge increases for all tenants in 2020/21 is shown in the chart below. The impact of the changes in service charges, means 1,005 or 34% 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. In the draft report there was one property with a service charge increase above £3.50, this property is now a general needs property and no longer pays sheltered service charges as a linked bungalow. A further two RTB's which were had no service charges have been removed from the report since the draft HRA budget.



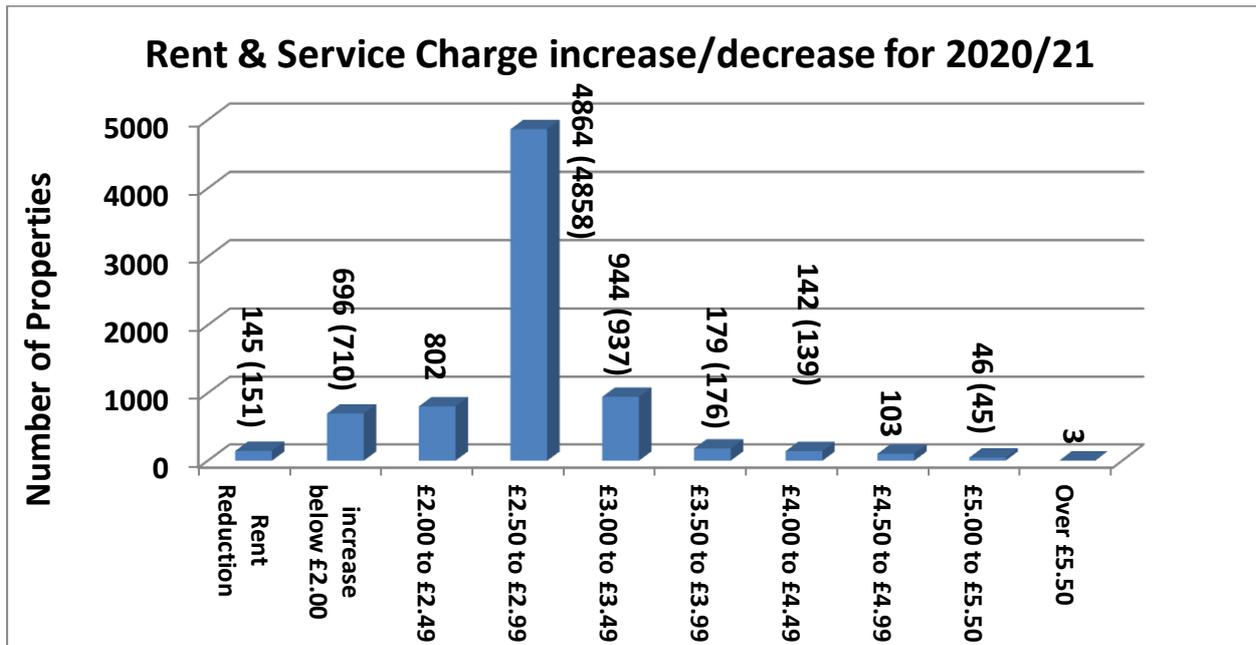
*\*Figures included in the draft report shown in brackets.*

### 4.3 Rents and Service Charges

4.3.1 The impact of the 2020/21 rent increase and service charges is

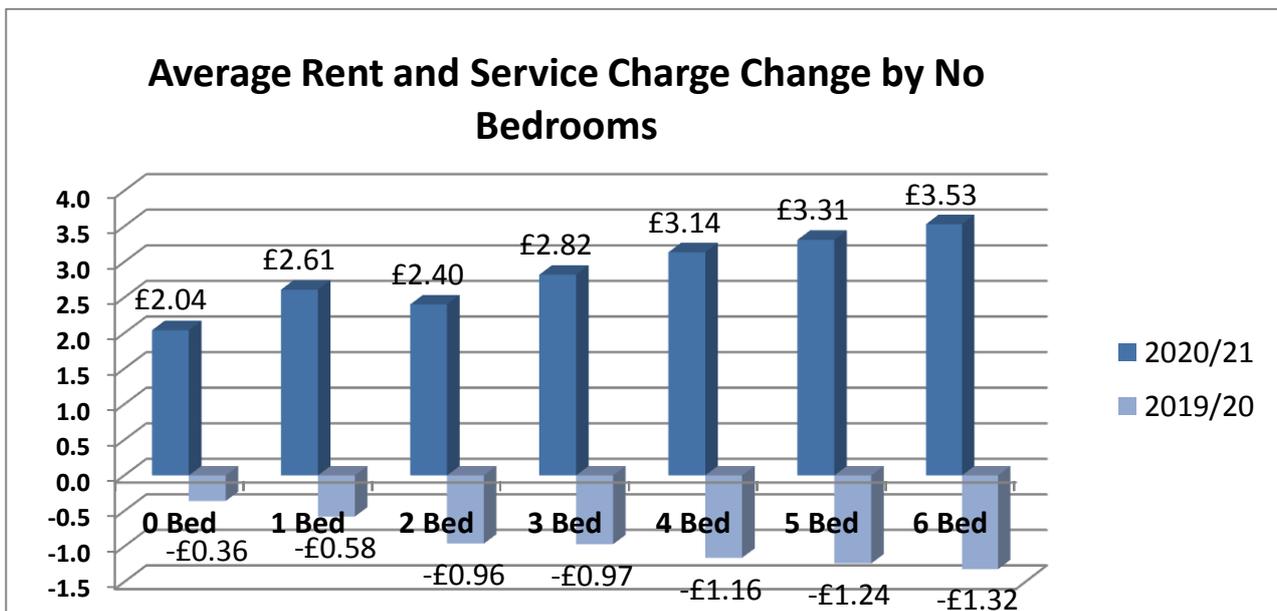
- 145 homes or 2% receive a rent and service charge reduction;
- 7,451 homes or 94% of households will receive a weekly rent and service charge increase of less than £3.50 (based on 52 weeks).
- There are 49 properties with an increase of more than £5.00.

4.3.2 The spread of the 2020/21 rent and service charge changes are summarised in the chart below.



\* Figures included in the draft report shown in brackets.

4.3.3 The average rent and service charge increase/(decrease) by bedroom size has also been calculated and summarised in the chart below.



4.3.4 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 137%, (2019/20, 140%) more per week than a SBC council home and 34% more than the affordable let properties, (2019/20 40%).

	SBC Social Rent	SBC Affordable Rent	Median Private Rent	Local Housing Allowance (LHA) 2019/20	Median % v SBC Social	Median % v SBC Affordable
1 Bed Property	£83.30	£130.43	£167.52	£133.70	101%	28%
2 Bed Property	£96.96	£165.50	£215.21	£164.83	122%	30%
3 Bed Property	£108.21	£191.49	£255.93	£203.74	137%	34%
4 Bed Property	£119.30	£229.60	£308.28	£260.94	158%	34%

*Private rent Data from ONS as at March 2019 updated by ONS rental inflation for East of England to October 2019. Please note the SBC rents are 2020/21 prices and the private rents 2019/20 prices.*

4.3.5 **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

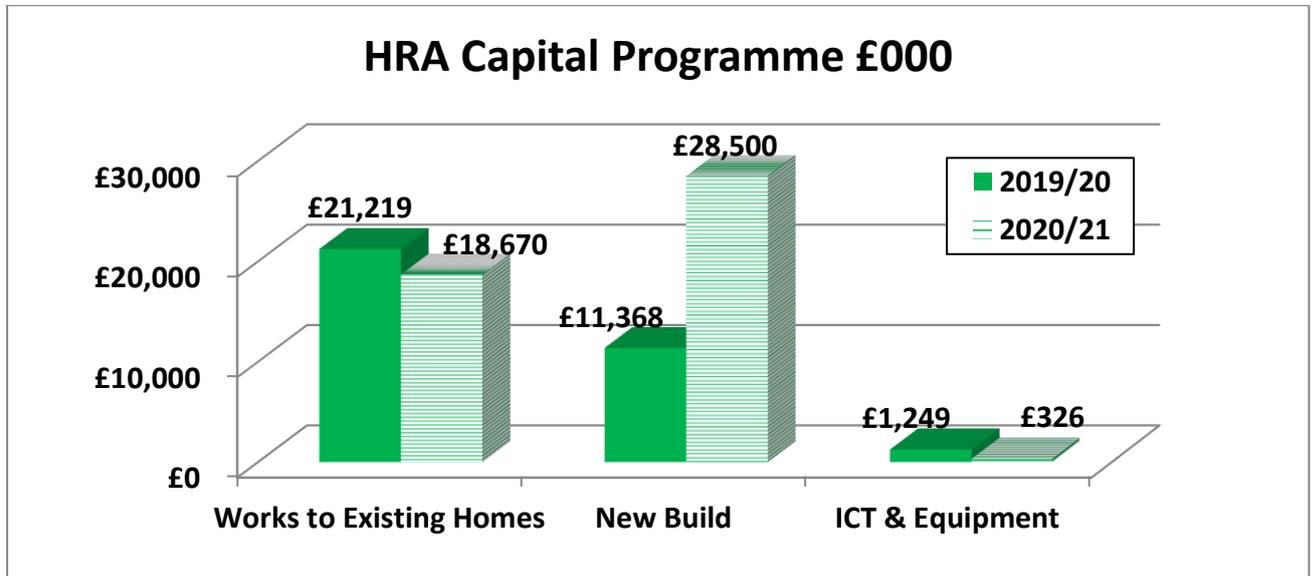
4.4.1 The HRA Business Plan's (HRA BP) existing loans have an average interest rate of 3.38% based on £202.674Million of borrowing. The current business plan makes allowance for new loans totalling £8,556,508 in 2019/20 and £23,802,670 in 2020/21. The decision when to take the new borrowing will be reviewed, weighing up the cost of carry and the prevailing PWLB rates. The interest payable in 2019/20 and 2020/21 is estimated to be £6,866,810 and £7,837,130 respectively.

4.4.2 The HRA Business Plan update to the December Executive identified that the lifting of the HRA borrowing cap means that the HRA is not constrained by the £217.685Million cap, set as part of the self-financing settlement. The 2019 HRA Business Plan looks at a revised approach to borrowing, versus using revenue contributions to capital. This is based on the HRA's need to borrow and affordability as identified in the BP action plan.

#### 4.5 Contributions to Capital Expenditure

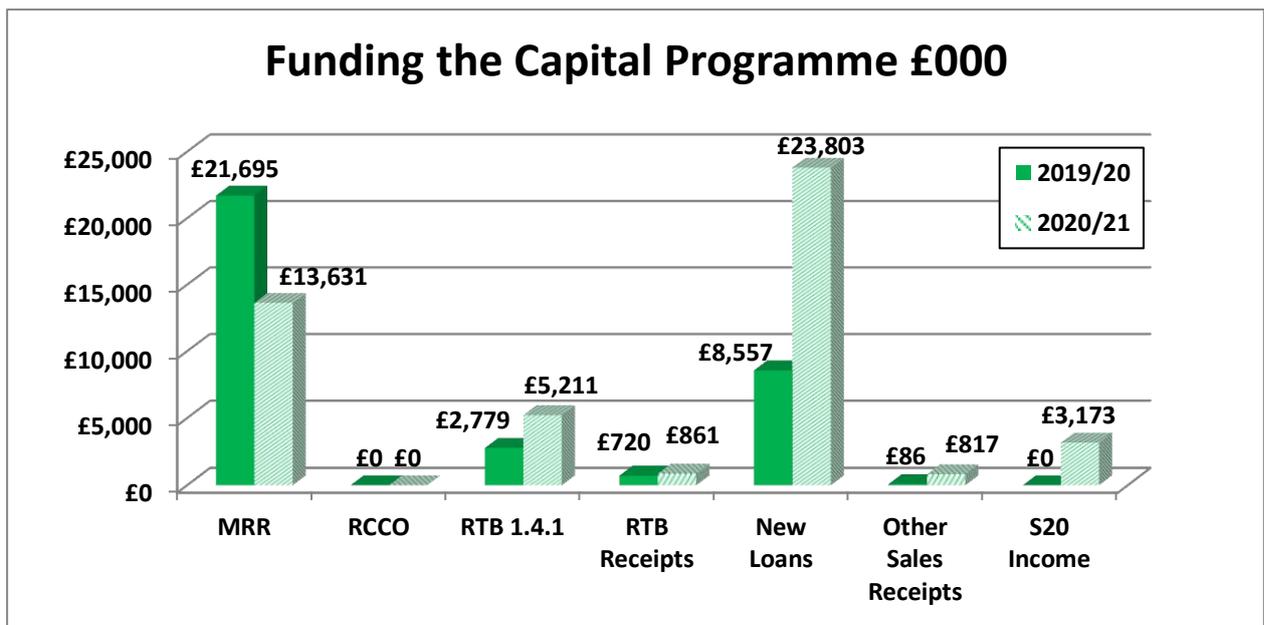
4.5.1 Historically a large part of the capital programme has been funded from HRA revenue resources, however as identified above the revised Business Plan switches from revenue funding to the use of borrowing. For 2019/20 and 2020/21 there is no assumed revenue contribution to capital.

4.5.2 The 2020/21 budgeted depreciation allowance to be transferred to the Major Repairs Reserve (MRR) to fund the capital programme is £12,486,420, an increase of £329,970 on the 2019/20 amount. A summary of the 2019/20-2020/21 capital programme is shown in the chart below



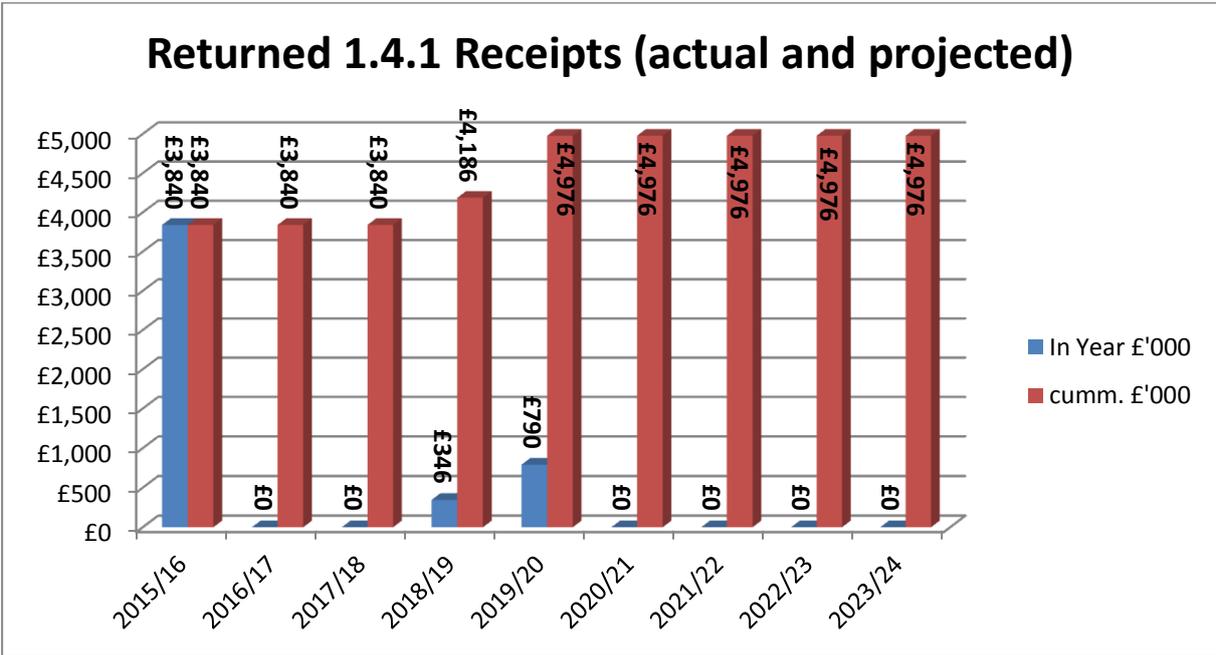
4.5.3 The increase in the size of the 2020/21 capital programme compared to the 2019/20 programme, is mainly due to the increase in new build spend in 2020/21.

4.5.4 The capital programme funding for 2019/20 and the final HRA capital programme 2020/21 is summarised in the chart below.

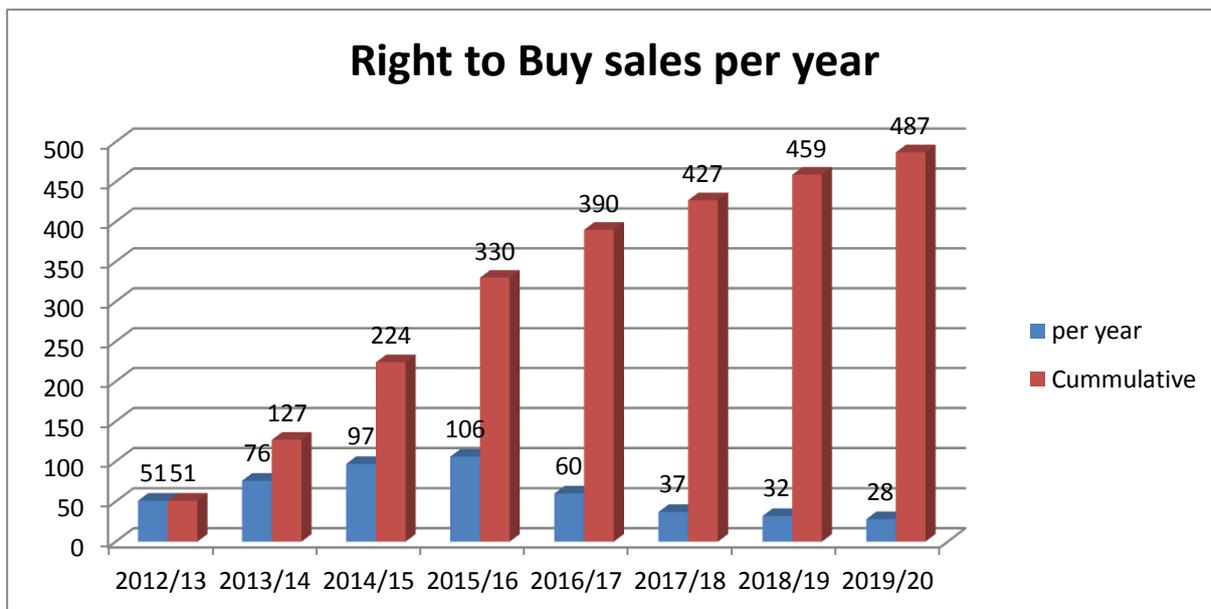


**4.6 Use of One for One Receipts**

- 4.6.1 The new build programme was introduced in 2012/13 alongside HRA self-financing and the 2019 Business Plan projects to spend £645Million with an estimated 2,433 new council homes, (including 123 replacement properties) over a 30 year period.
- 4.6.2 Despite this ambitious new build programme, some 1.4.1 receipts will need to be returned to the government in 2019/20 as they cannot be spent within the three year timeframe. Increasing house prices and the spike of 106 RTB's in 2015/16, means that a total of £790K is projected to be returnable in quarters three and four of 2019/20 (October onwards). To date £4.1Million of receipts have been returned to the Government out of a total £28.7Million received to date or the £20.6Million that had to be spent by the end of 2019/20.
- 4.6.3 Based on the current capital programme and estimated 1.4.1 receipts, £790K have to be returned in 2019/20. Projections are very much dependent on the level of sales and profiling of capital expenditure.
- 4.6.4 The chart below identifies that there will be some receipts which may need to be returned in 2019/20.



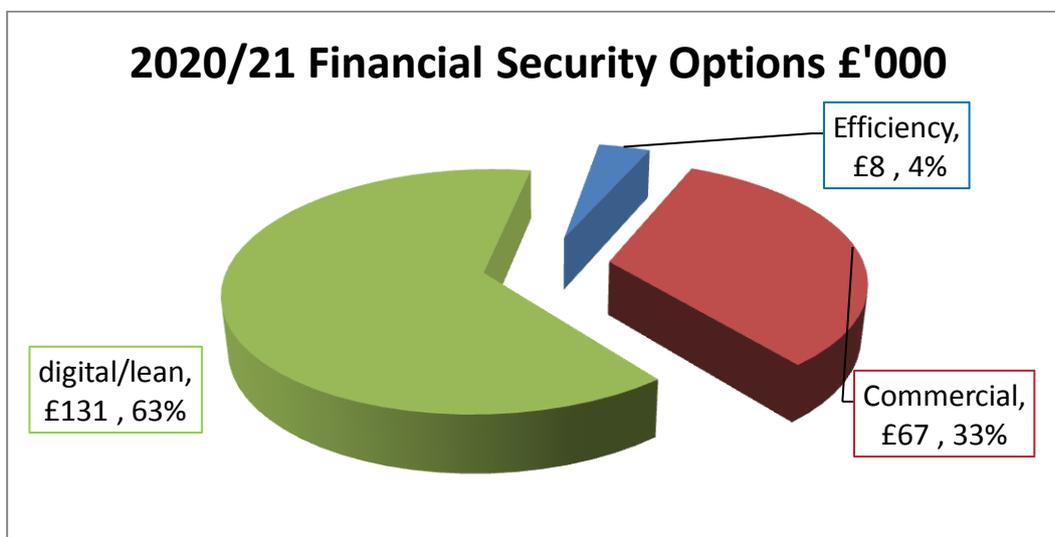
- 4.6.5 Future projections on returned receipts are based on future estimated sale receipts, officers will keep this under review to minimise the cost to the HRA, however the level of 1.4.1 receipts projected to be returned has reduced as the level of RTB sales has gradually reduced as shown in the table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



\*2019/20 based on sales at 2 December 2019

#### 4.7 Financial Security Options

4.7.1 At the November Executive, Members approved Housing Revenue Options of £202,900 (including fees and charges), detailed in Appendix B and C. A summary of the proposed options is shown below.



4.7.2 The lifting of the HRA debt cap has given the HRA the opportunity to increase borrowing to fund capital works, rather than use revenue balances. As part of the business planning process. The unidentified savings for future years are set out in paragraph 3.9.

## 4.8 Final Budget Proposals

4.8.1 The final 2020/21 HRA budget is estimated to be a net surplus of £3,416,630, which is £214,670 lower than the draft 2020/21 HRA budget and £246,485 lower than the HRA Business Plan assumptions (adverse variance). The movement in the budgets are summarised in the table below.

Summary of 2020/21 budget movements	Draft	Final
Original Budget 2019/20	£9,076,320	<b>£9,076,320</b>
Approved quarterly monitoring changes	£5,770	£5,770
Prior Year net changes	(£37,500)	(£37,500)
Financial security options prior years	(£65,510)	(£65,510)
Removal of one off budgets in 2019/20	(£19,280)	(£19,280)
Removal of Revenue contributions to capital (replaced by borrowing)	(£13,946,930)	(£13,946,930)
<b>Base budget changes before inflation and income changes</b>	<b>(£4,987,130)</b>	<b>(£4,987,130)</b>
<b>Increases in Income/Reductions in Expenditure:</b>		
Rent increases	(£1,026,200)	(£1,026,200)
Service charge increases	(£41,650)	(£41,650)
Other income changes including leaseholders	(£2,060)	(£2,060)
Financial security options 2020/21	(£205,460)	(£205,460)
investment income	(£124,410)	£0
<b>Total Increases in Income/Reductions in Expenditure</b>	<b>(£1,399,780)</b>	<b>(£1,275,370)</b>
<b>Decreases in Income/Increases in Expenditure:</b>		
Decreased investment income (lower rates)	£0	£60,820
Inflation	£326,010	£326,010
Increase in borrowing interest charges	£876,740	£876,740
Prioritised growth bids (Financial Security) 2020/21	£53,110	£53,110
ICT Strategy growth approved October Executive	£183,780	£183,780
HRA Business Plan growth bids	£950,000	£950,000
Financial Security Implementation Fund (one year only)	£36,000	£36,000
Increases in depreciation charge (funds capital)	£329,970	£329,970
Net other changes (including recharge movements)	£0	£29,440
<b>Total decreases in Income/Increases in Expenditure:</b>	<b>£2,755,610</b>	<b>£2,845,870</b>

Summary of 2020/21 budget movements		Draft	Final
<b>Total Changes:</b>		<b>£1,355,830</b>	<b>£1,570,500</b>
<b>Final HRA 2020-21 budget</b>		<b>(£3,631,300)</b>	<b>(£3,416,630)</b>
<b>Movement Draft to Final</b>			<b>£214,670</b>
<b>Business Plan December Executive</b>		<b>(£3,663,115)</b>	<b>(£3,663,115)</b>
<b>Variance to Business Plan</b>			<b>£246,485</b>

4.8.2 The 2020/21 final budget has been adjusted for the rent and service charges outlined in the report. The budget also includes the impact of higher borrowing costs of £876,740 which reflects the additional borrowing taken of £32.3Million as set out in section 4.4 of this report.

4.8.3 The growth in the HRA for next year also includes growth of £950,000 which is subject to the approval of the HRA Business Plan in addition to the growth included in the Financial Security report to the November 2019 Executive.

4.8.4 The 2019/20 budget summarised below includes changes not reported as part of the quarterly monitoring report, but which are included in the HRA Business Plan. These are:

- The set aside of £5Million to fund fluctuations in interest rates as per the HRA Business Plan. This is to allow the HRA to absorb variances in interest rates in this and future years.
- The removal of revenue contributions to capital with the exception of £1.8Million which is to be set aside for internal borrowing taken in 2018/19 and to be replaced with external debt. (included net in the RCCO figure below)
- The implementation costs of Financial Security options included in the November report.
- The carry forward of transformation budgets to 2020/21

Summary of 2019/20 budget movements		
Working Budget 2019/20		<b>£9,628,370</b>
Allocated reserve contribution for interest rate fluctuations		£5,000,000
Removal of Revenue contributions to capital (replaced by borrowing)		(£12,136,370)
Implementation costs Financial Security options		£277,560
Carry Forward Transformation budget (now one off in 2020/21)		(£305,470)
Additional Investment Income		(15,200)
<b>Total Changes</b>		<b>(£7,179,480)</b>
<b>Revised Working Budget</b>		<b>£2,448,890</b>

4.8.5 Overall, **the 2020/21 HRA projected year-end balance is estimated to be £102,716 lower than the BP.** While this is not significant, future Financial

Security targets will be adjusted if there is an on-going adverse impact on the HRA BP.

- 4.8.6 All HRA balances in excess of the minimum balances held for assessed risks in year, are required to fund the HRA 30 year capital programme.

HRA Balances:	2019/20 £	2020/21 £
<b>HRA Balance 1 April</b>	(21,302,059)	(18,853,169)
<b>Use of balances in Year</b>	2,448,890	(3,416,630)
<b>HRA Balance 31 March</b>	<b>(18,853,169)</b>	<b>(22,269,799)</b>
<b>Minimum Balances</b>	(2,946,000)	(2,985,136)

- 4.8.7 The Assistant Director (Finance and Estates) has completed a risk assessment of the level of balances required in 2020/21 for the HRA. The total required for the assessment of in year risks is £2,985,136 and is summarised in Appendix E to this report. Remaining balances are required to fund the capital programme and to service debt in future years.
- 4.8.8 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

- 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.
- 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 26 November 2019, HMAB received a presentation on the HRA Business Plan and MTFs update.
- 4.9.3 The final HRA budget and rent setting proposals contained in this report are scheduled to be presented to HMAB at their meeting on 16 January 2020 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 2019. All tenants will be notified of changes to their rent and service charges in February/March 2020.
- 4.9.5 The Council periodically seeks the views of housing customers through a postal survey of a sample of housing customers. 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.

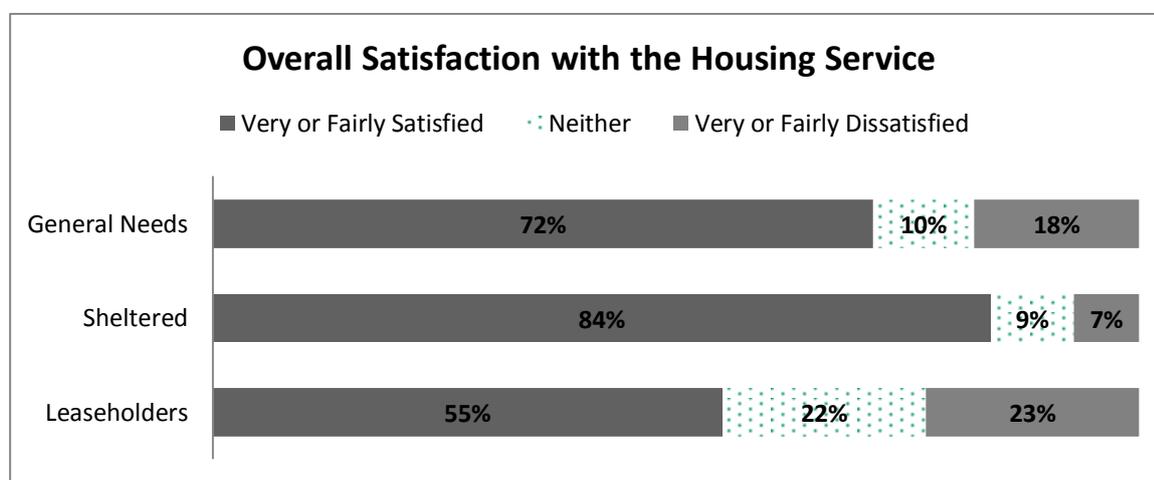
4.9.6 Respondents were asked to say what was most important to them from a list of options. The top five priorities for each group of customers are shown in the table below:

#### 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

4.9.7 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.



4.9.8 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

4.9.9 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 Leaders Financial Security Group**

4.10.1 The LSFG 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 2020/21 onwards saving target
- Review of the HRA 2020/21 Financial Security package
- Reviewed the HRA 2020/21 Fees and charges

4.10.2 The LSFG considered the options above and scored the Financial Security options, growth and fees and charges for inclusion in the draft HRA budget.

#### **4.11 Overview and Scrutiny**

4.11.1 The Overview and Scrutiny committee considered the draft HRA rent and service charge proposals and budget at their meeting of the 18 December 2019. The Assistant Director (Finance & Estates) introduced the report and the Committee were advised that the draft HRA budget included the growth set out in the HRA Business Plan and that the average rent increase for Council homes was 2.7%, based on a CPI + 1% rise.

4.11.2 The Assistant Director (Finance and Estates) also clarified that future HRA new build schemes includes a 50/50 split between social and affordable units, as set out in the Business Plan approved principles. At the time of presenting the report the HRA stock comprised 7,891 social homes and 35 affordable homes.

#### **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 (December 2019) was funded over the 30 year plan . This update contains additional borrowing rather than revenue contributions to capital. Mitigation has been put in place with the setting aside of £5Million to fund fluctuations in borrowing and the minimum level of balances has been increased by a £1Million to reflect the increased exposure of the HRA to borrowing costs.
- 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 2020/21.

## **5.1 Financial Implications**

- 5.1.1 Financial implications are included in the body of the report

## **5.2 Legal Implications**

- 5.2.1 Legal implications are included in the body of the report

## **5.3 Staffing Implications**

- 5.3.1 The unions were consulted on the options approved at the November Executive on 27 November 2019. 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 central 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. If inflation rises above that assumed in the business plan, generally or spikes as a result of BREXIT reductions in spend may need to be made or some of the growth recommended in the 2019 Business Plan update removed.
- 5.4.4 Since 2012/13 the RTB discount has increased from £34,000 to £82,800 in 2019/20. 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.
- 5.4.5 The increased level of borrowing in the HRA, with the removal of the borrowing cap, there is an increased risk of borrowing interest rates being higher than projected and leading to a reduction in the amount of expenditure for both revenue and capital. There is also a risk that PWLB rate differential between gilts and borrowing rates will be increased as happened in 2019/20. To mitigate this, an interest rate reserve of £5Million is recommended in the Business Plan report to help offset this impact in 2019/20.
- 5.4.6 The HRA has an annual Financial Security target to achieve, which for 2021/22 onwards is £100,000 per year.

## **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 2020.
- 5.5.2 To inform the decisions about the Budget 2020/21 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 F to this report together with an EQIA for the rent and service charges increase for the January Executive.

## **5.6 Climate Change implications**

5.6.1 Climate change implications will be considered when individual projects are brought forward, this report considers the overall funding for the HRA.

### **BACKGROUND DOCUMENTS**

BD1 Housing Revenue Account Business Plan and Medium Term Financial Strategy (2019/20-2023/24) - December 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 – Growth and Budget Pressures

Appendix E – Risk Assessment of Balances

Appendix F – EQIA for HRA Services