

Meeting of:	Cabinet
Date of Meeting:	Monday, 18 November 2019
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Initial Housing Revenue Account (HRA) Budget Proposals 2020/21 and Revised Budget 2019/20
Purpose of Report:	To gain Cabinet's approval for the Housing Revenue Account amended budget for 2019/20 and the initial budget proposals for 2020/21, so that the proposals may be submitted to Scrutiny Committee for consultation
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Miles Punter -Director of Environment and Housing
Elected Member and Officer Consultation:	The Corporate Management Team has been consulted on this report. The initial budget proposals do not require ward member consultation. Officers Consulted: Carys Lord - Head of Finance Miles Punter - Director of Environment and Housing Mike Ingram - Head of Housing & Building Services
Policy Framework:	This report is following the procedure laid down in the Constitution for the making of the budget and so does not need to be referred to Council at the proposal stage. However, the final 2020/21 budget will require the approval of Council
<p>Executive Summary:</p> <ul style="list-style-type: none"> • The report provides an update on the revised Housing Revenue Account Budget for 2019/20. • The report sets out initial Housing Revenue Account budget proposals for 2020/21. 	

Recommendations

1. Click or tap here to enter text. The amended Housing Revenue Account budget for 2019/20 as set out in Appendix 1 be approved and submitted to the Homes and Safe Communities Scrutiny Committee for consideration to provide a context for recommendation 2.
2. The initial Housing Revenue Account budget proposal for 2020/21 be approved for consultation with the Homes and Safe Communities Scrutiny Committee.
3. The recommendations of the Homes and Safe Communities Scrutiny Committee are passed to Corporate Performance and Resources Scrutiny Committee as the lead Scrutiny Committee in order for their views to be forwarded to Cabinet.
4. The increase for rent and other services are subject to a future report to Cabinet as soon as the information is available from the Welsh Government (WG).

Reasons for Recommendations

1. To facilitate monitoring of the amended Housing Revenue Account budget.
2. In order to gain the views of Scrutiny Committee regarding the 2020/21 Housing Revenue Account Budget proposals.
3. In order that Cabinet, be informed of the comments of Scrutiny Committee before making a final proposal on the budget.
4. In order to meet the statutory deadline to notify tenants of the new charges as required by Statute

1. Background

- 1.1 Each local housing authority is required under Section 74, of the 1989 Local Government and Housing Act to keep a Housing Revenue Account. Section 76 of the Act requires local authorities to set a budget for their Housing Revenue Account (HRA) on an annual basis. The budget must be set so that the sum held in the Housing Revenue Account reserve at year end is not in a deficit position.
- 1.2 During the course of the year, local authorities must review their HRA expenditure and income. If on the basis of the information available, the balance of the HRA reserve is heading for a deficit, then steps must be taken as are reasonably practical to prevent this deficit. A local authority is not prohibited from being in deficit but will need to demonstrate that the deficit has arisen through exceptional circumstances and that it has revised its original proposals so far as reasonably practical to avoid the deficit. Such a deficit shall be carried forward and must be made good in the following year.

- 1.3 Each local authority should endeavour to have a working balance on the HRA reserve, for any exceptional circumstances that may arise.
- 1.4 The level of rent increase is based on a rent policy introduced by Welsh Government. At the time of writing this report, an announcement had not yet been made, therefore, an average rent increase of 3%, has been included in the 2020/21 initial budget proposals, which is in line with the Housing Business Plan - February 2019.

2. Key Issues for Consideration

2.1 Amended Budget 2019/20

2.2 As the HRA is ring fenced, any growth has to be funded from within its balance.

2.3 The following table compares the original budget with the proposed amended budget for 2019/20.

	2019/20	2019/20	Variance
	Original	Proposed	Favourable (-)
	Budget	Budget	Adverse (+)
	£'000	£'000	£'000
Housing Revenue Account	(21)	1,795	1,816
(Surplus)/Deficit			

2.4 The net operational budget for 2019/20 has changed from a surplus of £21k to a deficit of £1.795m. The operational budget's surplus or deficit will adjust the level of the Housing Revenue Account reserve. The proposed change to the operational budget will result in a reduction in the balance of the reserve to bring it in line with the level required in the Housing Business Plan.

2.5 A review of the current budget has found a potential net saving this year of £1.154m. The main reason for this is that the budget relating to the increase in the provision for bad and doubtful debts has been reduced by £330k, as Universal Credit rolled out for the Vale of Glamorgan from October 2018 but the full effects will not be felt until 2020/21. In addition, there has been a reduction in the Repairs and Maintenance budget of £200k which partly relates to an external painting programme which will continue in to 2020/21. A reduction in Capital Financing Costs of £142k is anticipated due to a lower level of borrowing required to fund the Capital Programme. Employee costs are anticipated to be £160k less than budgeted due to vacant and apprentice posts and also includes £40k where shared HRA and General Fund staff's salaries are now being charged

directly to General Fund instead of being charged via a recharge and classed as income to the HRA. Digital transformation is expected to be carried out in 2021 and therefore will underspend by £250k. Other budgets that are expected to outturn with an under spend are: insurance costs £20k, Court fees £17k, survey costs £12k, Office furniture £16k, Advertising £23k, Transport £4k and other various underspends totalling £7k. There is also expected to be a reduction in void costs of £85k and an increase in interest income of £3k. Capital fee's have increased by £46k relating to New Builds.

- 2.6** These savings have been offset by the following: printing costs relating to housing mail-out £10k, other professional fees £10k and one off software cost of £4k relating to the upgrade of Keystone system. The utility and security costs in the Hostel and Temporary Accommodation have increased by £27k. The expected rental income is £45k lower than budgeted. Leaseholder insurance income is £9k lower than expected due to the premium being reduced. Charges for services and facilities are expected to be £16k less than budgeted. The departmental income recharge of £40k has been removed as the salaries of shared HRA and General Fund staff are being charged directly at source to the relevant service area (see above reduction in salaries).
- 2.7** The balance on the HRA reserve brought forward as at 1st April 2019 is £2.668m and is currently higher than projected as part of the Housing Business Plan. It is prudent to maintain the HRA revenue reserves at a minimum balance. The level of Capital Expenditure funded from the Revenue Account (CERA), has been recalculated at £8.816m, which is an increase of £2.970m. This will leave a balance on the HRA reserve at year end of £873k, which is in line with the minimum amount required as per the Business Plan.

Base Budget 2020/21

- 2.8** The Budget Strategy for 2020/21 as approved by Cabinet on the 15th July 2019 (Minute number C37) outlined that, in order to establish a baseline, services should prepare revenue budgets for next year based on the cost of providing the current level of service and approved policy decisions.
- 2.9** The HRA is a ring fenced account and therefore any growth and inflationary pressures have to be funded from its available funds.
- 2.10** The proposed 2020/21 budget is set out at Appendix 1 and is identified over the following areas.
- Supervision & Management (General) - This budget relates to the general management of the Council's housing stock, for work carried out within the Housing service and for various issues relating to the Council tenancies excluding the repairs and maintenance function.
 - Supervision & Management (Special) - This budget relates to the running expenses and the cost of staff employed directly within the Housing service, in relation to functions such as sheltered housing schemes, running the hostel and temporary accommodation.
 - Repairs & Maintenance - This budget relates to the revenue repairs and maintenance service for the Council Housing Stock.

- Capital Financing Costs – This relates to costs associated with financing HRA debt.
 - Rents, Rates, Taxes and Other Charges - This budget relates to items such as expenditure on Council Tax at long void properties, legal expenses, surveying costs, compensation and insurance.
 - Increase in Provision for Bad Debts - This budget identifies the amount by which the current level of provision should be increased or decreased in year.
 - Capital Expenditure from Revenue Account (CERA) - This budget relates to a contribution made from the Housing Revenue Account to fund capital expenditure.
 - Dwelling Rents - This is the net rent due to the Council for all properties whether General Needs, OAP designated, Sheltered Complexes, Hostel or Temporary Accommodation.
 - Non Dwelling Rents - This represents rental income due to the Council for HRA owned garages.
 - Interest - This budget relates to interest receivable on the average HRA Reserve Balance.
 - Charges for Services and Facilities - This budget identifies amounts due to the Council by tenants and leaseholders and some private individuals for services and facilities provided by the HRA.
 - Contribution Towards Expenditure – This budget identifies any contributions received from outside bodies or persons towards expenditure which has been incurred by the HRA.
 - Grant Income – This budget relates to revenue grant income received. For 29 years from 2018/19 the HRA receives the Affordable Housing Grant (AHG) from Welsh Government which supports new Council house building. The Council will take out a loan to fund capital expenditure and the AHG will be paid as an annual grant over the 29 year period and will contribute to financing the interest and capital repayments of the debt.
- 2.11** The charge for rent and other services provided by the Housing Service are reviewed annually. These will be subject to a future report once the guidance has been received from WG regarding the setting of rents for 2020/21.
- 2.12** Set out below is a table summarising the original budget for 2019/20 with the proposed budget for 2020/21.

2019/20 Original Budget	Inflation / Pay Award	Committed Growth / (Savings)	Estimated Rent Increase	Increase/ (Decrease) in CERA	2020/21 Proposed Budget
£000	£000	£000	£000	£000	£000
(21)	58	542	(558)	(38)	(17)

2.13 A provision for general inflation includes an allowance for pay awards in 2020/21.

2.14 The net growth of £542k is due to a number of factors;

- A decrease in Capital Financing charges of £142k in relation to unsupported borrowing to be raised in 2020/21 to fund the Housing Improvement Programme
- An increase in Staff costs for increments and staff changes of £2k
- A decrease in Employee costs £19k
- An increase in Departmental support recharge of £62k
- An increase in Premises of £33k
- An increase in the Provision for Bad Debts of £609k
- A decrease in Supplies and Services of £52k
- A decrease in Transfer to reserves of £3k
- A decrease in Transport of £23k
- An increase in Income of £132k
- An increase in Central support £207k

2.15 A decrease in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £38k has been assumed. The amount of revenue contribution required is dictated by available revenue balances and the value of the Housing Improvement Programme. Adjusting the level of CERA by this amount will leave a balance on the HRA Reserve of £890k as at 31st March 2021 in line with the Housing Business Plan.

Next Steps

2.16 The next stage is for the estimates to be submitted to Scrutiny Committees for consultation. Corporate Performance and Resources Scrutiny Committee is the lead Scrutiny Committee and will consider both the Initial Housing Revenue Budget Proposals and any comments that other Scrutiny Committees have made.

The responses of Scrutiny Committee must be made no later than 19th December 2019.

- 2.17 The Budget Working Group will hold a series of meetings in November 2019 with the relevant Cabinet Members and officers to consider the budget proposals. They will submit their recommendations so that the Cabinet may make its final budget proposal no later than 3rd February 2020. Before making its recommendation, the Budget Working Group will consider the comments made by Scrutiny.
- 2.18 Cabinet's final budget proposals will be considered by Council at a meeting to be held on 24th February 2020.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1 Looking to the long term - The HRA is a significant resource, with an annual budget set to support the required level of service to tenants, all approved policy decisions and maintain an ongoing working balance to cover the cost of any exceptional circumstances that may arise.
- 3.2 Taking an integrated approach - Welsh Government sets the rent policy for social housing properties on an annual basis and the HRA budget and charges have been set based on the required target rent bands whilst also ensuring that they do not breach the housing benefit rent rebate limits set by the DWP.
- 3.3 Involving the population in decisions - The Housing Service continues to consult regularly with its tenants both through formal consultation exercises and through the Tenants Panel.
- 3.4 Working in a collaborative way - The Housing Service places collaboration and coproduction at its core through its work with other departments and statutory and voluntary sector partners both locally and at a regional level.
- 3.5 Understanding the root causes of issues and preventing them - Feedback from tenants is used to inform and improve service delivery and tenants are kept up to date and offered assistance to prepare for any changes in national policy such as welfare reforms in order to mitigate the impact on them and the HRA.

4. Resources and Legal Considerations

Financial

- 4.1 The Housing Revenue Account working balance at 1st April 2020 is projected to be £873k

Employment

- 4.2 There is no impact on staffing as a result of this report

Legal (Including Equalities)

- 4.3** The Council under the 1989 Local Government and Housing Act have a legal obligation to set a budget for the Housing Revenue Account. Notices of any increases have to be sent to tenants 28 days in advance of the new changes coming into effect.
- 4.4** Housing Services are carried out in accordance with the Council's Equal Opportunities policies and practices

5. Background Papers

- 5.1** Housing Business Plan February 2019

HOUSING REVENUE ACCOUNT			
Projected Income and Expenditure			
2019/20 ORIGINAL BUDGET £000	2019/20 AMENDED BUDGET £000		2020/21 INITIAL PROPOSED BUDGET £000
		Expenditure	
4,484	3,635	Supervision & Management - General	4,247
1,330	1,300	Supervision & Management - Special	1,318
4,043	3,843	Repairs & Maintenance	4,043
4,590	4,448	Capital Financing Costs	4,448
215	179	Rent, Rates, Taxes & Other Charges	199
594	264	Increase in Provision for Bad Debts	1,203
5,846	8,816	Capital Expenditure from Revenue Account (CERA)	5,808
21,102	22,485		21,266
		Income	
(19,837)	(19,595)	Dwelling Rents	(20,166)
(339)	(169)	Non Dwelling Rents	(177)
(10)	(13)	Interest	(10)
(491)	(480)	Charges For Services and Facilities	(493)
(312)	(299)	Contribution towards expenditure	(303)
(134)	(134)	Grant Income	(134)
(21,123)	(20,690)		(21,283)
(21)	1,795	(Surplus)/ deficit for the year	(17)

HOUSING REVENUE ACCOUNT			
Projected Movement on Reserve			
2019/20 ORIGINAL BUDGET £000	2019/20 AMENDED BUDGET £000		2020/21 INITIAL PROPOSED BUDGET £000
(852)	(2,668)	Balance Brought Forward as at 1st April (Surplus)/Deficit	(873)
(873)	(873)	Balance Carried Forward as at 31st March (Surplus)/Deficit	(890)