EASTSUFFOLK COUNCIL

CABINET

Tuesday 7 January 2020

HOUSING REVENUE ACCOUNT BUDGET REPORT 2020/21

EXECUTIVE SUMMARY

1. Under the Self-Financing regime, the future resources and spend of the Housing Revenue Account (HRA) are based on local decisions. This report outlines the HRA Income and Expenditure Budgets for the financial years 2020/21 to 2023/24 and notes the forecast position for 2019/20. In addition to this, a summary of its reserves and balances is included. The HRA budgets are fully funded from existing HRA funds to meet the Council's HRA spending plans. This includes the capital investment programme and reserve balances as per the HRA Financial Business Plan. Currently there is no requirement for any additional borrowing.

2. Since 1st April 2016, the Welfare Reform and Work Act 2016 has required social landlords to reduce their rents by 1% each year for four years ('the social rent reduction'). In October 2017, the Government announced that at the end of the four-year rent reduction, there would be a return to annual rent increases of up to the Consumer Price Index (CPI) plus 1% for at least five years. This would be implemented through the Rent Standard set by the Regulator of Social Housing rather than through legislation. On 26th February 2019 the Secretary of State for Housing, Communities and Local Government published a 'Direction to the Regulator' to set a Rent Standard that will apply from 1st April 2020. Alongside this Direction, the Government also issued a policy statement on rents for social housing (the Policy Statement) and the Regulator is required to have regard to this when setting its Rent Standard. For the first time, the Government has directed the Regulator to apply its Rent Standard to all registered providers of social housing, including local authorities. Details of the Policy Statement and Rent Standard from 2020 are provided in this report.

3. This report provides an opportunity for Cabinet to submit any comments to Full Council on the proposed 2020/21 budget for the HRA. Cabinet are asked to consider and make recommendations to Full Council regarding the:

- HRA budget for 2020/21, and the indicative figures for 2021/22 to 2023/24;
- Forecast outturn position for 2019/20 for noting;
- Movements in HRA Reserves and Balances;
- Average weekly rent for 2020/21 of £84.95 over a 50-week collection year (£83.05 2019/20), an average weekly increase of £1.90 or 2.3%;
- Service charges and associated fees for 2020/21;
- The new Rent Standard with effective from 1st April 2020 for noting; and

• Changes affecting public and private sector housing and welfare also to be noted.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards within the District

Cabinet Member:	Councillor Steve Gallant Leader of the Council and Cabinet Member with responsibility for Resources Councillor Richard Kerry Cabinet Member with responsibility for Housing Councillor Maurice Cook Assistant Cabinet Member for Resources

Supporting Officer:	Simon Taylor Chief Finance Officer and Section 151 Officer (01394) 444570 simon.taylor@eastsuffolk.gov.uk Amber Welham Senior Accountant (01502) 523662 amber.welham@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for Local Authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the Council's housing stock, offset by tenant rents, service charges and other income. The Council has a statutory responsibility to set a balanced HRA budget (i.e. all budgeted expenditure must be matched by income).

1.2 The Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016 made specific and significant provision for changes to the law affecting social housing providers with effect from April 2016. These changes included the statutory reduction of rents by 1% each year for four years, with 2019/20 being the final year of those reductions for the Council.

1.3 In February 2019 the Government set out a new policy statement for rents on social housing (the Policy Statement) effective from 1st April 2020. This will be implemented through the Regulator for Social Housing rather than through legislation. The Government published a 'Direction to the Regulator' to set a Rent Standard, and the Regulator is required to have regard to this when setting its Rent Standard. For the first time, the Government has directed the Regulator to apply its Rent Standard to all registered providers, including local authorities. Further detail on the 2020 Rent Standard is covered in Section 6 of this report.

1.4 The new rent policy will permit the Council to increase its rents for at least five years by up to the Consumer Price Index (CPI) plus 1%. Since 2001, social rents have been set based on a formula set by the Government and the new policy follows a similar process with the formulas set out in the Policy Statement.

1.5 In 2011, affordable rents were introduced and set at up to 80% of the market rent (inclusive of service charges), and from April 2015 the Government allowed social landlords to charge a full market rent where a social tenant has an annual household income of at least £60,000. This change allowed landlords to make better use of their social housing for properties rented to households with relatively high incomes.

2 KEY ISSUES AND CONSIDERATIONS

2020 Rent Standard

2.1 As referred to in Section 1.3 above, the Government's new policy statement for rents on social housing will be effective from 1st April 2020 and will be implemented through the 2020 Rent Standard. The new rent policy aims to strike a balance between the interests of existing social housing tenants who pay some or all of their own rent, the need to build more homes, and the importance of ensuring that providers of social housing have sufficient income to manage and maintain their housing stock.

2.2 The last significant change to rent setting was the 'social rent reduction' which came into effect in April 2016. This required social landlords to reduce their rents by 1% each year for four years. This reduction to rents had a significant impact on the HRA Financial Business Plan. Whilst the impact was contained within the existing parameters of the HRA, it resulted in reduced funds available to invest in the new housing development and redevelopment programme.

2.3 After four years of rent reduction, the new rent policy is welcomed. A five-year rent deal provides some stability to the Council in terms of its rental income stream, enabling the

Council to plan for its Housing Development Programme for the delivery of additional social housing properties.

Actuarial Valuation

2.4 The latest triennial actuarial valuation of the assets and liabilities of the Suffolk County Pension Fund was completed on 31st March 2019. The Council is awaiting the actuarial report but has been advised that its share of the pension fund was 98% fully funded at this date. The proposed employers pension contribution rate for 2020/21, 2021/22 and 2022/23 is 34%, 33% and 32% and is a reduction on the current rate for East Suffolk of 35.4%. The current rate is based on a Primary Rate of 22.8%, plus a deficit payment of £2.6m at 12.6%. The HRA share of the deficit payment is currently in the region of £600,000. As a result of the proposed reduction to the employer's pension contribution rate for the next three years, this will generate an average annual saving to the HRA of £180,000.

Right to Buy Scheme

2.5 As at 6th April 2019 the maximum discount available to Right to Buys (RTB's) is 70% or £82,800 (£110,500 in London Boroughs), whichever is lower. This figure increases each year in line with inflation. In 2012, the Council entered into an agreement with the Secretary of state to retain a share of its RTB receipts to reinvest in the provision of new affordable homes. The receipts used can only fund up to 30% of any investment into new affordable housing and must be spent within three years of receiving them.

2.6 From April 2012 the number of properties sold through the RTB scheme has steadily increased. In 2012/13 only nine properties were sold through the scheme, compared to 22 in 2018/19. Future year estimates are 30 per annum and is built into the HRA Financial Business Plan.

2.7 The implications of RTB sales is a reduction in dwelling rents received. The annual income lost through RTB sales in 2018/19 is £99,000, adding to the importance of increasing the HRA housing stock. RTB sales are considered when setting the dwelling income budgets.

3 WELFARE REFORM

3.1 The Welfare Reform Act 2012 introduced major changes to the way people receive Housing Benefit and other welfare benefits which present new risks to HRA income collection from tenants.

Universal Credit

3.2 The Welfare Reform Act 2012 introduced Universal Credit. This is to replace most existing working-age benefits with a single payment made directly to the claimant. Under Universal Credit there is a limit to the total amount of benefit a household can claim. As a result of this change there is a high risk that income previously guaranteed to the HRA may now not be collected.

3.3 Universal Credit is a single payment for working age people who are looking for work or on a low income. It replaces Housing Benefit, Working Tax Credit, Child Tax Credit, Income Support, Income based Jobseekers Allowance and Income related Employment and Support Allowance. It has been rolled out across the country and was introduced in the district in March 2015. The introduction initially only applied to people who were single and who would have previously applied for Jobseekers Allowance.

3.4 All postcodes within the East Suffolk area are now covered by Universal Credit Full Service.

3.5 Universal Credit has given cause for concern with landlords nationally. Landlords, including local authorities who were once guaranteed income, must now rely on claimants to make payments. Measures (see section 3.13 and 3.14) are being implemented to monitor and improve the effects of Universal Credit.

3.6 From April 2018, claimants wait time have reduced from six weeks to five weeks. If they are already receiving Housing Benefits, they will continue to receive this for the first two weeks of the claim process. This should help reduce pressure on tenants, and potentially have a positive impact on future rent arrears.

Under-Occupation Charge

3.7 The criteria under the Welfare Reform Act mean that any working-age household deemed to be under-occupying their home receives a cut in their Housing Benefit (or Universal Credit). The cut is a fixed percentage of the Housing Benefit-eligible rent. This is known colloquially as the 'Bedroom Tax'.

3.8 Government has set this at a 14% cut for one extra bedroom and a 25% cut for two or more extra bedrooms. In essence this means, for every £100 charged for rent, tenants will need to contribute £14 or £25 per week from their own resources. To help alleviate the pressure of this penalty, the Council's HRA offers the incentive of 'Cash-for-Moving'. This is a widely used scheme across councils to encourage tenants to downsize. Tenants can bid for a smaller property on Gateway to Home-Choice, and if successful the tenant could receive up to £2,000 depending on the number of bedrooms given up. The scheme was in place before welfare reform to encourage better use of the housing stock.

Rent Arrears

3.9 In addition to the loss of rental income, there is growing concern regarding rent arrears. In 2015 the total Benefit Cap was reduced from £26,000 to £20,000 (outside of London). This combined with the roll out of Universal Credit, the under-occupancy charge, and other general factors relating to the economy, has increased the risk of rent not being collected.

3.10 Rent arrears as at 27th November 2019 totalled £1,286,890.17 with prepayments of £490,071.76, giving a net arrears position of £796,818.41. This is the first year since 2015/16 where an improvement can be seen compared to the same point in time in the previous year. At the same point in time in 2018/19, rent arrears stood at £1,260,612.52 with prepayments of £412,561.52, giving a net arrears position of £848,050.76.

3.11 There has been a shift in the arrears. Any increases in arrears are between 1 and 12 weeks old. These will be directly linked to new Universal Credit claims which, if applied for correctly, should take five weeks to be received. Therefore, these are managed arrears and are a timing difference, rather than a true arrear.

3.12 To reduce the risk of arrears, new tenants are now asked to pay rent in advance. The amount they pay is linked to how regularly they pay their rent e.g. if a tenant pays weekly, they will be required to pay one week in advance.

3.13 Predictive analytics software was implemented at the end of 2018/19 for current tenant arrears. This has been successful in reducing the number of cases rent officers look at each week, allowing them to get through their case load and contact the tenants whose accounts require action. This in turn has led to a reduction on current tenant arrears at the end of both Quarter One and Quarter Two of this financial year from the same point in the previous financial year. With the current climate of full UC, it is nationally recognised that standing still in terms of arrears is the new upper quartile position, so to have achieved small reductions is an extremely positive step. Due to its positive impact, the former tenant arrears module has now been purchased and is currently being tested to address the high level of arrears in this area.

3.14 There is still much work to do in both areas, the tenant's portal and text messaging service are currently in test which will allow tenants to have 24-hour digital access to their rent account and will enable texting for automated balances or request contact from their Rent Officer. Tracing software is currently being explored as well as applying for money judgement orders for Former Tenant Arrears which will allow the Council to find and take action against those tenants who leave with a debt.

4 SELF-FINANCING ARRANGEMENT

4.1 The Self-Financing regime was introduced in April 2012. The Council had to take on a significant amount of debt (£68 million) in exchange for not paying future Housing Subsidy. This change is anticipated to be beneficial to the HRA over the long-term. It also means the future resources and spend of the HRA are now based on local decisions.

4.2 A 30-year financial business model is used to support the delivery of the HRA under the Self-Financing regime. It makes assumptions regarding the level of income available and the key risks facing the housing service delivery within this timeframe. It programmes in the years the Council expects to pay back the current borrowing, whilst delivering the needs of the service.

4.3 The HRA funds the costs of borrowing for the initial debt settlement. The Council has chosen to incorporate this debt into the Council's overall borrowing portfolio, creating a single pool and charging interest to the HRA in proportion to the debt it holds.

4.4 Self-Financing must not jeopardise the Government's priority to bring borrowing under control. It gives Council landlords direct control over a very large rental income stream, so borrowing financed from this income must be affordable within national fiscal policies as well as locally. Therefore, a limit was placed on the total housing debt that each local authority could support from its HRA. Waveney's HRA limit or 'borrowing cap' was placed at £87.26 million.

4.5 On 3rd October 2018, it was announced by Central Government that the HRA borrowing cap was to be 'scrapped'. It was officially removed on 30th October 2018 by Central Government issuing a determination revoking previous determinations that specified a local authority's limits on indebtedness. Nationally, the borrowing cap was tight in comparison to the value of the housing stocks local authorities hold, e.g. the Council's HRA housing stock has a market value of £536 million as at 31st March 2019, compared to a borrowing cap of £87.26 million.

4.6 As at 1st April 2019 the total debt for the Council's HRA was £76 million (£68 million from the Self-Financing settlement and £8 million pre-Self-Financing). During 2019/20 a further £4.8 million has been repaid on the Pre-Self-Financing debt, reducing the total debt for the HRA to £71.2 million. The HRA spending plans, including its capital investment programme, are currently fully funded from existing resources. Therefore, there is currently no need to make use of any additional borrowing.

4.7 Under Self-Financing, local authorities now have the opportunity with greater certainty to adopt a more strategic, long term approach to ensure that housing needs are met, that the housing stock is maintained, and where possible additional homes are provided. The Council has used this strategic approach to introduce the Housing Development and Redevelopment Programme.

5 HRA 2020/21 TO 2023/24 BUDGETS

5.1 The following table summarises the 2020/21 budget through to 2023/24. With a forecasted position for 2019/20. A brief description to each heading can be found in **Appendix A**.

	2019/20 Original £000	2019/20 Forecast £000	2019/20 Movement £000	2020/21 Budget £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000
Income							
Dwelling Rent	(18,765)	(18,703)	62	(19,157)	(19,540)	(19,988)	(20,445)
Non-Dwelling Rent	(181)	(163)	18	(175)	(178)	(181)	(184)
Service & Other Charges	(1,208)	(1,217)	(9)	(1,239)	(1,250)	(1,260)	(1,271)
Leaseholders Charges for Services	(10)	(10)	-	(10)	(10)	(10)	(10)
Contribution towards Expenditure	(33)	(69)	(36)	(34)	(34)	(34)	(34)
Reimbursement of Costs	(270)	(279)	(9)	(285)	(284)	(284)	(284)
Interest Income	(96)	(140)	(44)	(106)	(111)	(121)	(134)
Total Income	**(20,563)**	**(20,581)**	**(18)**	**(21,006)**	**(21,407)**	**(21,878)**	**(22,362)**
10% of total income	**(2,056)**	**(2,058)**	**(2)**	**(2,101)**	**(2,141)**	**(2,188)**	**(2,236)**
Expenditure							
Repairs & Maintenance	4,161	3,964	(197)	4,318	4,321	4,391	4,404
Supervision & Management	3,090	3,167	77	3,456	3,466	3,508	3,588
Special Services	1,908	1,942	34	2,109	2,123	2,147	2,181
Rents, Rates and other Charges	86	110	24	102	99	99	99
Movement in Bad Debt Provision	(26)	50	76	37	35	37	37
Contribution to CDC & Pension Backfunding	650	552	(98)	87	87	87	87
Capital Charges	3,736	3,339	(397)	3,539	3,818	4,069	4,310
Interest Charges	2,275	2,270	(5)	2,265	2,270	2,270	2,270
Revenue Contribution to Capital	5,120	2,277	(2,843)	5,410	5,497	4,623	4,623
Transfer to Earmaked Reserves	-	2,494	2,494	-	-	500	500
Total Expenditure	**21,000**	**20,165**	**(835)**	**21,323**	**21,716**	**21,731**	**22,099**
Movement in the HRA balance	**437**	**(416)**	**(853)**	**317**	**309**	**(147)**	**(263)**
HRA Balance carried forward	**(4,422)**	**(5,275)**	**(853)**	**(4,958)**	**(4,649)**	**(4,796)**	**(5,059)**

Highlights Regarding 2019/20 Forecast in table 5.1.

5.2 All income is still looking to come in close to the original budget. However, there are some large movements on the expenditure. There could potentially be a saving on repairs and maintenance. Details of repairs and maintenance can be seen in Section 7 and **Appendix C**. Some of the movement on repairs and maintenance relates to realignment of staffing, on supervision and management and special services.

5.3 There has been an increase on charges relating to void properties. This relates to the strategic management of some of the Council's housing stock to dispose of underperforming properties.

5.4 Although arrears are improving, the Council has erred on the side of caution regarding bad debt provision.

5.5 The cost for pension back funding provision in 2019/20 has been confirmed by Suffolk County Council to be less than anticipated (see Section 2.4).

5.6 Capital Charges relates to depreciation which has reduced due to delays in the capital programme.

5.7 Revenue contributions to capital have reduced significantly. This relates to the Housing Development and Redevelopment Programme. There have been reduced levels of staffing in this area during 2019/20. The work is being covered by a consultant four days per week. A restructure has been put in place, and all posts should be filled by March 2020, which will result in the programme picking up again in 2020/21.

5.8 The savings from the reduced capital spend have been transferred into HRA reserves (see Section 9).

2020/21 to 2023/24 Budgets

5.9 The table demonstrates a healthy HRA working balance. The carry forward balance from 2018/19 was £4.859 million, more than double the requirement. Best practice is considered to have a minimum working balance that approximates to 10% of the total income received in one year. The balance is planned to be drawn down in 2020/21 and 2021/22, to make best use of the funds, but remaining well above the required 10% minimum.

6 RENTS, SERVICES AND OTHER CHARGES

Dwelling Rents

6.1 In February 2019 the Government set out a new policy statement for social housing rents (the Policy Statement) with effect from 1st April 2020. This will replace the current legislative rent reduction of 1% until 31st March 2020 for the Council.

6.2 The Policy Statement will be implemented through the 2020 Rent Standard of the Regulator of Social Housing. For the first time the Government has directed the Regulator to apply its Rent Standard to <u>all</u> social housing providers, including local authorities. From 1st April 2020 annual rent increases will be permitted on both social and affordable rent of up to CPI (September of the previous year) plus 1% for at least five years to 2024/25. The Rent Standard also provides freedom to apply a lower increase or to freeze or reduce the rent if a registered housing provider chooses to do so.

6.3 The Council works on a 50-week rent period. The 52-week rent value is converted to the slightly higher 50-week value, allowing tenants to have two ‘rent free weeks’ over the Christmas period. This helps tenants at an expensive time of year, and for those in arrears, can help them ‘catch up’. 2019/20 is an unusual year in that 53 rent weeks fall into it. If charged for, this would generate additional income to the HRA. However, tenants will not receive any additional benefits or UC to cover this week, resulting in tenants being required to pay for this from existing funds. This could result in many tenants, including ‘good payers’ going into arrears. The Council had not budgeted to receive this income, and therefore has decided to give week 53 as an additional ‘free week’.

Social Rent

6.4 Social rent is described as all low-cost rental accommodation. Since 2001 social rents have been set based on a formula set by Government. This new policy follows a similar process with the formula and rent setting guidance, set out in the Policy Statement. Annual updates to the formula calculations will be published in November of the previous year.

6.5 Under the Rent Policy the initial rent may be set at a level no higher than formula rent, subject to rent flexibility. The formula rent takes account of relative property values, relative local earnings and a bedroom factor, i.e. smaller properties should have lower rents. The formula rent is also subject to a rent cap. The rent cap applies a maximum ceiling on the formula rent. Therefore, if the formula rent is higher than the rent cap for a particular property, the rent cap must be used instead. The rent caps will increase each year by CPI (September of the previous year) plus 1.5%.

6.6 The Government's Rent Policy recognises that registered housing providers should have some flexibility over the rent set for individual properties, to take account of local factors, in consultation with tenants. As a result, the Policy Statement contains flexibility to set rents at up to 5% above the formula rent (10% for supported housing). However, it must be demonstrated that there is clear rationale for doing so which considers local circumstances and affordability. This flexibility can be applied to new developments.

Affordable Rent

6.7 Affordable rent is exempt from the social rent requirements of the Policy Statement. The Government expects new build properties to be let at affordable rent values. Affordable rent allows the Council to set rents at a level that are typically higher than social rents. The intention behind this flexibility is to enable local authorities to generate additional capacity for investment in new affordable homes. The Council is applying affordable rents to new build or purchased properties and can do so as it has an agreement in place with the Secretary of State. The agreement allows the Council to retain RTB receipts for investment in new affordable rented homes.

6.8 The rent for affordable rent housing (inclusive of service charges) must not exceed 80% of gross market rent, i.e. rent for which the accommodation might reasonably be expected to be let in the private rented sector. The size, location and service provision must be taken into account.

6.9 Affordable rents must not increase by more than CPI (September of the previous year) plus 1%. As with social rent setting, this is a ceiling and a lower increase, or to freeze or reduce affordable rents is permitted.

Dwelling Rent Budget for 2020/21 Onwards

6.10 In accordance with the Rent Standard for 2020, rent increases for 2020/21 can be increased by up to 2.7%. This is the CPI for September 2019 of 1.7% plus 1%. By applying the rent setting policy as set out in sections 6.1 to 6.9 above, the average weekly rent for the HRA for 2020/21 is £84.95 (£83.05 for 2019/20) and is based on a 50-week collection year. This is an average weekly increase of £1.90 or 2.3% from 2019/20 to 2020/21. This generates additional income for the HRA for 2020/21 of approximately £430k. The HRA Financial Business Plan had previously forecast an increase of 3% for the period 2020/21 to 2022/23, which has been revised to 2.7%. However, 2023/24 was forecasted at 2% which has been increased to 2.7%. Therefore, this has had little impact on the budget. A prudent approach will continue to be taken, assuming a consistent 2% from 2024/25 thereafter.

6.11 Other factors are also taken into consideration when calculating the dwelling rent budget. Such as disposals through RTB's or asset management of underperforming stock, reconversions, new build developments and acquisitions.

Service Charges

6.12 Service charges are those charges payable by tenants to reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities, e.g. heating services and communal facilities in sheltered accommodation (Grouped Homes).

6.13 Councils can review their service charges annually. Service charges should be sufficient to cover the cost of providing the service and are not governed by the same factors as rents. Therefore, not all service charges will necessarily increase each year, they will replicate the cost of the service provided. As set out in the Policy Statement, increases for service charges should be managed, where possible, within the limit on rent changes of CPI plus 1%. Exceptions to this include new charges or where services have been extended.

6.14 The proposed service charges for 2020/21 are set out in **Appendix B** of this report. The costs of providing the services have been reviewed and set at a level to ensure that the costs are recovered. The HRA does not make a profit on the service charges, these are purely to recover HRA costs.

6.15 Many of the service charges, outlined in **Appendix B** will not increase in 2020/21. This is due to contracts that run for more than one year for a fixed price, or new contracts have been tendered resulting in reduced costs.

6.16 Grouped Home service charges relate to services provided to sheltered schemes and communal utility costs. The proposed general service charge for grouped homes for 2020/21 is set at an average weekly charge of £12.85 based on a 50-week collection year. This is a decrease of £1.02 compared to 2019/20. The new charge reflects the savings on providing the service.

6.17 The average heating charge is set to increase in 2020/21. The 2020/21 average Grouped Homes heating charge is £14.85 based on a 50-week collection year. This is an average weekly increase of £2.01 compared to 2019/20. Heating tariffs have increased in cost.

Other Charges

6.18 Garage rents are also set out in **Appendix B**. Garage rents are also collected on a 50-week collection period. For 2020/21 tenant's weekly garage rent is proposed to increase from £7.00 to £8.00, an increase of £1.00 on the 2019/20 charge. The proposed increased for non-tenant weekly garage rent is £11.40 from £10.00 (inclusive of VAT), an increase of £1.40 on the 2019/20 charge.

6.19 The increases are a reflection from extensive market research in the district.

6.20 Garage rents are to be considered for approval by Cabinet on 7th January 2020 as part of the 2020/21 Fees and Charges Report.

7 REPAIRS AND MAINTENANCE

7.1 The HRA repairs and maintenance (R & M) programme is split between capital and revenue. Revenue costs are to be funded from the revenue income derived from rents, whilst capital will be funded from the Major Repairs Reserve (MRR).

7.2 The repairs and maintenance revenue budget for 2020/21 has been set at £4.318 million, compared to £4.161 million in the 2019/20 budget. An analysis of the R & M revenue budget is set out in **Appendix C**. The £157,000 increase is due to a combination of things. £100,000 relates to growth on electrical testing. This is to cover the 'peak' of testing during 2020/21. The remaining £57,000 relates to increased staff costs, due to the change in the accounting treatment for the pension back funding, (see paragraph 2.4).

7.3 The amounts included in the repairs and maintenance revenue budget are deemed sufficient to allow the Council to carry out all necessary major works and to maintain the decent homes standard in all its properties.

HRA Capital Programme

7.4 The HRA capital programme forms part of the Council's overall capital programme, which is presented to Cabinet and Council at the same meeting as the HRA Budget Report. The HRA capital programme consists of capital budgets for housing repairs, project development and the Housing Development Programme.

7.5 The HRA capital programme will be funded via the rental income it retains, the Major Repairs Reserve (MRR), Right-to-Buy (RTB) receipts, external funding and capital receipts held. Details of the MRR are set out in paragraph 9.3. Funding of the repairs and maintenance aspect of the capital programme is through the MRR. The 2020/21 HRA capital programme is partly funded by Direct Revenue Financing, which totals £5.410 million. This represents £2.392 million towards housing projects and redevelopment and £3.018 million on the Housing Development Programme.

7.6 The Private Sector Housing Team continues to work hard, improving some of the most vulnerable stock in the District and ensuring that Disabled Facilities Grants are delivered to those who need such works to enable them to stay in their own home. These funds are provided by central Government with the HRA paying the cost of such works for its own council properties.

8 SPECIAL SERVICES

8.1 Special Services are made up of costs for Sheltered Schemes, Warden Services, Redevelopment and the New Build Programme. As the Redevelopment and New Build Programmes pick up pace, the associated revenue costs also increase. These costs include architect fees, consultant's fees and staffing.

9 HRA BALANCES AND RESERVES

9.1 The HRA has five Reserves as well as the HRA revenue working balance (see paragraph 5.9 for details on the revenue working balance). **Appendix D** shows the movement and balances of these reserves for the budget period 2019/20 to 2023/24.

9.2 Taking the Welfare Reform Act 2012 into account, the Council established an HRA Discretionary Housing Payments (DHP) 'top up' Reserve in 2012/13 with a fund of £500,000, recognising the unexpected and exceptional difficulties tenants may face arising from these changes. This reserve is to 'top up' the DHP's made by the Council by the value used by HRA tenants, only if the total payments made were to exceed the value of the DHP grant received by the Council. As yet, this has not been required. With increased Department for Work and Pensions (DWP) grant in recent years, it is unlikely to be required in 2019/20. However, the reserve will remain, in case it is required for future years. If any funds are to be transferred, it would require approval by the Secretary of State.

9.3 Following the introduction of the Self-Financing on 1st April 2012 and to meet changes in Accounts and Audit Regulations from 2012/13, depreciation charged to the HRA is no longer in the movement on the HRA statement. Instead, the depreciation charged to the HRA is credited to the Major Repairs Reserve (MRR). The MRR can be used to repay the principal elements of the HRA debt, as well as to finance capital expenditure on our existing dwelling stock. There are plans to use the MRR to part fund the capital programme in each year, whilst still increasing its balances to service future year's debt repayments. The balance as at 31st

March 2024 is projected to be a healthy £10.525 million, after paying the first instalment of £10.766 million borrowing that is due in 2021/22.

9.4 The viability of the Self-Financing regime depends ultimately on the Council acting prudently and in doing so, setting sufficient sums aside to meet its future liabilities. The transfer of funds to the Debt Repayment Reserve gives the Council flexibility around its future decisions for repaying the debt. The balance as at 31st March 2024 is forecasted to be £11.5 million. This is planned to pay the second substantial borrowing instalment of £10 million in 2026/27. Future debt repayment instalments will be funded by both the Debt Repayment Reserve and the MRR.

9.5 At 31st March 2019 the Council's housing stock totalled 4,446 units. Between 31st March 2019 and the 30th November 2019 there have been 17 RTB sales. This brings the current housing stock to 4,429 units.

10 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

10.1 The HRA Budget directly supports the Council's aim of Financial Self Sufficiency. With balanced budgets, and the ability to pay off its current debt, it demonstrates its ability to be financially self-sufficient.

10.2 In addition to demonstrating Financial Self-Sufficiency, the budget provides the finances to contribute to a number of the East Suffolk Business Plan action points, including specifically, 'Increase the number of new Council Houses', and 'Increase the opportunities and number of affordable homes'.

11 FINANCIAL AND GOVERNANCE IMPLICATIONS

11.1 The HRA Self-Financing regime transfers the financial risk to the Council. The HRA manages this risk through prudent budgeting, careful financial management and adoption of a rolling 30-year Financial Business Plan. The financial sustainability of the budget is managed by ensuring adequate funds are set aside to repay the debt and appropriate levels of working balances are available for any unforeseen costs. It also gives the HRA the opportunities to meet its business objectives whilst creating efficiencies and savings, giving added value for money.

12 OTHER KEY ISSUES

12.1 This report has been prepared having considered the results of an Equality Impact Assessment, and no issues have been identified. The proposed increase in rent will be eligible for Housing Benefit or Universal Credit. This means that tenants who are in receipt of limited incomes will not be disadvantaged.

12.2 The self-financing regime and the use of the 30-year financial business plan provides, long-term certainty over the Council's future investment decisions.

13 CONSULTATION

13.1 The proposed average weekly rent increase of £1.90 or 2.3% will be presented at the next Housing Benefit and Tenants Services Consultation Group on 20th January 2020.

14 OTHER OPTIONS CONSIDERED

14.1 Following four years of compulsory rent reduction, setting rents for 2020/21 below the maximum permitted under the Rent Standard is not recommended for the following reasons:

1) Under self-financing, the debt settlement figure that the Council can afford is based on a valuation of the Council's housing stock. This valuation is based on assumptions about income and need to spend over 30 years and that the Council will follow the Government's social rent policy. Therefore, the main disadvantage of setting rents lower than that permitted by the Rent Standard is the loss of revenue over the 30 years of the HRA Business Plan, the ability to service the debt and the adverse impact this will have on investment in the Council's existing housing stock and the delivery of the Housing Development Programme as currently planned. There is an expectation from Government for the social housing sector to make the best use of their resources to provide the homes needed.

2) The HRA has the option to borrow additional funds for future projects, as the borrowing cap has been removed, but the affordability of taking any additional borrowing would need to be assessed. At this time there is no need to make use of any additional borrowing, but this situation could change if rental income streams are not maintained.

15 REASON FOR RECOMMENDATION

15.1 To bring together all relevant information to enable Members to review, consider and comment upon the Council's Housing Revenue Account budgets, the average weekly housing rent, service and other charges and movements in reserves and balances, before making recommendations to Full Council on 22nd January 2020.

15.2 To advise Members of the wider housing and welfare changes that will impact on future service delivery.

RECOMMENDATIONS

That Cabinet recommends to Full Council to:

1. Approve the Housing Revenue Account Budget for 2020/21, and the indicative figures for 2021/22 to 2023/24;
2. Note the forecast outturn position for 2019/20;
3. Approve the movements in Reserves and Balances as presented in **Appendix D**;
4. Approve the average weekly rent for 2020/21 of £84.95 over a 50-week collection year, an average weekly increase of £1.90 or 2.3%;
5. Note the new Rent Policy Statement and Rent Standard for 2020 with effective from 1st April 2020;
6. Approve the Service Charges and associated fees for 2020/21, **Appendix B**; and
7. Note the changes affecting public and private sector housing and welfare.

APPENDICES	
Appendix A	Summary of Headings on HRA Chart of Accounts
Appendix B	HRA Service and Other Charges
Appendix C	HRA Repairs and Maintenance Revenue Budgets
Appendix D	HRA Balance and Reserve Summary
Appendix E	HRA Budget Key Assumptions

BACKGROUND PAPERS

Please note that copies of background papers have not been published on the Council's website www.eastsuffolk.gov.uk but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

Date	Type	Available From
November 2019	Equality Impact Assessment	Financial Services Team
31st October 2019	Regulator of Social Housing - Rent Standard April 2020	https://www.gov.uk/government/consultations/consultation-on-a-new-rent-standard-from-2020
26th February 2019	MHCLG – The Direction on the Rent Standard 2019	https://www.gov.uk/government/publications/direction-on-the-rent-standard-from-1-april-2020
26th February 2019	MHCLG – Policy statement on rents for social housing	https://www.gov.uk/government/publications/direction-on-the-rent-standard-from-1-april-2020

APPENDIX A

SUMMARY OF HEADINGS ON CHART OF ACCOUNT

Income;

- **Dwelling Rent**; Rental income from tenants for housing (Including Housing Benefits).
- **Non-Dwelling Rent**; Rental income for garages, and any other assets rented out by the HRA.
- **Services and other Charges**; Service Charges and nonspecific income.
- **Leaseholders charges for services**; Recharges to Leaseholders for works and services.
- **Contributions towards expenditure**; External contributions towards expenditure.
- **Reimbursement of costs**; Rechargeable works to a third party.
- **Interest Income**; Interest received on cash balances held by the HRA.

Expenditure;

- **Repairs and Maintenance;** General Repairs and Maintenance to all housing stock.
- **Supervision and Management;** Costs associated with running the HRA, e.g. tenant's services, office-based staff, IT etc.
- **Special Services;** Sheltered schemes, warden costs, property acquisitions, redevelopment and new development costs.
- **Rents, Rates and other Charges;** Council Tax charges for void properties.
- **Movement in Bad Debt Provision;** Bad debt provision is to hold funds to cover debt (arrears) that are unlikely to be recovered by the HRA. The current bad debt provision is £822k.
- **Contribution to CDC & Pension Back funding;** CDC is Corporate & Democratic Core costs. This is the HRA's contribution towards these and pension back funding.

  * NOTE; Contribution towards pension back funding is included in the pension cost to individual departments from 2020/21.
- **Capital Charges;** Depreciation charged to HRA assets. (This is transferred to the Major Repairs Reserve. This can fund capital work or contribute to paying down the debt).
- **Interest Charges;** The interest payments relating to HRA borrowing.
- **Revenue contribution to Capital;** Capital expenditure is large repairs work such as 'replacing a kitchen' or building new properties. These are funded from either the HRA 'Revenue Contribution', receipts held through the sale of assets (e.g. Right to Buy Properties), or other reserves and contributions.
- **Transfer to Earmark Reserves;** The HRA has several reserves, but the one used most frequently is the Debt Repayment Reserve. Money is transferred to this reserve each year to pay off the debt held by the HRA.

APPENDIX B

HRA SERVICE AND OTHER CHARGES

The following charges are based on a 50 week collection year. Under current policies, the following increases/(Decreases) in charges are proposed for 2020/21.

	Average Weekly Charge 2019/20 £	Average Proposed Weekly Charge 2020/21 £	Average Weekly Increase/ (Decrease) £
Grouped Homes Service Charges:			
General Service Charge	13.87	12.85	(1.02)
Heating Charge	12.84	14.85	2.01
Communal Water Charge	2.85	2.93	0.08
Support Charge	3.33	3.33	0.00
Laundry	3.90	3.90	0.00

	Weekly Charge 2019/20 £	Proposed Weekly Charge 20/21 £	Weekly Increase/ (Decrease) £
Caretaker:			
St Peter's Court	5.50	6.15	0.65
Dukes Head Street	4.10	4.55	0.45
Chapel Court	3.00	3.35	0.35
Servicing:			
Electric Central Heating System (Wet Systems)	1.60	1.60	0.00
Solid Fuel Central Heating System	2.36	2.36	0.00
Gas Fire	0.50	0.50	0.00
Ecodan Central Heating System Air Source Heat Pump	2.30	2.30	0.00
Septic Tank Emptying/Servicing	5.18	5.34	0.16
Flue Maintenance	2.36	2.36	0.00
Grounds Maintenance	1.38	1.38	0.00
Other:			
Communal Area Cleaning Service	0.52	0.54	0.02

	Weekly Charge 2019/20 £	Proposed Weekly Charge 2020-21 £	Weekly Increase/ (Decrease) £	
Garage Rents:				
Tenants	7.00	8.00	1.00	
Non Tenants (net of VAT)	8.33	9.50	1.17	**(11.40 inclusive of VAT)**

HRA REPAIRS & MAINTENANCE REVENUE BUDGETS

	2019/20 Approved Budget	2019/20 Forecast Outturn	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
Responsive Maintenance	**£**	**£**	**£**	**£**	**£**	**£**
Jobbing Repairs	1,345,700	1,348,600	1,552,100	1,604,200	1,636,700	1,634,100
Mutual Exchange (See note 1 below)	0	0	10,000	10,000	10,000	10,000
Tenant Allowances	50,000	50,000	50,000	50,000	50,000	50,000
Disabled Adaptations (See note 2 below)	190,000	190,000	190,000	190,000	190,000	190,000
Environmental Works	5,000	5,000	5,000	5,000	5,000	5,000
Fire Fighting Equipment and Detection	22,500	22,500	18,000	18,000	18,000	18,000
Door Porter and Security Systems (See Note 3 below)	17,000	2,000	0	0	0	0
Solid Fuel and Heating Repairs (See Note 4 below)	41,000	40,000	13,000	13,000	13,000	13,000
Emergency Lighting	7,000	15,000	7,000	7,000	7,000	7,000
Drainage and Pumping Stations	5,000	9,400	8,900	8,900	8,900	8,900
Insurance / Misc. - expenditure (See Note 5 below)	17,000	0	0	0	0	0
Rechargeable Works - Incl's Leaseholder Properties	25,000	40,000	40,000	40,000	40,000	40,000
Relet Repairs (Voids)	903,000	904,500	904,000	914,000	924,000	924,000
Lifts	8,000	8,000	8,000	8,000	8,000	8,000
Roof and PVC Panelling Cleaning	36,000	20,000	37,000	37,000	39,000	39,000
External Decoration	115,000	115,000	120,000	120,000	130,000	130,000
Loft Insulations (See Note 6 below)	5,000	0	0	0	0	0
Servicing Contracts & Repairs	561,500	475,000	486,500	500,500	515,500	530,500
Asbestos - Removal	80,000	80,000	80,000	80,000	80,000	80,000
Asbestos - Testing	95,000	95,000	95,000	95,000	95,000	95,000
Legionella	6,000	6,000	6,000	6,000	6,000	6,000
Electrical Testing & Repairs (See Note 7 below)	100,000	200,000	200,000	100,000	100,000	100,000
Communal Areas	57,000	35,000	58,000	60,000	60,000	60,000
Total Responsive Maintenance	**3,691,700**	**3,661,000**	**3,888,500**	**3,866,600**	**3,936,100**	**3,948,500**

Planned Maintenance	**£**		**£**	**£**	**£**	**£**
Bathrooms (See Note 8 below)	40,000	0	0	0	0	0
Chimneys	30,000	20,000	30,000	30,000	30,000	30,000
External Walls	25,000	45,000	25,000	30,000	30,000	30,000
Canopy / Porches (See Note 9 below)	6,000	0	0	0	0	0
Paths / Hardstanding	230,000	150,000	235,000	245,000	245,000	245,000
Boundary / Retaining Walls	23,000	23,000	25,000	30,000	30,000	30,000
Outbuildings	35,000	15,000	35,000	40,000	40,000	40,000
Structural / Damp / Drainage / etc	80,000	50,000	80,000	80,000	80,000	80,000
Total Planned Maintenance	**469,000**	**303,000**	**430,000**	**455,000**	**455,000**	**455,000**

Total HRA Housing Repairs	**4,160,700**	**3,964,000**	**4,318,500**	**4,321,600**	**4,391,100**	**4,403,500**

Notes:

Note 1 - A new charge is being introduced in 2020/21 for mutual exchanges. This fee will contribute towards the cost, producing a saving for the Council. This is a charge that many Councils have in place.

Note 2 - The Housing team completes Disabled Adaption works for the Private Sector Housing team. Income is received for this work covering the increase in costs.

Note 3 - Door Porter security system charges are now accounted for directly under the schemes they relate to, giving a true cost of each asset. The total cost is still the same as 19/20 original budget.

Note 4 - More heating repair costs are covered under the central contract, saving money on repairs costs.

Note 5 - Budget removed for insurance claims and only budgeted for, if and when they happen.

Note 6 - Most lofts are now insulated. These will be picked up under normal jobbing repairs in the future.

Note 7 - Budget for electrical testing increased for 2 years. There is a peak in the planned cycle testing programme.

Note 8 - Most Bathroom related costs are capital costs. Revenue costs to be picked up under jobbing repairs.

Note 9 - Very few Canopy or porches requiring work now. Therefore, costs are now picked up under jobbing repairs.

APPENDIX D

HRA BALANCE AND RESERVE SUMMARY

HRA WORKING BALANCE

	Closing Balance 31/03/19 £'000	*2019/20 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/20 £'000	*2020/21 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/21 £'000	*2021/22 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/22 £'000	*2022/23 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/23 £'000	*2023/24 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/24 £'000
HRA Working Balance	**-4,859**	-416	0	**-5,275**	0	317	**-4,958**	0	309	**-4,649**	-147	0	**-4,796**	-263	0	**-5,059**

HRA EARMARKED RESERVES

	Closing Balance 31/03/19 £'000	*2019/20 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/20 £'000	*2020/21 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/21 £'000	*2021/22 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/22 £'000	*2022/23 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/23 £'000	*2022/24 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/24 £'000
Debt Repayment Reserve	**-10,000**	-500	0	**-10,500**	0	0	**-10,500**	0	0	**-10,500**	-500	0	**-11,000**	-500	0	**-11,500**
HRA DHP topup Reserve	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**	0	0	**-500**
MMI Reserve	**-66**	0	6	**-60**	0	0	**-60**	0	0	**-60**	0	0	**-60**	0	0	**-60**
Impairment/Revaluation Reserve	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**	0	0	**-256**
Acquisition & Development Reserve	**-1,500**	-2,000	0	**-3,500**	0	3,500	**0**	0	0	**0**	0	0	**0**	0	0	**0**
Total HRA Earmarked Reserves	**-12,322**	-2,500	6	**-14,816**	0	3,500	**-11,316**	0	0	**-11,316**	-500	0	**-11,816**	-500	0	**-12,316**

HRA CAPITAL RESERVE

	Closing Balance 31/03/19 £'000	*2019/20 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/20 £'000	*2020/21 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/21 £'000	*2021/22 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/22 £'000	*2022/23 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/23 £'000	*2022/23 Movements* *Transfers In* £'000	*Transfers Out* £'000	Closing Balance 31/03/24 £'000
HRA Major Repairs Reserve	**-19,630**	-3,318	2,841	**-20,107**	-3,518	3,550	**-20,075**	-3,796	14,311	**-9,560**	-4,047	3,685	**-9,922**	-4,288	3,685	**-10,525**

APPENDIX E

HRA BUDGET KEY ASSUMPTIONS

The following key assumptions have been made in the budgets.

Income	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Dwelling rents annual increase	2.7%	2.7%	2.7%	2.7%
Allowance for voids - % of total rent roll	1.3%	1.3%	1.3%	1.3%
Garage rents annual increase *	14.0%	2.0%	2.0%	2.0%
Charges for services & facilities annual increase	1.00%	1.00%	1.00%	1.00%
Write-off allowance	£100,000	£100,000	£100,000	£100,000
Number of dwellings lost through Right To Buys (RTB's)	30	30	30	30
Number of new dwellings added to the stock	30	50	50	50
Average interest rate on HRA balances	0.74%	0.74%	0.74%	0.74%
Expenditure				
Average interest rate on variable debt	1.00%	1.00%	1.00%	1.00%

* 2020/21 High % increase is based on market research in the local area and charge is very low.