REPORT TITLE: HOUSING REVENUE ACCOUNT (HRA) BUDGET 2019/20 AND BUSINESS PLAN

30 JANUARY 2019

REPORT OF PORTFOLIO HOLDER: LEADER WITH PORTFOLIO FOR HOUSING – CLLR CAROLINE HORRILL

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WARD(S): ALL

PURPOSE

This report requests approval for the proposed HRA revenue budget for 2019/20, as detailed in Appendices 1 and 2.

The report also requests approval for the capital programme forecast for 2018/19, budget proposal for 2019/20 and 10 year plan to 2028/29. These figures are detailed in Appendices 3 and 4, taking account of the funding shown in Appendix 5.

The 2019/20 budget proposal and 10 year plan maintains a long term sustainable HRA Business Plan accommodating the future maintenance requirements from the latest stock condition survey. The survey maintains our policy of keeping existing stock at above decent homes standards and provides for substantial investment in new housing.

RECOMMENDATIONS:

That, subject to consideration and comments from TACT, it be recommended to Cabinet:

1. That delegated authority be given to the Corporate Head of Housing, in consultation with the Strategic Director (Resources), Leader and Portfolio Holder for Housing Services, to make adjustments to the overall Maintenance, Improvement and Renewal programme as set out in Appendix 3 to the report, including the flexibility to substitute projects and re-balance expenditure within and between the different elements/schemes in order to meet operational needs, changing priorities and commitment targets, with any changes being reported to Committee at the earliest opportunity.

That it be recommended **to Cabinet and to Council:**

2. That the 2019/20 Housing Revenue Account budget and final forecast for 2018/19 as detailed in Appendices 1 and 2 to this report be approved.

3. That the HRA Capital Programme for 2018/19 to 2028/29, as set out in Appendix 3 & 4 to this report, be approved.

4. That the proposed fire safety provision of £1m in 2019/20 identified in 11.5 be approved.

5. That in 2019/20, the HRA continues to include a provision of £100k to mitigate against the impact of the universal credit rollout throughout the district.

6. That authority be given to incur capital expenditure in 2019/20 of £9.046m for the Maintenance, Improvement and Renewal programme as detailed in Appendix 3 of the report, in accordance with Financial Procedure Rule 6.4 (noting that within this, for any schemes in excess of £100,000, a financial appraisal will be approved in accordance with the scheme of delegations), be approved.

7. That authority be given to incur capital expenditure in 2019/20 of £22.407m for the New Build programme as detailed in Appendix 4 of the report, in accordance with Financial Procedure Rule 6.4 (noting that within this, for any schemes in excess of £100,000, a financial appraisal will be approved in accordance with the scheme of delegations), be approved.

8. That the proposed funding for the HRA Capital Programme as detailed in Appendix 5, including the additional borrowing requirement, be approved.

9. That the HRA Business Plan operating account extract, including annual working balances as detailed in Appendix 6, is approved.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

1.1 Delivering quality housing options is a key part of the Council's strategy. In order to meet this objective, the Council needs to continually maintain current housing stock and provide a range of options for those residents who require assistance with their housing needs. Strong management of housing capital and revenue budgets is a primary factor in supporting this objective.

2 FINANCIAL IMPLICATIONS

2.1 These are detailed in section 10 of this report, but in summary:

- The proposed HRA budget for 2019/20 shows a deficit of £4.6m after taking into consideration a contribution to the capital programme of £8.6m.

- Employee costs take into consideration the proposed pay award of 2% from April 2019.

- Revenue repairs budgets take into consideration inflationary increases for 2019/20, as shown in Appendix 1.

- Dwelling rents take account of the final year of the Ministry of Housing Communities and Local Government (MHCLG) rent reduction policy of 1% for 2019/20. This rent reduction is offset by 2019/20 being a 53 week year, resulting in an extra week of rent being recognised. A 53 week year occurs on average every 5 years dependent on how the calendar falls from April to March each year.

- The major repairs programme has been reset to match requirements from the HRA stock condition survey.

- The new build programme includes scheme completions that are currently on site and due for completion in 2019/20.

- With the removal of the HRA debt cap in October 2018 the new build programme includes all of the schemes that were identified in the recent MHCLG additional borrowing bid apart from strategic land.

- The revised budget and capital programmes and funding requirements have been tested through the Council's HRA Business Plan software and this has confirmed the continuing affordability of the programme for the next 30 years.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The Council is required to maintain a separate Housing Revenue Account with a positive working balance, set at a minimum of £1.1m, increased by RPI each year. On 30 October 2018 the HRA debt cap was lifted, allowing the Council to set the level of borrowing in line with affordability, risk and prudential borrowing rules. The outcome of the MHCLG consultation on the use of right to buy receipts is expected before the end of March 2019. This might provide more flexibility on the use of 1 for 1 receipts including allocating receipts against shared ownership properties. The current business plan is based on the existing rules for the use of right to buy receipts. Effective management of the HRA is necessary to ensure that statutory requirements are met.

3.2 As referred to in Recommendation 7, any HRA projects with costs in excess of £100,000 will be subject to a financial appraisal in line with Financial Procedure Rules. Similarly, new build projects that are to progress to planning application and to tender will be reported to the Committee for approval.

4 WORKFORCE IMPLICATIONS

4.1 The budget options report presented to this Committee in November 2018 (CAB3098(HSG) refers) included additional resources for supporting the roll out of Universal Credit during 2018/19 and continuing into 2019/20.

4.2 The 2019/20 budget and future years in the business plan include the impact of the closure of the car leasing scheme in September 2019.

4.3 Employee costs for 2019/20 include known additional costs arising from the proposed salary assimilation process.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 The capital programme for the next 10 years ensures that major works identified in the stock condition survey continue to be dealt with to ensure that existing Council stock remains above decent homes standards.

5.2 The new build programme is based on existing on site schemes and new schemes that were included within the MHCLG additional borrowing bid. With the lifting of the HRA debt cap in October 2018 the 30 year business plan assumes additional borrowing of £39m to support the expanded new build programme.

6 CONSULTATION AND COMMUNICATION

6.1 A briefing paper on the key points of this report will be presented to TACT on 16 January. Representatives from the Panel will be in attendance at the Committee meeting to make oral representation on the report.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 The investment in property and estates set out in this report has a direct impact on improving the environment, including upgrading heating systems, estate improvement works, etc.

8 EQUALITY IMPACT ASSESSMENT

8.1 None.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required.

10 RISK MANAGEMENT

10.1 The key risks impacting on the HRA budget are shown below.

Risk	Mitigation	Opportunities
Property *That the Council fails to adequately maintain housing stock and their condition falls below decent home standards.*	An effective and well funded programme of capital works linked to a comprehensive stock condition survey and sound future planning ensures decent home standards are met and maintained.	The Government are currently looking at a potential revision to decent home standards following the Grenfell Tower disaster in 2017.
Community Support *Consultation is required with tenants regarding HRA budgets and with the wider community over new build developments.*	Regular communication is maintained with tenants and leaseholders on a variety of housing issues. The Council consults with local residents and stakeholders on proposed new build schemes.	Pro-active consultation can bring forward options that otherwise may not have been considered.
Timescales *Delays to new build contracts results in lost revenue and potentially increased costs.* *An achievable new build programme is necessary to avoid the Council having to repay Right to Buy 1-4-1 receipts with interest or penalties.*	New build contracts contain clauses to allow the Council to recover damages if the project is delayed due to contractor actions. Close control is maintained on Right to Buy receipts and these are monitored against future spending plans to ensure action can be taken if necessary.	The MHCLG have recently consulted on the use of Right to Buy receipts, including extending the retention of existing receipts from 3 to 5 years. There is also the potential for the use of receipts on shared ownership properties. An announcement following the consultation is expected later in 2018/19.
Project capacity *The HRA debt cap and*	Regular monitoring of	The MHCLG have

rules around the use of Right to Buy receipts may limit the ability of the Council to implement proposed new build schemes at the required pace. *Staffing resources (sometimes outside of Housing) reduce the time available to push forward new build schemes at the required pace.*	budgets and business plans, together with the use of suitable financial assessment tools enables the Council to manage resources effectively. Staff resources within Housing are regularly reviewed and regular project meetings are held with colleagues in other Departments to enable an ambitious new build programme to be delivered.	announced the lifting of the HRA debt cap from 30 October 2018. This will allow the Council to control the level of debt taking into consideration prudential funding rules and the ability to service debt within the HRA balance. This will allow the Council to fund more housing development activity in the future.
Financial / VfM *The current rent reduction rules are directly impacting on the Council's ability to maintain services at existing levels but new announcements should allow an element in business planning until 2025.* *The roll out of Universal Credit (UC) in Winchester is due to complete by December 2018. This will have an impact on the level of arrears and the potential for rent write offs in future years.*	Regular budget monitoring and opportunities to save costs assist with maintaining services at required levels. Winchester is working closely with the DWP and tenants who are affected by UC. Additional resource has been included in the 2018/19 budget to support tenants and minimise the impact on rent arrears.	
Legal *Changing Government priorities and a greater emphasis on "social housing" (as compared to affordable housing) may impact on the Council's new build programme.*	Government policy changes are being followed closely to identify any new risks or opportunities that they bring.	
Innovation *The introduction of a Housing Company to support the new build*	Legal and business planning advice is being sought on an appropriate	

programme is brought in without reference to existing rules and consents.	solution.	
Reputation *Failure to complete major housing projects due to resources would be likely to affect both customer satisfaction levels and the Council's reputation.*	Business planning tools with regular updates are utilised to make sure resources are available to complete projects.	
Other *None.*		

11 SUPPORTING INFORMATION:

11.1 Housing Revenue Account Budget 2019/20

11.2 Details of the proposed budgets are shown in Appendices 1 and 2 and the larger item adjustments highlighted in the subjective summary in Appendix 2 are as below:

- Employees – The 2019/20 budget position is broadly similar the revised 2018/19 forecast with an increase of £50k. The 2019/20 budget includes a proposed cost of living award of 2% and some savings arising from the salary assimilation process.

- Premises – the reduction of £160k compared to the 2018/19 forecast takes into consideration the rebasing of response repairs to the business plan level and some reductions in estate maintenance costs.

- Transport – the reduction of £54k compared to the 2018/19 forecast takes into consideration the closure of the car leasing scheme from September 2019.

- Supplies & Services – the increase of £106k in 2019/20 includes a provision of £100k for potential expenditure on universal credit tenant support and administration following the role out in the council area in 2018/19. There is also a £250k New Build feasibility provision to support the expansion of the New Build programme following the removal of the HRA debt cap.

- Depreciation – this takes account of charges based on the component accounting method adopted in 2017/18 and changes in property numbers arising from new build and disposals.

- External Income – the increase of £324k compared to the 2018/19 forecast is due in part to the full annual effect of new build properties that were completed during 2018/19. The 2019/20 budget also includes the last year of the 1% rent reduction MHCLG rent policy but this is offset by 2019/20 being a 53 week year resulting in an extra week of rent being recognised.

- The first 25% tranche of garage transfers from the HRA to the General Fund will take place in March 2019. As previously agreed, the majority of garages, except those held for potential future development, will be transferred over a 4 year period from 2018/19. The proposed 2019/20 budget includes a reduction in garage rental income and associated costs, including maintenance & management. By the end of 2021/22, being the final year of garage transfers, no further garage rental income and associated costs will be recognised in the HRA.

11.3 Housing Services Capital Programme 2019/20 to 2028/29

11.4 The programme shown in Appendix 3 is broadly in line with the figures disclosed in the budget options report CAB3098(HSG) in November 2018. However, there have been some amendments to the 2018/19 forecasts and 2019/20 budgets in the new build programme to reflect more up to date information on expected completion times for current sites.

11.5 Since the Grenfell Tower tragedy in 2017 fire safety, in particular sprinkler systems, has become the key focus of housing providers and local authorities. In addition to the stock condition survey requirements, the Council is proposing to allocate a £1m fire safety provision in 2019/20. This will ensure any fire safety improvements identified as a priority by the property maintenance team have sufficient funding.

11.6 New Build Capital Programme 2019/20 to 2028/29

11.7 The programme shown in Appendix 4 is broadly in line with the figures disclosed in the budget options report CAB3098(HSG) in November 2018. However, there have been some tweaks to the 2018/19 forecasts and 2019/20 budgets in the new build programme to reflect more up to date information on expected completion times for current sites.

11.8 The proposed budget for 2019/20 and 10 year plan to 2028/29 includes all schemes identified in the MHCLG additional funding bid from September 2018 with the exception of strategic land.

11.9 By 2020 there will be 600 housing units either complete or actively in progress. The current business plan demonstrates that for the period covering 2018/19 - 2028/29 1,000 units could be delivered with additional borrowing of £39m. The plan assumes that some schemes will be funded from HRA revenue, grants and other sale income, including Right to Buy and Shared Ownership properties. The Business plan as detailed in the appendices has sufficient resource to support a programme to develop 1,000 units over the next 10 years.

11.10 The additional borrowing requirement of £39m is £13m lower than the MHCLG additional funding bid of £52m. The bid included £5m for strategic land, but as there is no associated rental stream, this does not feature in the latest business plan. The bid also included an internal funding projection from RTB proceeds and HRA revenue funding of £13m however this has increased to £22m for the 3 years up to 2021/22. The business plan assumes maximum use of the HRA working balance over the first 3 years of the plan but then increases for the remainder of the plan (see Appendix 6).

11.11 A review is required to prioritise the future new build programme beyond the schemes identified in Appendix 4. The review will take into consideration the New Build strategy, including mix of unit types and tenure. Other issues including availability of land and grant subsidy from Homes England will also need to be considered. A working group will be created to include members and officers with the intention of producing a longer term programme centred around housing need.

11.12 The 2018/19 forecast is £9.35m, some £550k higher than the figure identified in the budget options paper CAB3098(HSG) November 2018. The increase is mainly due to the contract costs at Chesil Lodge being slightly higher than previously forecast. A final settlement was agreed with the main contractor Galliford Try in December 2018 following negotiation since the scheme completed in May 2018. The forecast for the scheme has been increased by £850k in 2018/19, although the extra cost has been covered by additional funding from Hampshire County Council for the day centre element and by increased sale receipts on the shared ownership and outright sale properties than was originally forecast. The Dolphin House scheme is not now due to start on site until early 2019/20 resulting in a reduced forecast of £200k in 2018/19. Upfront costs at Hookpit, Kings Worthy are now forecast to be £100k lower in 2018/19 than previously identified due to the start on site now scheduled for early 2019/20.

11.13 <u>Capital Programme Funding 2018/19 to 2028/29</u>

11.14 The funding for the capital programme shown in Appendix 5 takes into consideration additional loan funding following the removal of the HRA debt cap on 30 October 2018. Right to Buy 1-4-1 receipts are utilised to their fullest extent and capital contributions from the HRA are controlled to leave an annual minimum balance in the HRA (£1.1m in 2019/20 rising by CPI each year).

11.15 <u>HRA Business Plan and Emerging Issues</u>

11.16 Extracts from the HRA Business Plan in the form of the operating account and capital financing account are shown in Appendices 6 and 7. These confirm that the Council will maintain a sufficient surplus in the HRA and will not face a shortfall on the capital programme over the 30 year plan.

11.17 MHCLG recently announced the rent policy from April 2020 recommending rent increases at CPI plus 1% for 5 years. The business plan includes this policy change with the assumption that rent increases by CPI only for the remainder of the plan from year 7.

11.18 The full impact of Universal Credit is not yet known, given that it only went live during 2018. The bad debt allowance increases to 4% in 2022/23 and then reduces to 3% annually for the remainder of the 30 year plan. This reflects the potential increase in arrears although individual cases will be monitored closely to limit the impact.

11.19 Equally, there has been no indication of whether local housing allowance (LHA) rates will be adjusted after April 2020 (at present they are held at 2015/16 levels) and this has an impact on affordable rents in new build schemes where the Council currently restricts rents to the higher of 70% of market rents or LHA.

11.20 The key business plan priorities for 2019 and beyond will be set out in the Housing Portfolio Plan which will be considered by this Committee in March 2019.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 The Plan has taken account of the national rent reduction requirements and the Council had no option in relation to this matter. All proposals relate to and take full account of the existing Portfolio plan, newly updated Housing Strategy and the refreshed Council Strategy.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3016(HSG) – HRA Budget 2018/19 & Business Plan 2018/48 – 31 Jan 2018.
CAB3098(CAB) – HRA Budget Options 2019/20 & Rent Setting – 21 Nov 2018.

Other Background Documents:-

HRA Business Plan 2019/20 to 2048/49, held within the Housing Department.

APPENDICES:

Appendix 1: HRA 2019/20 Budget – Service Summary

Appendix 2: HRA 2019/20 Budget – Subjective Summary

Appendix 3: Housing Services Capital Programme 2018/19 to 2028/29

Appendix 4: New Build Housing Capital Programme 2018/19 to 2028/29

Appendix 5: HRA Capital Programme Funding 2018/19 to 2028/29

Appendix 6: HRA Business Plan 2019/20 to 2048/49 Extract – Operating Account