

DRAFT 2018/19 HOUSING REVENUE ACCOUNT (HRA) BUDGET

Cabinet Member Cllr Peter Hare-Scott, Cllr Ray Stanley
Responsible Officer Andrew Jarrett, Director of Finance, Assets & Resources
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Reason for the report: To consider options available in order for the Council to set a balanced budget for 2018/19 and agree a future strategy for further budgetary planning for 2019/20 onwards.

RECOMMENDATION: To consider the draft budget proposals for 2018/19 and note the proposed balanced position at this time.

Relationship to the Corporate Plan: To deliver our Corporate Plan's priorities within existing financial resources.

Financial Implications: The Housing Revenue Account currently has a balanced budget for 2018/19.

It is a statutory requirement for the Local Authority to set a balanced budget each year.

Risk Assessment: Service Managers and Finance staff have assessed volatility in income and large contractor budgets, taking account of current and estimated future demand patterns. In addition prudent levels of reserves will also continue to be maintained.

Equality Impact Assessment: It is considered that the impact of this report on equality related issues will be nil.

1.0 Introduction

1.1 The HRA is a ring-fenced account within Mid Devon's financial accounting system. This means that a balanced budget must be set each year including all income and expenditure pertinent to the Council's landlord function and excluding all other income and expenditure (since this would be captured as part of the General Fund budget).

1.2 This report will set out management's proposals for a draft HRA budget for 2018/19 and members will see from Appendix 1 that, as it stands, the budget has been balanced and so nets to nil. The report will outline the key issues affecting the HRA today, along with how they impact on the setting of a budget for 2018/19. The report will go on to make recommendations to members to note its content and to highlight issues expected to affect the HRA in the future.

2.0 Key Issues

Right to Buy Property Sales

- 2.1 Central government have imposed a Right to Buy (RTB) policy on local authority landlords which provides an incentive to tenants to exercise their right to buy. Of course, each time they do our rent income reduces and the sale proceeds received are small.
- 2.2 At present, a tenant could pay as little as £30,000 for a £100,000 house¹. In such a case as this, the Council would retain only a portion of this as some of the money has to be returned to central government. If we then fail to spend sufficient funds on building new homes during the subsequent three years, still more of the sales proceeds have to be returned to central government.

Rent decrease

- 2.3 In 2015 central government announced that social and affordable rents would decrease by 1% each year for the four years from 2016/17 to 2019/20. The budget being set for 2018/19 is the third year of this policy and so there are two further years to run beyond 2017/18. From 2020-2025, the pre-existing rent policy of increasing by CPI+1% annually will be reintroduced.
- 2.4 The difficulty this gives Mid Devon is that, whilst we currently have sufficient funds to carry out the day-to-day running of the service, we are not generating sufficient funds to build new homes at the rate that central government has indicated in its initiative '*Reinvigorating Right to Buy and One for One Replacement*' (published March 2012).

Other income

- 2.5 It is proposed to freeze garage rents at their current rate of £11.10 per week. It is considered sensible to maintain rents at this level since an increase is likely to lead to a reduction in customer numbers.
- 2.6 Community alarms are set to be frozen a £3.76 per week since this is considered to be on a par with what competitors are charging and it should be noted that, since community alarms are no longer a landlord function, MDDC intends to account for this income and expenditure in the General Fund from 2018/19 onwards.

Direct Labour Operation (DLO) carrying out non-HRA works

- 2.7 Each year any spare capacity is put to good use by our operatives carrying out works that might otherwise require Mid Devon to use an external contractor and so incur additional cost. In doing so, the Repairs team are able to transfer a significant amount of their costs to the relevant area and so reduce the overall DLO budget.

¹ Right to Buy discounts range from 35%-70% on a house and 50%-70% on a flat

- 2.8 Since the draft budget brought before the PDG in November, the following changes have occurred.
- HRA Shop Units - £20k maintenance work identified
 - Revenue Contribution to Capital now includes £130k software costs and the £40k vehicle purchase has been removed
 - Assumed pay rise of 2% instead of 1%, resulting in an increase of £21k across all areas
 - Amount transferred to Housing Maintenance Fund reduced from £1,783k to £1,639k
- 2.9 In addition to these changes, a review of the way in which the costs of Grounds Maintenance works are charged to the HRA is underway. Although the final outcome has not been reached at the time of publication, indications are that the cost to the HRA will rise somewhat. Therefore, an estimated increase of £50k has been built into these budgeted figures for 2018/19.

3.0 Recommendation

- 3.1 It is recommended that members of the group consider the proposals for this draft HRA budget along with the details laid out in this report. It is also recommended that members note that this report proposes a balanced budget for 2018/19. This is positive in that it means that there are no savings yet to be found to balance the budget.
- 3.2 However, it should be noted that some items within the budget may change between now and the final budget being agreed by Full Council and these changes could come as a result of members' suggestions, management proposals or central government instructions.

4.0 Future Issues

- 4.1 Universal Credit has been the biggest uncertainty in social housing for the last few years and continues to be so. It is not clear exactly what the precise financial impact of full transition will be for Mid Devon but we do expect to see an impact during 2018/19 and there may be significant implications for budgets in future.
- 4.2 Following 2018/19, there will be one further year of the 1% rent decrease and then five years of increases at CPI+1%. After that, it is unclear what rent policy central government will set out for us to follow. Clearly, the costs of running the service will increase with inflation over the coming years and so it is hoped that rent collected will be sufficient to meet the needs of the service.

5.0 Conclusion

- 5.1 This report has set out a proposed balanced budget for the HRA for 2018/19, with appendices attached showing the following.
1. The overall makeup of the budget at summary level
 2. The proposed rent for 2018/19
 3. The proposed fees and charges for 2018/19
 4. An extract from the Planned & Cyclical Maintenance budget

5.2 It has been recommended above that members note the contents of this report and details of the proposed budget. This meeting is the final opportunity for the group to consider the budget prior to approval by Full Council on 21st February 2018.

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Circulation of the Report:

Leadership Team, Elected Members and Group Managers