

**DRAFT 2020/21 HOUSING REVENUE ACCOUNT (HRA) BUDGET**

**Cabinet Member** Cllrs Alex White and Simon Clist  
**Responsible Officer** Andrew Jarrett, Deputy Chief Executive (S151) and  
Andrew Pritchard, Director of Operations

**Reason for Report:** To consider options available in order for the Council to set a balanced budget for 2020/21.

**RECOMMENDATION(S):** To consider the draft budget proposals for 2020/21 and note the proposed balanced position at this time.

**Relationship to Corporate Plan:** To deliver our Corporate Plan priorities within existing financial resources.

**Financial Implications:** The Housing Revenue Account currently has a balanced budget for 2020/21. It is a statutory requirement for the local authority to set a balanced budget each year.

**Legal Implications:** None directly arising from this report, although there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

**Risk Assessment:** The MTFP makes a number of financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available.

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

**Climate Change Assessment:** The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change, as the MTFP sets the broad budgetary framework for the Council over the coming years.

## **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 sets out management's proposals for a draft HRA budget for 2020/21 and Members will see from Appendix 1 that, as it stands, the budget has been balanced. The report outlines a few high level issues affecting the HRA today, along with how they may impact when setting the final budget for 2020/21. The report makes 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 has imposed a Right to Buy (RTB) policy on local authority landlords which is extremely generous to the tenant but which is detrimental to the running of an HRA. The result of this is that our tenants are incentivised to exercise their right to buy and each time they do, our rental income is reduced and the sale proceeds are limited.
- 2.2 At present, a tenant could pay as little as £30,000 for a £100,000 house. 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, more of the sales proceeds have to be returned to Central Government.

### **Rent changes**

- 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 2019/20 was the fourth and final year of this policy. This restriction has now expired and the Formula now allows an increase (in keeping with previous years) of CPI + 1%, which will result in a maximum increase of 2.7%. Please note that, according to Central Government, Formula Rent is the maximum amount of rent that properties on social rent are to be charged.
- 2.4 Despite this proposed increase, whilst we currently have sufficient funds to carry out the day-to-day running of the service, it is a challenge for the Council to build new homes at the rate that Central Government requires, with the funds available.

### **Other income**

- 2.5 Proposed increases to garage rents and garage ground rents are set out at Appendix 3.

## **3.0 Direct Labour Operation (DLO) carrying out non DLO works**

- 3.1 Each year any low demand periods experienced by our operatives are put to good use by carrying out works that might otherwise require the Council to use an external contractor and so incur additional cost. In doing so, the repairs team are able to recharge a significant amount of their costs to the relevant area and so reduce the overall DLO budget.
- 3.2 For 2020/21 the DLO have budgeted to transfer £1.2m of their costs to other areas as well as doing £600k disabled adaptations work. This is a huge achievement as well as the obviously demanding task of maintaining an excellent repairs service.

## **4.0 Recommendation**

- 4.1 It is recommended that Members 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 already proposes a balanced budget for 2020/21. This is positive in that it means that there are no savings still to be found to balance the budget.
- 4.2 However, it should be noted that as this report is a first draft of the 2020/21 budget, invariably some items within the budget are likely to change between now and the actual budget being agreed by Council and these changes could come as a result of Members' suggestions, management proposals or central government instructions.

## **5.0 Future issues**

- 5.1 Universal Credit has been the biggest uncertainty in social housing for the last few years and continues to be so. We are currently managing to mitigate this new pressure, which is time-consuming and labour intensive, but we are mindful that the managed migration of the majority of claimants is yet to come with no firm timetable for this at the time of writing. There may yet be spikes as migration continues and this is a risk which should be considered when workforce planning.
- 5.2 Now that the enforced reduction in rents has expired, there will be the ability for increases at CPI + 1% for five years. After that, it is unclear what rent policy Central Government will impose. 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.
- 5.3 The change to the rent charging policy is good news in terms of the sustainability of the HRA over the long term, however the pressure the RTB policy has on the HRA bottom line cannot be underestimated.
- 5.4 The Council will continue to evaluate its options for maintaining its stock levels through acquisitions and new building programmes; this will be assessed against the funding costs for such activities.
- 5.5 Modelling is underway to look at the tipping point where stock numbers dwindle to a level where our known costs, i.e. our maintenance programme and our fixed 'mortgage', will no longer be manageable against a reduced rental income.

## **6.0 Conclusion**

- 6.1 This report has set out a proposed balanced budget for the HRA for 2020/21, with appendices attached showing the following:
- 6.1.1 The overall make-up of the budget at summary level.
- 6.1.2 An extract from the planned and cyclical maintenance budget.

6.1.3 Rental forecast figures for 2020/21.

6.1.4 Proposed garage rents and garage ground rents for 2020/21.

6.1.5 Assumptions made for the draft 2020/21 budget (Appendix 5).

6.2 It is recommended that Members note the contents of this report and details of the proposed budget. A further, more detailed report will come to the PDG in January 2020 prior to approval by Council in February.

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**Circulation of the Report:** Cllrs Alex White and Simon Clist, Leadership Team, Group Managers for Housing Services and Building Services