

## **HOUSING REVENUE ACCOUNT (HRA) BUDGET 2021/22 AND ONWARDS**

**Cabinet Member:** Cllr Bob Evans (Housing), Cllr Andrew Moore (Finance)  
**Responsible Officer:** Andrew Jarrett – Deputy Chief Executive (S151)  
Simon Newcombe – Group Manager for Public Health and Regulatory Services

**Reason for Report:** To present proposals for the first draft of the Housing Revenue Account budget for 2021/22 and the HRA Medium Term Financial Plan for 2021 to 2026.

**Recommendation:** That members of the PDG consider the draft proposals for 2021/22 and note the proposed balanced position on both the budget and the Medium Term Financial Plan at this time.

**Financial Implications:** The Housing Revenue Account (HRA) currently has a proposed balanced budget for the year 2021/22 and proposals for further years of balanced budgets to 2026.

**Budget and Policy Framework:** This report forms part of the Council's annual process of setting balanced budgets across all areas of income and expenditure.

**Legal Implications:** 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.

**Relationship to Corporate Plan:** The financial resources of the Council impact directly on its ability to deliver the Corporate Plan; prioritising the use of available resources brought forward and any future spending will be closely linked to key Council pledges from the updated Corporate Plan.

**Impact on Climate Change:** It is considered that the impact of this report on climate change related issues will be nil.

### **1.0 Introduction/Background**

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 2021/22 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 2021/22. 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**

### COVID-19

2.1 The global pandemic that has been experienced so far in 2020 and continues to be experienced across our region and others has had an obvious and significant impact on the local economy. There have been impacts on every activity that occurs within the HRA, from the Council's ability to collect income to void turnaround times. As a result the impact can be seen in every area of budget setting in this HRA report. It should be noted that, although the financial impact of COVID-19 has been seen mostly during 2020/21, this is not reflected in the 2020/21 budget since that was agreed prior to the pandemic. Thus, we are comparing a pre-COVID budget (2020/21) with a COVID-recovery budget (2021/22).

2.2 At present it is unclear how and when many economic uncertainties will be resolved and so medium term planning is also affected. The HRA Medium Term Financial Plan (MTFP) is included as appendix 4 and is based on the draft budget for 2021/22 with inflationary assumptions built in for future years.

### Rent Policy

2.3 Rent policy set out by central government states that existing rents must be increased annually by the previous September's CPI rate, plus an additional 1%. Although this calculation has been applied (giving a rent increase of 1.5%) the overall increase in dwelling rent budget is only 0.2%. The reasons for this are as follows.

- Increased void turnaround times mean that more properties sit empty at any one time, thus generating no rent.
- Income collection has become more challenging since the pandemic impacted and this could lead to increased write-offs of arrears.
- Similarly, the transition to Universal Credit means that some rents that would have been received automatically are now recoverable from the tenant. Where tenants suffer a financial impact from the current climate, arrears are likely to increase with the potential for further write-offs, which represent a cost to the Council.

2.4 It is unclear at this stage precisely to what extent our arrears will be affected and for what duration. For purposes of this draft budget it has been assumed that arrears will continue to rise during 2021 and that it may therefore be necessary to increase the bad debt provision at the end of March 2022. A budget to increase the bad debt provision by £150k has been proposed.

### Other Income

2.5 The garage rents budget is based on rent levels remaining at £10.71 per week (based on a 52 week year) and customer numbers remaining at current levels.

Should customer numbers change significantly there would clearly be an impact on the budget position, either adverse or favourable.

2.6 Due to the current economic climate it is proposed to keep garage ground rents at their current level, £275 per annum. This can be reviewed in a year's time when we may have more economic certainty.

2.7 Income generated from interest where cash balances have been invested have performed reasonably well over recent years. However, the financial markets have taken a significant dip during 2020 and so cash balances are not generating such high returns. For this reason the budget target has been reduced by 40% and it is hoped that this will be achievable in 2021/22.

#### Building Services operation carrying out Major, Cyclical and non-HRA works

2.8 Each year any low demand periods experienced by our operatives are put to good use by 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 Repairs team budget.

2.9 For 2021/22, the Building Services team have budgeted to carry out major voids upgrades, installations of both traditional and renewable heating systems as well as other major work and cyclical servicing and remedial fixes. This should result in a transfer of £1,265k of their costs to other areas as well as £619k of disabled adaptations work.

#### Staffing costs

2.10 The corporate management lead for housing is currently working with both HRA service areas and Cabinet lead to develop proposals for a restructuring to create a combined 'One housing' HRA service. Any restructure will therefore bring together Housing and Building Services and is aimed at ensuring a sustainable HRA is in place capable of delivering further service improvements. This will be subject to a business case and wider consultation in due course but may have a positive impact on staffing costs as the service transitions during 21/22 and be more clearly shown in the budget for 22/23 onwards.

2.11 In 2021/22 there is a proposal to create two new roles within Housing and Tenancy Services, totalling an additional £78k if approved. The Repairs team are carrying some vacancies at present and it is anticipated that these will be filled. It is also anticipated that in 2021/22 the expenditure on materials and contractors will return to levels similar to 2019/20 and so increases in those budgets are required to meet this need.

#### Housing Maintenance Fund

2.12 Any surpluses generated by the HRA are used to contribute to the Housing Maintenance Fund (HMF). This fund is designed to meet any spikes in the cost of major works in the HRA's plan to 2048. In order to balance the 2021/22 proposed budget, it is proposed that the contribution to the HMF be reduced accordingly by £445k.

#### Medium Term Financial Plan (MTFP)

- 2.13 The HRA MTFP is based on the proposed budget for 2021/22, with assumptions and any known future events used to determine a forecast of both expenditure and income for the period from April 2021 to March 2026.
- 2.14 Rent has been assumed to grow at an average of 1.5% per annum, which is the same as rent increase for 2021/22. Under the current rent setting policy this would mean the Consumer Price Index (CPI) growing by only 0.5% each year.
- 2.15 It is assumed that the costs of providing both the repairs and tenancy services will rise by 2% per year on average. This would lead to the combined cost of these services rising from £5.3m to £5.8m during the term of this forecast. For 2021/22 the budget for movements in bad debt provision has seen a significant rise to £150k. Assuming some measure of economic stability emerges it seems likely that such large increases will not be needed each year and this budget is therefore reduced by 20% each year.
- 2.16 When all of these assumptions are taken into account, the amount available to transfer to the HRA's earmarked reserves should grow from £1.6m to £2.2m during the term. Managers will continue to review this position in order to make policy decisions and allocate funds appropriately.

### **3.0 Recommendation**

- 3.1 It is recommended that members of the group consider the proposals for this draft HRA budget and MTFP along with the details laid out in this report. It is also recommended that members note that this report proposes a balanced budget for 2021/22. 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 Following 2021/22, there will be three further years of the September CPI plus 1% rent increases. After that, it is unclear what rent policy central government will set out for us to follow. Clearly, there is great uncertainty of how 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 2021/22, with appendices attached showing the following.
1. The overall makeup of the budget at summary level
  2. The proposed rent for 2021/22
  3. An extract from the Planned & Cyclical Maintenance budget

#### 4. The HRA Medium Term Financial Plan 2021-26

- 5.2 It has been recommended above that members note the contents of this report and details of the proposed budget. A further set of proposals will be brought before this group in January 2021 prior to approval by Full Council in February 2021.

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**Circulation of the Report:** Cllr Bob Evans, Cllr Andrew Moore, Leadership Team

**List of Background Papers:** N/A