

SCRUTINY COMMITTEE
18 JANUARY 2021

DRAFT 2021/22 HOUSING REVENUE ACCOUNT (HRA)

Cabinet Member(s): Cllr Bob Evans (Cabinet member for Housing), Cllr Andrew Moore (Cabinet member for Finance)

Responsible Officer(s): Andrew Jarrett – Deputy Chief Executive (S151), Simon Newcombe – Group Manager for Public Health and Regulatory Services

Reason for Report: To present proposals for the second draft of the Housing Revenue Account budget for 2021/22.

Recommendation: That the PDG recommend to Cabinet to agree the rent increase proposed and the other budget proposals for 2021/22.

Financial Implications: A balanced and realistic budget must be set for 2021/22 in order to maintain a sustainable Housing Revenue Account with adequate investment for necessary maintenance.

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 the officers' 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.

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. In terms of the direct impact on the HRA, at the time of compiling this report indicative markers such as arrears levels and debts written off are not notably different from the previous year, however this does not suggest there will not be an impact going forward, therefore the budget (as reflected in the round 1 draft) has been updated in respect of the provision for bad debts (see 2.4).
- 2.2 Given there is no end date to the current lockdown and any future lockdowns cannot be ruled out, Members will need to be aware that this will potentially have an impact for the remainder of the 2020/21 and future budgets.

Rent Policy

- 2.3 Rent policy set out by central government states that existing rents can 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 0.7%. 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.
 - 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.
 - Therefore it is proposed to apply an increase to social and affordable rents by CPI (0.50%) +1% for 2021/22.
- 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, ie £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, due to uncertainties and the economic impact of Brexit, the budget target has been reduced by a further £22k from the first round (draft) budget.

Building Services 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, cyclical servicing and remedial fixes. This should result in a transfer of £1,228k of their costs to other areas as well as £619k of disabled adaptations work.

Staffing costs

- 2.10 In line with Council policy for the General Fund, our estimates for HRA establishment costs assume a pay freeze for 2021/22. This has resulted in a £37k saving estimated on the original draft budget, this is net of a forecast pay award provision of £15k (approximately 0.50% of establishment costs) as local authority pay increases are not set centrally. The corporate management lead for housing is currently working with both HRA service areas and the Cabinet member 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 2021/22 and be more clearly shown in the budget for 2022/23 onwards. In the short term, the Operations Manager for Building Services has advised of a revision to the establishment reflected in the 2020/21 budget. This should be in place, subject to the necessary consultation period, for the commencement of the new financial year. Taking account of the assumed pay freeze the establishment saving, year on year, will be £92k, with further additional savings on overhead expenditure. This has been reflected in the proposed budget for next year.
- 2.11 In 2021/22 there is a proposal to bolster the complement of staff within Tenancy Services. This proposal is to create three new posts, not including an additional 30% charge from the General Fund for use of a Tree Officer; year on year salary increases are forecast at £172k. 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 for the year is circa £895k.

3.0 Recommendation

- 3.1 It is recommended that members consider the proposals for this draft HRA budget along with the details laid out in this report.
- 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.
- 4.2 The immediate concern for the HRA, as well as the wider Council financial position, are the currently unquantifiable effects of Brexit and the scale of the Covid pandemic.

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. The proposed fees and charges for 2021/22
- 5.2 It has been recommended above that members agree the contents of this report and details of the proposed budget to be forwarded to Cabinet prior to approval by Full Council in February 2021.

Contact for more Information: Andrew Jarrett 01884 23(4242) / ajarrett@middevon.gov.uk

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