

## POLICY AND RESOURCES COMMITTEE

13 November 2019

- Subject:** **Housing Revenue and Capital Budget**
- Strategic Director:** Tricia Marshall, Deputy Chief Executive
- Decision Issues:** These matters are within the authority of the Council.
- Classification:** This report is open to the public.
- CCC Ward(s):** **All**
- Summary:** *This report sets out proposals for the revenue and capital budgets of the Housing Revenue Account (HRA) for 2020/21.*
- Overall expenditure in 2020/21 is projected to exceed income by £525,000.*
- This is the first year since April 2016 that rents have been increased. For four years mandatory rent reductions of 1% per annum significantly reduced rental income, which is our primary source of revenue, and has weakened the financial position of the HRA accordingly.*
- The Council will complete the remodelling of its new housing stock at Parham Road and purchase the social housing at Kingsmead Field.*
- At the same time, capital investment in the maintenance of our existing stock is continuing at a similar level to last year's budget. The capital programme will be funded by borrowing, grants and capital receipts.*
- The HRA Business Plan, approved in October 2019, prioritises good financial management to restore the financial sustainability of the HRA to enable the council to develop new homes and maintain its existing properties to a good standard.*
- To recommend to Council:** **To approve the HRA revenue and capital budgets set out in the appendices A to C to this report.**
- Next stage in the process:** Consideration by full Council on 13 February 2020.

### SUPPORTING INFORMATION

#### 1. Introduction

This report explains the proposed revenue and capital budgets of the Housing Revenue Account (HRA) for 2020/21. The council is required to have an HRA by the Local Government and Housing Act 1989. It is a ring fenced account for income and expenditure arising from the provision of housing accommodation under Part II of the

Housing Act 1985. The HRA cannot be funded from or make contributions to the council's General Fund.

This is the first year since 1 April 2016 that the council has been permitted to increase rents. For four years the Government imposed rent cuts of 1% per annum weakened the financial position of the HRA, reducing income over that period by an estimated cumulative figure of at least £2.8 million. The Government has announced that the new rent policy, enabling councils to increase rents by CPI + 1% per annum, will be in place for a five year period, which restores some medium term certainty about income levels.

The council will continue to develop new homes, completing the remodelling of properties at Parham Student Village and buying the social housing at Kingsmead Field. The ambition to build new homes has to be balanced with the need to maintain our existing dwellings to a good standard and fulfil our responsibilities as a good landlord.

## 2. **Detail**

The main elements of the HRA are:

- Revenue income, including rents, service charges, and cash savings (referred to as balances). (Summarised in Appendix A).
- Revenue expenditure, including the self-financing debt repayment, the cost of housing management, day-to-day repairs and maintenance and prudential borrowing. (Appendix A).
- Capital financing, including capital receipts from the sale of council dwellings or other HRA property, borrowing and contributions from revenue. (Appendix B).
- Capital expenditure, including the planned maintenance programme, fire prevention works and the purchase and remodelling of dwellings. (Appendix B).

Expenditure in 2020/21 is projected to exceed income by £525,000. This shortfall has been met from the HRA's working balances. The council aims to retain a prudent HRA surplus of at least £1.5 million at all times.

Important factors in the budget in 2020/21 are set out below.

### **Reduced revenue income**

- Rents  
Income from rents in 2021/21 will increase by approximately £688,000 (see Appendix A). Rental projections have not been received from East Kent Housing (EKH) so the 2020/21 estimate has been based on 2019/20 current rental income at week 25 projected for 50 weeks increased by CPI of 1.7% + 1% in accordance with Government rent policy.

This is the first rent increase since The Government imposed rent controls that obliged the council to reduce rents by 1% a year for a four year period from 2016/17. This overturned the 2015/16 policy that restricted social rent increases to CPI plus 1% for a period of 10 years. That arrangement was intended to provide certainty about future revenues, enabling the development of long-term business plans and investment in new homes.

It is estimated that the compounded effects of the four-year rent reductions equated to at least a 12% loss of rental income in real terms by 2019/20, estimated cumulatively at about £2.8 million. This measure has had a serious impact on our HRA and the HRAs of all housing stock-holding local authorities.

The current rent settlement should last for five years, which provides a degree of certainty for financial planning in the short term, but there is no clarity thereafter.

The introduction of universal credit (UC) last year is starting to have an impact on housing rent arrears. Learning from other authorities, it is likely that rent arrears will increase as more tenants transfer to UC. The government has made some changes to UC as part of the recent budget and the impact of these need to be assessed. At present, the provision for bad debts has been increased by a small amount and this will be kept under review.

- Other charges for services and facilities  
Government guidance encourages the council to keep service charge increases within CPI (1.7%) plus 1%. In 2015/16 Council adopted the principle of recovering the actual cost of services. If service charges are not in line with actual spend they will be raised by CPI plus 1% plus up to a further £1 per week. This approach ensures that service charges remain affordable.

### **Revenue spending**

- Responsive repairs and planned maintenance will be higher by £174,000 based on estimates supplied by EKH. This is summarised in Appendix C. Overall we are spending more than we can afford on revenue repairs, which is unsustainable, and is contributing to a projected revenue shortfall of £525,000, which will be funded from working balances (Appendix A). Spending on responsive repairs must reduce in future years and the planned maintenance programme must become more effective.
- The management fee paid to EKH is £3.4 million. Additional revenue resources were provided in 2019/20 to support the EKH Improvement Plan, which is intended to enable EKH to improve the areas of service which are not performing well including mitigating the impacts of welfare reform and universal credit: improving rent collection rates: additional procurement support and contract supervision.

In late May 2019 it emerged there were serious issues of non-compliance with regards to EKH's management of gas safety across East Kent's council housing stock. Subsequently it emerged that there were further cases of potential non-compliance with regards to other areas of safety work.

Within the context of this serious issue and more general concerns regarding the performance of EKH, a report was presented in October 2019 on the wider issues of housing management for this council and to commence consultation with the council's tenants as soon as practicable on withdrawal from EKH, including the option of bringing the housing management function back within the council's control. This budget does not contain any of the costs that will be incurred in this event.

## **Capital spending**

Housing improvements, renewals and repair

- The capital budget for improvements, renewals and repair will reduce to £6.1 million. Planned capital programmes of maintenance and renewal generally provide better value for money than ad-hoc revenue repairs. However, the accuracy of the stock condition data analysis, which should underpin the investment requirements of the maintenance programme is doubtful, given delays in procuring the capital maintenance programme over several years. We are concerned about the impact on the standard of our homes and the quality of life of the residents. Therefore, we will require a new analysis to take account of the increasing maintenance backlog, the effect on the condition of our stock and the cost of achieving the Decent Homes Standard.
- Investment in fire precautions remains a priority, with £750,000 to complete the works identified in fire risk assessments (Appendix B).
- In 2019/20 £321,000 was allowed to remove obsolete fixed community alarm equipment from designated older persons accommodation. The equipment is to be replaced with individual community alarms tailored to individual needs and choice. This programme will be completed by the end of March 2020.

Old Dover Road Hostels

- The council is facing ever-increasing demands on its services by households at risk of homelessness. £800,000 was earmarked to improve living conditions in the Old Dover Road Hostels. However, the accommodation that would have been produced would still have been less than satisfactory. Therefore, modern studio accommodation was purchased as part of our Parham portfolio to improve the quality of this vital service. The Old Dover Road premises is scheduled to be marketed for sale at auction in December 2019.

Acquisitions

- £1.6 million has been allowed to complete the remodelling of the properties bought at Parham. The project is producing a mix of types and sizes of much-needed homes. A further £1.4 million will purchase 5 houses built as part of the council's development at Kingsmead Field.
- The capital programme will be funded by external borrowing of £7 million plus grants and capital receipts.

### **3. Relevant Council Policy/Strategies/Budgetary Documents**

HRA Business Plan 2019

Housing, Homelessness and Rough Sleeping Strategy 2018-2023.

### **4. Consultation planned or undertaken**

The HRA is part of general council budget consultation. In addition Council tenant representatives on Canterbury Area Board/Tenants Consultative Group are consulted and their views taken into account.

## 5. **Options available with reasons for suitability**

Option 1 – recommend the housing revenue and capital budget.

Option 2 – amend the housing revenue and capital budget.

Option 3 - not recommend the housing revenue and capital budget.

Option 1 is the recommended option. It ensures continuity of service to tenants and meets the council's legal obligations as a landlord.

## 6. **Reasons for supporting option recommended, with risk assessment**

Option 1 is preferred because it ensures that the council can continue to provide services to vulnerable tenants and meet its legal responsibilities as a landlord. This budget is based on the most robust data currently available to the council.

## 7. **Implications**

(a) Financial Implications – detailed in the body of the report and the conclusion.

(b) Legal Implications – The council is required to have an HRA by the Local Government and Housing Act 1989 as a ring-fenced account for income and expenditure relating to the provision of council housing. The HRA cannot be funded from or make contributions to the General Fund. A realistic and robust HRA budget must be agreed to enable the council to fulfil its legal obligations as a landlord.

(c) Equalities – none identified.

(D) Environmental Sustainability/Biodiversity - Elements of the capital maintenance programme will improve energy efficiency of our homes.

## 8. **Conclusions**

The HRA faces a number of challenges, which this budget aims to address. For the first time in four years rents will increase to help pay for desperately-needed investment in our existing homes and new stock. However, there remains a considerable amount of work during the forthcoming years to ensure that the HRA's finances are robust and sustainable.

**Contact Officer: Gary Peskett**  
**Job Title Strategic Housing Manager**  
**Telephone: 01227 862066**

**Appendices A to C**