



PURPOSE: Key decision

MEETING: Cabinet

DATE: 21 January 2020

TITLE	HRA Budget proposals for 2020/2021		
Ward(s)	All		
Author: Sarah Spicer	Job title: Business Planning and Service Development Manager		
Cabinet lead: Cllr Paul Smith	Executive Director lead: Stephen Peacock		
Proposal origin: BCC Staff			
Decision maker: Cabinet Member			
Decision forum: Cabinet			
Purpose of Report:			
<ol style="list-style-type: none"> 1. The report seeks Cabinet’s endorsement of the proposed 2020/21 Housing Revenue Account (HRA) Budget and planned expenditure. In addition it seeks delegated authority to appoint contractors to support the delivery of these plans, including the Housing Investment Plan and HRA Development (new build and property acquisition) programme. 2. To advise of the intention to return to Cabinet in autumn 2020 seeking approval for a revised 30 year HRA business plan in line with the Medium Term Financial Plan. In light of this approval is only being sought for a one year budget. 			
Evidence Base:			
<p>The Housing Revenue Account (HRA) is a separate ring-fenced account and covers all activities of BCC as a landlord of circa 28,500 housing stock (rented and leasehold). The Council has a duty to develop a balanced HRA budget for the next financial year, as well as a sustainable long term business plan, which takes into account both the capital investment needs of its stock and the revenue costs of managing and maintaining it.</p> <p>For 2020/21 a one year budget is being presented for approval. We propose returning to Cabinet in autumn 2020 with a revised 30 year Business Plan that reflects the long term challenges, and opportunities for the HRA service to maximise the use of its financial resources, in the light of the lifting of the HRA borrowing cap.</p> <p>The longer term perspective is crucial to ensure that the HRA can continue with an ambitious development programme and make sure that our primary assets, the housing stock, are fit for purpose and there is sufficient financial capacity to carry out essential repairs and improvements. Work is currently underway on several key areas that will help shape the new business plan:</p> <ul style="list-style-type: none"> • Develop an active Asset Management Strategy, to better understand investment needs and review options for low performing stock (i.e. stock with high investment needs and/or low tenant satisfaction with homes). This strategy needs to address the fact that the HRA has an aging stock that requires significant investment to meet modern standards and tenant expectations • Shape an ambitious programme to increase the provision of new affordable housing, in order to alleviate housing demand and address rising levels of homelessness and rough sleeping. • Identify tenant priorities and improve service provision, recognising the challenge of delivering housing services for over 28,000 households many of whom have complex needs; with consequences for themselves, neighbours and communities. <p>The one year budget focuses on three main areas of activity: repairing, maintaining and improving existing stock; providing services for council tenants and leaseholders; and the continuation of our development programme.</p> <p>This year (2019/20) was year four of the Government mandated 1% annual rent reduction. Previous HRA budgets have focussed on reducing spending to match the reduced income and capacity. In 2020/21 there is a reversion back to an index-linked rent setting policy, effective from April. The new Rent Standard allows social landlords to increase rents by up to CPI +1% (Consumer Price Index, which is a rate of inflation). It also allows for discretion to set an</p>			

additional 5% to formula rents for general needs housing and 10% for supported housing, which can only be applied when a property is let to a new tenant.

In 2019/20 average rents (excluding service charges) on HRA properties was £78.70, approximately 34% of average market rent levels in Bristol. However, for 2020/21 we are not recommending a rent increase for tenants, though we do seek endorsement to use flexibility to increase formula rents by 5% for general needs and 10% for supported housing where applicable.

Rents and service charges remain the main source of HRA income, for 2020/21 the HRA forecasts a revenue of £119.1m in comprised of:

- **£110.0m** rental income (assuming no housing rent increase)
- Of this a percentage will be lost as no income is received while properties are void (empty) **-£1.2m**
- **£8.2m** service charges (based on actual costs, which are anticipated to rise in line with the pay award which is assumed in the budget to be 2.7%)
- **£2.1m** in charges for other assets, including garages and shops, and interest on balances.

Appendix A1 contains further details regarding the proposed budget, detailing income and expenditure. This includes information relating to levels of reserves.

Appendix A2 provides information regarding the Housing Investment Plan, outlining the expenditure required to maintain and invest in existing homes, whilst responding to Bristol's commitment to become carbon neutral by 2030 and responding to changing regulations relating to building safety.

Appendices A3 and A4 provide additional information regarding the HRA Development Programme. These homes will be comprised of both social rent and low cost homes ownership. This will require funding in the order of £40.8m in 2020/21.

Cabinet Member / Officer Recommendations:

That Cabinet endorses the following recommendations for approval at Full Council:

- Approve the 2020/21 HRA budget for revenue which includes the following:
 - No increase in housing rents for 2020/21
 - Increase of 2.7% (CPI +1%) with effect from April 2020 for garage rents
 - £119.1m revenue expenditure, of which £33.0m is detailed in Appendix A2, the Housing Investment Programme (HIP)
 - £33.0m capital expenditure on existing stock as per the HIP
 - £40.8m on the Development Programme as per Appendices A3 and A4
 - £5.0m on improvements to Sandy Park site subject to Business Case being brought back to Cabinet for approval
 - £0.9m for other capital projects including the ICT project.
- Authorise the Director of Housing and Landlord Services, in consultation with the Councillor for Housing and Councillor for Finance, Performance and Governance, to approve the use of flexibility in the rent standard with effect from April 2020, for new tenants only for:
 - up to 5% for housing
 - up to 10% for supported housing
- Authorise the Executive Director of Growth and Regeneration to set service charge budgets in line with the anticipated cost of delivery. The main inflationary increase will be staff salary costs, pay award pending.

That Cabinet:

- Authorises the Executive Director of Growth and Regeneration in consultation with the Cabinet Member for Housing, section 151 officer and the monitoring officer to take all steps necessary to procure and award contracts during 2020/21 to deliver both the capital and revenue investment plans, plus the acquisition plans as set out in detail in Appendices A2 and A3 notwithstanding that individual contracts may exceed the key decision threshold.
- Notes that the development schemes as per Appendix A4 will be brought back to Cabinet during the year for approval when detailed spending plans are available.
- Approves the movement of previously earmarked HRA reserves into one general HRA reserve as detailed in Appendix A1.

Corporate Strategy alignment:

1. The HRA business plan and budget proposals ensure a quality housing service contributing to the overall corporate objectives particularly around "fair and inclusive" (decent homes that people can afford) and

“wellbeing” (healthy and more resilient communities).

City Benefits:

1. Fifteen percent of housing in Bristol is owned and managed by Bristol City Council, therefore decisions about the HRA budget impact directly on a significant number of households, as well as contributing to delivery of objectives in the Council’s Corporate and Housing strategies.
2. £66.0m of the HRA will re-invested in homes in 2020/21, helping to safeguard the value of HRA assets; positively impact on the well-being of residents; and ensuring health and safety obligations are complied with.
3. An additional £40.8m of HRA money will be used provide new affordable accommodation, by building or acquiring homes, helping to meet housing needs and address homelessness and rough sleeping.

Consultation Details:

N/A

Background Documents:

[Policy statement on rents for social housing](#)

[Decision Statement: Rent Standard 2020](#)

Revenue Cost	£119.1m	Source of Revenue Funding	<i>Rents, other income and HRA balances.</i>
Capital Cost	£79.7m	Source of Capital Funding	<i>Funded within the HRA.</i>
One off cost <input type="checkbox"/>	Ongoing cost <input checked="" type="checkbox"/>	Saving Proposal <input type="checkbox"/>	Income generation proposal <input type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice: The Council has a duty to agree a balanced HRA budget for the next financial year, as well as maintaining a sustainable long term business plan, which takes account of capital investment needs in its stock and the revenue costs of managing and maintaining it. The HRA budget is ringfenced and must be accounted for separately from the General Fund. The HRA should maintain an appropriate level of reserves which will be used in the longer term to finance capital investment not supported through the annual depreciation charge.

There are significant financial risks to the sustainability of the HRA going forward as set out in the report, particularly with regard to maintaining an aging stock that requires significant investment to meet modern standards and tenants expectations and meeting the demand for housing hence the need to maximise the income generated. During 2020/21 the HRA 30 year business plan will be reviewed in conjunction with the MTFP to ensure an effective balance between investment in stock, associated environmental improvements, revenue management and maintenance costs.

Since the removal of the Debt Cap in 2018, Local Authorities have been free to raise additional financing to assist them with the delivery of additional housing stock, and to deliver key strategic objectives, for example carbon free homes.

However, it is important to note that, like any organisation, the level of debt which can be borne is driven primarily by the financial strength of the organisation.

When assessing the borrowing potential of an organisation, financial institutions use a standard set of metrics (financial covenants), against which the organisation is measured. Two of the most common metrics are:-

Interest Cover – The number of times net earnings (before interest payments) are able to cover the cost of servicing their debt. Typically around 1.25%

Asset Cover (Also known as Loan to Value) – The number of times the value of the fixed assets (housing stock) is greater than the value of debt. A common level for this type of measure is 50% loan to asset value.

The amount of income an organisation is able to generate is key to both of these measures. For example, the lower the level of income, the lower the amount of surplus which can be generated, adversely affecting net earnings, and reducing the amount of cash available to invest in increasing its asset base.

It is for this reason that it is important to recognise the future impact of these decisions, and the long term effect they can have on meeting future organisational objectives and delivery of strategic aims.

Applying no increase to rents would result in costs increasing by more than income. This erosion of surpluses would impact on both the amount of cash available to invest in homes and/or services, as well as reducing the borrowing capacity within the HRA. This means a reduction in the level of service provision to tenants by £3.4m per annum or

reduction in the number of new homes it is able to deliver reducing this investment by £141m over 30 years. This would equate to a reduction in deliverable units in excess of 1,000 over 30 years, which would further result in an ongoing reduction to stock numbers as more units are lost through RTB than can be replaced.

Finance Business Partner: Wendy Welsh, Finance Manager 13/01/2020

2. Legal Advice:

The Council is required to maintain, and review annually, a Housing Revenue Account in accordance with the provisions of the Local Government and Housing Act 1989 and directions issued thereunder.

The report seeks endorsement of the proposed budget for approval by Full Council, including its proposed revenue and capital spending plans, and also delegated authority for the Executive Director, Growth & Regeneration to implement those plans, (as summarised in the appendices) including all procurement activities, without further reference to Cabinet and notwithstanding that individual contracts may exceed £500k.

To ensure the implementation of the programme is lawful, all procurement and contracting activities must comply with the appropriate Procurement Regulations and the councils own procurement rules.

Officers must also ensure the programme remains compliant with the Council's budget and policy framework.

The previous requirement to reduce rents annually imposed by Section 213 of the Welfare Reform and Work Act 2016 lasted four years with 2019/2020 being the final year. The Secretary of State for Housing, Communities and Local Government issued a Direction on the Rent Standard 2019 which sets out how rents are to be calculated from April 2020.

Legal Team Leader: Eric Andrews, Team Leader, Legal Services, 9 December 2019

3. Implications on IT: No anticipated impact on IT Services

IT Team Leader: Simon Oliver, Director - Digital Transformation

4. HR Advice: There are no HR implications evident

HR Partner: Celia Williams, HR Business Partner – Growth and Regeneration

EDM Sign-off	Stephen Peacock	27 th Nov 2019
Cabinet Member sign-off	Councillor Paul Smith	10 th Dec 2019
For Key Decisions - Mayor's Office sign-off	Mayor's Office	13 Jan 2020

Appendix A – Further essential background / detail on the proposal <i>A1 – Budget and MTFP</i> <i>A2 – HIP</i> <i>A3 and A4 – Development programme</i>	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	YES
Appendix F – Eco-impact screening/ impact assessment of	NO
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Exempt Information	NO
Appendix J – HR advice	NO
Appendix K – ICT	NO