Appendix A1

The 2020/21 Housing Revenue Account Budget

1. Executive Summary

The Housing Revenue Account (HRA) is a separate ring-fenced account and covers all activities of BCC as landlord of circa 28.5k 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.

For 2020/21 a one year budget is being presented for approval. 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 will be brought to Cabinet for approval in the Autumn alongside the Council's medium term financial plan.

2. Strategy

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 provision of new affordable homes programme.

The longer term perspective is crucial to ensure that the HRA can continue with an ambitious new build 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, as set out in the covering report.

3. Assumptions for Budget 2020/21

The assumptions that Cabinet is required to approve are:

- Any change in the rent levels from 2019/20
- Inclusion of flexibility on relets
- Any change in rents for non-dwellings

Other assumptions that underpin the proposed 2020/21 budget have been included for information.

The proposed budget is based on a number of assumptions as detailed in Table 1 below.

Table 1 – Assumptions in the proposed budget for 2020/21

Item	Assumption	Sensitivity
Average stock figure for 2020/21	**26,817**	Takes into account assumed right to buys and additional units
HRA Debt	**£250m**	Any increase in debt would result in an additional interest cost of £0.05m per year for every £1m borrowed
Average cost of capital	**4.47%**	All loans are currently fixed rate, fixed term. Any interest rate risk would impact on future years borrowing (2021/22 onwards)
Rent increase	**None**	Applying CPI+1% to rents would increase income by circa £3.3m per year. Over 30 years (the Business Planning Period), the compound impact would be £135.5m additional revenue
5% flexibility on formula rents, and 10% flexibility on supported housing	**To be considered on relets**	Could generate additional £112k rental income
Bad debt provision	**£1.8m (1.6% of gross rent)**	A 10% increase in Bad Debts (to 1.65%) would increase losses by £0.18m
Void Rate	**£1.2m 1.09%**	A 10% increase in Voids (to 1.17%) would increase losses by £0.12m
Service Charges	**£4.94/week for tenants, £14.11/week for Leaseholders**	Service charges income is driven by service costs. Any increase in costs would result in an increase in income.
Housing Units lost through Right to Buy (RTB)	**150 (0.6% of stock)**	The level of RTB seems to be decreasing though still losing more units than replacing each year
Additional units - new build / acquisitions	**113**	Each new build unit provides a contribution of circa £3,000 per annum to the business plan
Debt repayment	**No provision made for repayment of debt**	All debt is currently fixed rate/fixed term debt. Any early repayment would attract a penalty/premia in excess of any future interest cost savings
Use of reserves to fund capital programme	**For 2020/21 there will be no new borrowing**	Each £1m of borrowing would cost £0.05m per year compared to utilising reserves. Business plan refresh will determine the level of reserves required.
Interest on balances	**0.85%**	Investment income would reduce by £0.01m for every Basis Point reduction
New developments / acquistions	**Each will be appraised for viability and impact on overall business plan**	Units which have a detrimental impact on the business plan should not be considered
HRA Revenue Balance from 2019/20 to be transferred to reserves at year end	**£2.1m**	This is based on forecast outturn position as at P8

Rents: Rents are set following the rent standard within parameters set by Government. Following five years whereby the annual rents were required to be reduced by 1% each year the amount of income in the HRA has been significantly reduced. Approximately £3m has been lost each year compared to previously forecast income.

The proposed no increase in rents would leave average rents at £78.70 per week (lower than Local Housing Allowance rates). It should be noted that if rents were increased by 2.7% (CPI plus 1%) in line with the new Rent Policy and Standard the impact on the 30 year business plan would be an additional income of approximately £135m over the life of the 30 year business plan.

Applying 5% flexibility to formula rents, 10% for supported housing, would potentially generate over £100k in rental income for the year. This flexibility could only be applied on relets and any amendments would have to be justifiable.

A commercial review of non-dwelling assets (garages, commercial units) is planned for 2020 so they are effectively utilised and income is maximised. It is proposed to increase the rent for these by CPI + 1% in line with rent increases.

Proposed Budget 2020/21

Table 2 shows the proposed HRA budget for revenue and capital expenditure for 2020/21, and the movement from the 2019/20 budget.

Table 2 – Proposed Revenue and Capital Budget for 2020/21

	Budget 2019/20 £000	**Proposed Budget 2020/21 £000**	Movement £000
Revenue Income			
Gross Rent	(113.3)	**(110.0)**	3.3
Dwelling Voids	1.5	**1.2**	(0.3)
Net Service Charges	(8.5)	**(8.2)**	0.3
Other Revenue Income	(2.5)	**(2.1)**	0.4
	(122.8)	**(119.1)**	3.7
Revenue Expenditure			
Revenue Repairs	30.6	**33.0**	2.4
Management Costs - direct HRA overheads	29.6	**31.5**	1.9
Service Costs - chargeable to tenants	9.1	**9.1**	0.0
Debt Costs - interest payments	11.6	**11.5**	(0.1)
Bad Debt - provision for these	2.9	**1.8**	(1.1)
Other - council tax, rent and rates on void properties	1.8	**0.8**	(1.0)
Depreciation	25.6	**28.9**	3.3
Other revenue financing of capital	11.6	**2.7**	(8.9)
	122.8	**119.1**	(0.4)
Net Revenue Budget	0.0	**0.0**	3.3
Capital Income			
Depreciation	(25.6)	**(28.9)**	(3.3)
Other revenue funding of capital	(11.6)	**(2.7)**	8.9
RTB Capital receipts	(9.8)	**(12.4)**	(2.6)
New Borrowing	(4.8)	**0.0**	4.8
Capital Receipts from private sales	0.0	**(17.3)**	(17.3)
Use of reserves	0.0	**(18.4)**	(18.4)
	(51.8)	**(79.7)**	(27.9)
Capital Expenditure			
Capital investment in stock	29.9	**33.0**	3.1
New build and acquistions	21.0	**40.8**	19.8
Improvements to Sandy Park site	0.0	**5.0**	5.0
Other: ICT systems development	0.9	**0.9**	0.0
	51.8	**79.7**	27.9
Net Capital Budget	0.0	**0.0**	0.0

Rents: The proposed budget assumes that rents are not increased. The budgeted rent income for 2020/21 is reduced by £3.3m from the 2019/20 level as the 2019/20 budget was based on 53 rent weeks, compared to only 52 in 2020/21.

Void Homes: The ambition for 2020/21 is to maintain high quality relet standards, whilst carrying our repairs and lettings more quickly to reduce rental loss on residential properties to £1.2m. Work is planned with external consultants to review and improve ways of working.

Net Service Charges: The 2020/21 budget is based on the planned expenditure on the properties.

Other Revenue Income: The 2020/21 budget is lower than 2019/20 due to the anticipated level of garage voids and less investment income to be received as the HRA balances (reserves) are reduced.

Revenue repairs: The increase in budget for 2020/21 is partly due to the planned programmes in the HIP, particularly the paint programme and also the increased costs of the joinery shop.

Management costs: have increased due to increases in establishment which include the new Estate Regeneration team.

Bad Debt: - the provision for bad debt has been reduced to 1.6%, which reflects historic performance.

Depreciation: is the calculated level of basic re-investment needed to keep homes in reasonable repair (calculated using lifecycles / element costs as per our investment planning approach). This sets the minimum level of revenue funding to capital investment in homes that must applied in that year (or set aside in a separate reserve account to be invested in homes in the future). Depreciation is shown as an expenditure item in revenue, and an income item in capital.

Revenue financing of capital is reduced by £8.9m from 2019/20 as other revenue expenditure has increased, in particular within the Housing Investment Plan (as detailed in Appendix A2).

Capital receipts: These are from the sale of council homes under the Right to Buy (RTB) to sitting tenants at a discount. Sales for 2020/21 are forecast to be 150, with an average sale price after discount of £103k. The receipts will be reinvested to build new council homes, enabling a greater percentage to be retained.

The forecast for useable receipts to be applied to fund the 2020/21 capital programme is £12.4m of 'additional 1-4-1 receipts', used to fund 30% of the eligible costs from the new build programme in 2020/21. The remaining receipts will be added to balances and carried forward to help support the capital programme in future years.

In 2018 the Government removed the HRA borrowing cap (a Government set limit determining how much money could be borrowed). With the removal of the headroom cap on local authorities, has opened up the possibility of an accelerated development programme. An evaluation is currently being undertaken to determine the maximum prudential borrowing capacity that the Business Plan can support. For 2020/21 new homes will be financed by a mix of reserves, revenue contributions and income from market sales. The exact mix will be determined as part of the borrowing capacity review.

The capital programme has been increased to reflect the ambition of starting on five new build sites, £5.1m for pre-emptions of former stock, and £3.8m for buy back of former RTB properties. There is also £5m for the improvement to premises in which HRA staff are located. These improvements open up opportunities for the HRA to develop a commercial income, which would supplement other incomes for the benefit of tenants and residents. Further details of the new build and acquisition programmes are set out in Appendices A3 and A4.

The proposed budget incorporates the Housing Investment Plan (HIP) for 2020/21. This is largely based on the second year of the plan that was approved by Cabinet in January 2019. The HIP covers both revenue and capital expenditure and is summarised in Table 3, with further detail in Appendix A2.

Table 3 – Summary of Proposed HIP for 2020/21

HIP		Budget 2019/20 £000	**Proposed Budget 2020/21 £000**	Movement £000
Revenue				
	Planned & Cyclical	5,571	**5,429**	(143)
	M&E / Heating	4,485	**4,560**	75
	Repairs & Maintenance	19,510	**22,348**	2,838
	Other	1,076	**974**	(102)
	Charges	(28)	**(311)**	(283)
	Subtotal	30,614	**33,000**	2,386
Capital				
	Planned & Cyclical	4,500	**8,418**	4,324
	M&E / Heating	4,763	**4,969**	206
	PP Major Projects	10,721	**9,505**	(1,216)
	Planning & Commissioning	1,100	**600**	(500)
	New Build	0	**75**	75
	Accessible Homes	2,000	**2,000**	0
	Repairs & Maintenance	3,521	**3,321**	(200)
	Asset Management & Review	150	**373**	223
	Special Projects	1,025	**1,070**	45
	Other	0	**150**	150
	Salaries	2,935	**2,468**	(467)
	Subtotal	30,715	**32,951**	3,072
Total		61,329	**65,951**	5,458

Note the 2019/20 report included New Build as part of the HIP, this is now shown separately.

Risks

The following risks have been identified in relation to the proposed HRA budget for 2020/21:

Risk	Potential impact	Mitigation
Recruitment and retention of staff	Unable to deliver planned programme, potential additional costs of outsourcing work	2020/21 budget includes a market supplement for some staff groups at risk
Pay award higher than assumed 2.7%	Every additional 1% equates to additional £0.3m cost	The employee budget will have to be managed within the resource envelope available
New Contracts cost more than assumed inflation	Reduced capacity within the Business Plan to deliver services, new homes, and maintain current stock to the required standard.	Robust contract management
Failure of contractors	Impact on cost and delivery of planned programme	Effective contract mangement and procurement framework.
Bad debt higher than budget assumed and impact of Universal Credit	A 10% increase in Bad Debts (to 1.65%) would increase losses by £0.2m. If tenants have reduction in benefits may affect ability to pay rent.	Early intervention on rising arrears
Interest on debt repayments	Only applicable to non-hedged debt (currently £NIL)	Minimum amount of hedging of debt should be determined
Cost of retro fitting zero carbon	Lack of capacity resulting in either failure to hit target, or inability to fund required repairs/maintenance	Robust business cases and procurement to ensure the option delivering the best Value for Money is selected.
Delays in delivering new units	Reduced rental income. Reputational risk of failing to deliver target number of units	Robust management of development partners to ensure adherence to timescales. Penalty clauses within development agreements to compensate for late/non-delivery
Repayment of right to buy receipts due to level of development required and limited time to use receipts	Loss of income to subsidise delivery of new homes	Forward planning to match 1-4-1 receipts against development programmes
Government policy changes	Not likely for 2020/21, but may impact on 30 year business plan	Business plan to be reviewed mid 2020/21
Zero Carbon	No detailed costs available at present	Options appraisal and strategy development. Need to identify funding source from Government
Brexit	Increased costs, arrears and bad debts	Stringent budget setting/ management, Value For Money Reviews of services, robust procurement and contract management, early intervention on rising arrears

Reserves – As at the beginning of 2019/20 the HRA reserves were £86.570m. Based on the forecast outturn position for 2019/20 as at P8, it is anticipated that a further £2.1m will be added to the revenue reserve. The application and use of reserves supports the achievement of service delivery and improvements to housing stock.

The 2020/21 budget proposal assumes that £18.4m of the reserves will be utilised in 2020/21 in order to fund the ambitious development programme. This would result in a reserve balance of £69.3m as at 31st March 2021. The review of the Business Plan will help to identify the optimum level of reserves to be maintained.

In order to use the reserves effectively it is proposed to move some HRA reserves that were previously earmarked for specific purposes, as shown in Table 4, into a general HRA reserve as they are no longer required to be held for the original specific purpose and can then be used more flexibly as required within the HRA.

Table 4 - HRA Reserves as at 31/3/19

	£000
HRA Reserve	**78,718**
HRA Earmarked reserves	
CCTV Maintenance	419
Energy Efficiency	3,541
Furniture Packs	1,091
Old System Contras	1,617
Single Change Programme	1,184
	7,852
Total HRA reserves	**86,570**